

LEVEL 3 COMMUNICATIONS INC

FORM 8-K (Current report filing)

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| 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): **August 7, 2014**

Level 3 Communications, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

0-15658
(Commission File
Number)

47-0210602
(IRS employer
Identification No.)

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

80021
(Zip code)

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

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

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

- ☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 8.01 Other Events

As previously announced, on June 15, 2014, Level 3 Communications, Inc. ("Level 3") entered into a definitive agreement to acquire tw telecom inc. ("tw telecom") in a stock-and-cash transaction. Completion of the tw telecom transaction is subject to, among other things, approval by Level 3 stockholders and tw telecom stockholders. Level 3 expects the tw telecom transaction to occur before the end of 2014, although there can be no assurance as to whether or when the transaction will be completed.

Important Information For Investors And Stockholders

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

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

Cautionary Notice Regarding Forward-Looking Statements

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

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

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

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

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

Item 9.01. Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 of tw telecom are filed herewith as Exhibit 99.1 and incorporated in this Item 9.01(a) by reference; and the unaudited condensed consolidated financial statements as of March 31, 2014 and December 31, 2013 and for the periods ended March 31, 2014 and 2013 of tw telecom are filed herewith as Exhibit 99.2 and incorporated in this Item 9.01 (a) by reference.

(b) Pro Forma Financial Information

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

(c) Shell Company Transactions

Not applicable

(d) Exhibits

23.1 Consent of Ernst & Young LLP.

99.1 Audited consolidated financial statements of tw telecom as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011.

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

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

SIGNATURES

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

Level 3 Communications, Inc.

By: /s/ Neil J. Eckstein

Neil J. Eckstein, Senior Vice President

Date: August 7, 2014

Exhibit Index

| <u>Exhibit</u> | <u>Description</u> |
|----------------|--|
| 23.1 | Consent of Ernst & Young LLP. |
| 99.1 | Audited consolidated financial statements of tw telecom as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011. |
| 99.2 | Unaudited condensed consolidated financial statements of tw telecom as of March 31, 2014 and December 31, 2013 and for the periods ended March 31, 2014 and 2013. |
| 99.3 | Unaudited pro forma condensed combined financial statements of Level 3 as of and for the three months ended March 31, 2014 and for the year ended December 31, 2013. |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statements (Form S-3 Nos. 333-53914, 333-156709, 333-160493, 333-162854 and 333-178060) of Level 3 Communications, Inc. and
- 2) Registration Statements (Form S-8 Nos. 333-79533, 333-42465, 333-68447, 333-58691, 333-52697, 333-115472, 333-115751, 333-174354, 333-177977 and 333-189832) of Level 3 Communications, Inc.

of our report dated February 14, 2014 (except Note 14, as to which the date is August 7, 2014), with respect to the consolidated financial statements of **tw telecom inc.** included in this Current Report (Form 8-K) of Level 3 Communications, Inc., filed with the Securities and Exchange Commission on August 7, 2014.

/s/ Ernst& Young LLP

Denver, Colorado
August 7, 2014

tw telecom inc.

Index to Consolidated Financial Statements

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| Consolidated Statements of Operations for each of the years in the three year period ended December 31, 2013 | F-4 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of **tw telecom inc.**

We have audited the accompanying consolidated balance sheets of **tw telecom inc.** (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, cash flows and changes in stockholders’ equity for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Denver, Colorado

February 14, 2014 (except Note 14, as to which the date is August 7, 2014)

tw telecom inc.
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

| | 2013 | 2012 |
|--|--|--------------|
| | (amounts in thousands, except per share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 284,419 | \$ 806,728 |
| Investments | 194,576 | 167,564 |
| Receivables, less allowances of \$6,748 and \$7,067, respectively | 107,258 | 99,703 |
| Prepaid expenses and other current assets | 22,545 | 19,164 |
| Deferred income taxes | 54,026 | 76,160 |
| Total current assets | 662,824 | 1,169,319 |
| Property, plant and equipment | 4,675,335 | 4,247,868 |
| Less accumulated depreciation | (2,980,379) | (2,755,622) |
| | 1,694,956 | 1,492,246 |
| Deferred income taxes | 96,087 | 101,885 |
| Goodwill | 412,694 | 412,694 |
| Intangible assets, net of accumulated amortization | 11,555 | 17,578 |
| Other assets, net | 44,344 | 30,015 |
| Total assets | \$ 2,922,460 | \$ 3,223,737 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 38,454 | \$ 55,857 |
| Deferred revenue | 48,371 | 45,471 |
| Accrued taxes, franchise and other fees | 55,043 | 60,844 |
| Accrued interest | 21,606 | 20,343 |
| Accrued payroll and benefits | 52,604 | 45,727 |
| Accrued carrier costs | 25,507 | 30,765 |
| Current portion debt and capital lease obligations, net | 32,470 | 374,969 |
| Other current liabilities | 35,241 | 29,163 |
| Total current liabilities | 309,296 | 663,139 |
| Long-term debt and capital lease obligations, net | 1,916,775 | 1,384,242 |
| Long-term deferred revenue | 20,046 | 23,177 |
| Other long-term liabilities | 40,274 | 41,240 |
| Commitments and contingencies (Note 10) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value, 439,800 shares authorized, 153,760 and 151,953 shares issued, respectively | 1,538 | 1,520 |
| Additional paid-in capital | 1,701,356 | 1,843,126 |
| Treasury stock, 12,593 and 556 shares, at cost, respectively | (357,974) | (10,979) |
| Accumulated deficit | (708,979) | (721,793) |
| Accumulated other comprehensive income | 128 | 65 |
| Total stockholders' equity | 636,069 | 1,111,939 |
| Total liabilities and stockholders' equity | \$ 2,922,460 | \$ 3,223,737 |

See accompanying notes to the consolidated financial statements.

tw telecom inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2013 , 2012 and 2011

| | 2013 | 2012 | 2011 |
|--|--|------------|------------|
| | (amounts in thousands, except per share amounts) | | |
| Revenue: | | | |
| Data and Internet services | \$ 851,297 | \$ 746,297 | \$ 646,682 |
| Voice services | 373,666 | 363,743 | 338,655 |
| Network services | 308,818 | 330,088 | 350,709 |
| Intercarrier compensation | 30,120 | 30,127 | 30,845 |
| Total revenue | 1,563,901 | 1,470,255 | 1,366,891 |
| Costs and expenses ^(a) : | | | |
| Operating (exclusive of depreciation, amortization and accretion shown separately below) | 658,080 | 617,553 | 571,461 |
| Selling, general and administrative | 392,132 | 341,423 | 325,538 |
| Depreciation, amortization and accretion | 308,768 | 284,292 | 283,329 |
| Total costs and expenses | 1,358,980 | 1,243,268 | 1,180,328 |
| Operating income | 204,921 | 226,987 | 186,563 |
| Interest expense | (96,136) | (93,757) | (87,718) |
| Debt extinguishment costs | (39,314) | (77) | — |
| Interest income | 692 | 793 | 545 |
| Income before income taxes | 70,163 | 133,946 | 99,390 |
| Income tax expense | 33,705 | 57,058 | 41,479 |
| Net income | \$ 36,458 | \$ 76,888 | \$ 57,911 |
| Earnings per share: | | | |
| Basic | \$ 0.25 | \$ 0.51 | \$ 0.39 |
| Diluted | \$ 0.24 | \$ 0.50 | \$ 0.38 |
| Weighted average shares outstanding: | | | |
| Basic | 144,920 | 147,675 | 147,247 |
| Diluted | 146,480 | 150,059 | 149,349 |

^(a) Includes non-cash stock-based employee compensation expense (Note 1):

| | | | |
|-------------------------------------|-----------|-----------|-----------|
| Operating | \$ 2,178 | \$ 1,904 | \$ 2,327 |
| Selling, general and administrative | \$ 36,654 | \$ 27,396 | \$ 25,490 |

See accompanying notes to the consolidated financial statements.

tw telecom inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2013 , 2012 and 2011

| | 2013 | 2012 | 2011 |
|--|-------------------------------|------------------|------------------|
| | (amounts in thousands) | | |
| Net income | \$ 36,458 | \$ 76,888 | \$ 57,911 |
| Other comprehensive income, net of tax: | | | |
| Unrealized gain on cash flow hedging activities, net of tax | — | — | 1,816 |
| Unrealized gain on available for sale securities, net of tax | 63 | 46 | 32 |
| Other comprehensive income, net of tax | 63 | 46 | 1,848 |
| Comprehensive income | <u>\$ 36,521</u> | <u>\$ 76,934</u> | <u>\$ 59,759</u> |

See accompanying notes to the consolidated financial statements.

tw telecom inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 , 2012 and 2011

| | 2013 | 2012 | 2011 |
|---|-------------------------------|-------------------|-------------------|
| | (amounts in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 36,458 | \$ 76,888 | \$ 57,911 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 308,768 | 284,292 | 283,329 |
| Deferred income taxes | 30,738 | 48,559 | 35,756 |
| Stock-based compensation | 38,832 | 29,300 | 27,817 |
| Loss on debt extinguishment | 39,314 | 77 | — |
| Discount on debt, amortization of deferred debt issue costs and other | 10,727 | 25,469 | 23,388 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable, net | (7,555) | (3,521) | (14,584) |
| Prepaid expenses and other current and noncurrent assets | (1,558) | 1,498 | (7,627) |
| Accounts payable | (11,099) | (429) | (6,338) |
| Accrued interest | 1,197 | 6,393 | (1,261) |
| Accrued payroll and benefits | 7,001 | 1,469 | 2,566 |
| Deferred revenue, current and noncurrent | (231) | 4,099 | 11,797 |
| Other current and noncurrent liabilities | (14,131) | (10,418) | (9,166) |
| Net cash provided by operating activities | <u>438,461</u> | <u>463,676</u> | <u>403,588</u> |
| Cash flows from investing activities: | | | |
| Capital expenditures | (372,868) | (338,118) | (340,731) |
| Purchases of investments | (312,526) | (243,048) | (223,638) |
| Proceeds from sale of investments | 283,845 | 204,629 | 208,340 |
| Equipment purchases in advance of installation and other, net | (14,570) | 2,566 | 3,230 |
| Net cash used in investing activities | <u>(416,119)</u> | <u>(373,971)</u> | <u>(352,799)</u> |
| Cash flows from financing activities: | | | |
| Proceeds from issuance of common stock upon exercise of stock options | 64,325 | 23,424 | 16,973 |
| Taxes paid related to net share settlement of equity awards | (20,830) | (9,962) | (7,007) |
| Purchases of treasury stock | (406,514) | (13,409) | (58,562) |
| Excess tax benefits from stock-based compensation | 692 | 1,213 | 1,385 |
| Proceeds from modification of debt, net of financing costs | 49,684 | — | — |
| Retirement of debt obligations | (991,978) | (101,518) | — |
| Proceeds from issuance of debt, net of financing costs | 765,800 | 470,796 | — |
| Payment of debt and capital lease obligations | (5,830) | (6,915) | (7,106) |
| Net cash provided by (used in) financing activities | <u>(544,651)</u> | <u>363,629</u> | <u>(54,317)</u> |
| Increase (decrease) in cash and cash equivalents | (522,309) | 453,334 | (3,528) |
| Cash and cash equivalents at beginning of period | 806,728 | 353,394 | 356,922 |
| Cash and cash equivalents at end of period | <u>\$ 284,419</u> | <u>\$ 806,728</u> | <u>\$ 353,394</u> |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for interest | \$ 85,209 | \$ 63,082 | \$ 67,566 |
| Cash paid for debt extinguishment costs | \$ 32,662 | \$ — | \$ — |
| Cash paid for income taxes, net of refunds | \$ 4,634 | \$ 7,801 | \$ 3,231 |
| Non-cash investing & financing activities: | | | |
| Addition of capital lease obligation | \$ 129,019 | \$ 5,307 | \$ 2,000 |

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
Years Ended December 31, 2013 , 2012 and 2011

| | <u>Common Stock</u> | | <u>Treasury Stock</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Accumulated</u> | <u>Total</u> |
|--|-------------------------------|-----------------|-----------------------|--------------------|--------------------|---------------------|----------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | <u>paid-in</u> | <u>deficit</u> | <u>other</u> | <u>stockholders'</u> |
| | | | | | <u>capital</u> | | <u>comprehensive</u> | <u>equity</u> |
| | <u>(amounts in thousands)</u> | | | | | | | |
| Balance at December 31, 2010 | 151,953 | \$ 1,520 | (2,707) | \$ (45,821) | \$1,802,946 | \$ (790,175) | \$ (1,829) | \$ 966,641 |
| Net income | — | — | — | — | — | 57,911 | — | 57,911 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 1,848 | 1,848 |
| Excess tax benefits (shortfalls) from stock-based compensation, net | — | — | — | — | 100 | — | — | 100 |
| Purchases of treasury stock | — | — | (3,172) | (58,562) | — | — | — | (58,562) |
| Exercise of stock options net of withholdings to satisfy employee tax obligations upon vesting of stock awards | — | — | 1,458 | 25,527 | (7,901) | (7,660) | — | 9,966 |
| Stock-based compensation | — | — | 1,512 | 25,700 | 28,711 | (26,594) | — | 27,817 |
| Balance at December 31, 2011 | 151,953 | 1,520 | (2,909) | (53,156) | 1,823,856 | (766,518) | 19 | 1,005,721 |
| Net income | — | — | — | — | — | 76,888 | — | 76,888 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 46 | 46 |
| Excess tax benefits (shortfalls) from stock-based compensation, net | — | — | — | — | (69) | — | — | (69) |
| Purchases of treasury stock | — | — | (596) | (13,409) | — | — | — | (13,409) |
| Exercise of stock options net of withholdings to satisfy employee tax obligations upon vesting of stock awards | — | — | 1,768 | 32,503 | (12,616) | (6,425) | — | 13,462 |
| Stock-based compensation | — | — | 1,181 | 23,083 | 31,955 | (25,738) | — | 29,300 |
| Balance at December 31, 2012 | 151,953 | 1,520 | (556) | (10,979) | 1,843,126 | (721,793) | 65 | 1,111,939 |
| Net income | — | — | — | — | — | 36,458 | — | 36,458 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 63 | 63 |
| Reacquisition of the equity component of convertible debentures | — | — | — | — | (179,195) | — | — | (179,195) |
| Purchases of treasury stock | — | — | (14,784) | (415,523) | — | — | — | (415,523) |
| Exercise of stock options net of withholdings to satisfy employee tax obligations upon vesting of stock awards | 1,309 | 13 | 2,531 | 65,787 | (5,401) | (16,904) | — | 43,495 |
| Stock-based compensation | 498 | 5 | 216 | 2,741 | 42,826 | (6,740) | — | 38,832 |
| Balance at December 31, 2013 | <u>153,760</u> | <u>\$ 1,538</u> | <u>(12,593)</u> | <u>\$(357,974)</u> | <u>\$1,701,356</u> | <u>\$ (708,979)</u> | <u>\$ 128</u> | <u>\$ 636,069</u> |

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business and Capital Structure

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

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all entities in which the Company has a controlling voting interest (“subsidiaries”). Significant intercompany accounts and transactions have been eliminated.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Areas that require significant management judgments include income and other taxes, revenue and receivables, stock-based compensation, long-lived assets, regulatory fees, asset retirement obligations, evaluation of impairment of goodwill and long-lived assets, and carrier liabilities.

Segment Reporting

Because its business is centrally managed, the Company operates in one segment across the United States.

Cash Equivalents and Investments

The Company considers all highly liquid debt instruments with an original maturity of three months or less, when purchased, to be cash equivalents. The appropriate classification of securities is determined at the time of purchase and is reevaluated as of the end of each period. Debt securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income or loss. Gains and losses on investments are calculated using the specific identification method and are recognized during the period the investment is sold. See Note 3 for further information.

At December 31, 2013 and 2012, the Company had restricted funds held at financial institutions of \$1.4 million and \$1.3 million, respectively. These amounts were included in other current assets and are restricted because they primarily secure outstanding surety bonds.

Receivables

The Company generally bills in advance for the majority of the services it provides and does not require significant collateral from its customers. The Company evaluates whether receivables are reasonably assured of collection by evaluation of certain factors, including ongoing credit evaluations of significant customers’ financial condition, and provides an allowance for doubtful accounts based on the expected collectability of all receivables. The allowance for doubtful accounts was \$6.7 million, or 6% of gross receivables, at December 31, 2013, and \$7.1 million, or 7% of gross receivables, at December 31, 2012.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost except for assets acquired through acquisition of businesses, which are recorded at fair value. Construction costs, labor and applicable overhead related to the development, installation and expansion of the Company's network, and interest costs related to construction are capitalized. Capitalized labor and applicable overhead were \$81.3 million, \$75.3 million and \$71.6 million for the years ended December 31, 2013, 2012 and 2011, respectively. Capitalized interest was \$1.1 million, \$1.3 million and \$2.1 million for the years ended December 31, 2013, 2012 and 2011, respectively. Repairs and maintenance costs are charged to expense when incurred. The Company disposes of assets that are no longer in use. Losses on such disposals are included as a component of depreciation expense and were \$1.6 million, \$1.1 million and \$1.4 million for the years ended December 31, 2013, 2012 and 2011, respectively.

The Company licenses the right to use fiber optic capacity from Time Warner Cable, Inc. in 16 markets, Comcast Corporation (as successor to Time Warner Cable) in three markets and an affiliate of Bright House Networks, LLC in four markets. The Company pays and records as a component of property, plant and equipment its allocable share of the cost of fiber and construction incurred by Time Warner Cable, Inc., Comcast Corporation and the Bright House Networks, LLC affiliate on routes where the parties jointly constructed fiber networks.

Depreciation is calculated on the straight-line method over estimated useful lives as follows:

| | |
|----------------------------------|---------------------------------------|
| Buildings and improvements | 10-20 years or lease term, if shorter |
| Communications network equipment | 5-15 years |
| Vehicles and other equipment | 3-10 years |
| Fiber and right to use | 20 years or lease term, if shorter |

Income Taxes

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities and the amounts used for tax purposes. The impact of a tax position is recognized in the financial statements if that position is more likely than not to be sustained on audit, based on technical merits of the position. The Company does not record a valuation allowance against net deferred tax assets when it is more likely than not that the net deferred tax asset will be realized.

Goodwill

The Company performs impairment tests at least annually on all goodwill pursuant to relevant accounting standards which require goodwill to be assigned to a reporting unit and tested using a consistent measurement date. For purposes of testing goodwill for impairment, the Company's goodwill has been assigned to the Company's one consolidated reporting unit and is tested in the fourth quarter of each year or more frequently if impairment indicators arise. Potential impairment is indicated when the book value of a reporting unit, including goodwill, exceeds its fair value. If a potential impairment exists, the fair value of the reporting unit is compared to the fair value of its assets and liabilities, excluding goodwill, to estimate the implied value of the reporting unit's goodwill. If an impairment charge is deemed necessary, a charge is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value. Considerable management judgment is necessary to estimate the fair value of assets; accordingly, actual results could vary significantly from estimates. There were no goodwill impairment charges during the years ended December 31, 2013, 2012 or 2011.

Other Assets

Other assets primarily include deferred debt issuance costs, which are amortized to interest expense over the life of the respective debt agreements, and long-term prepaid service contracts that are amortized over the service period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*****Impairment of Long-Lived Assets***

The Company periodically reviews the carrying amounts of property, plant and equipment and its identifiable intangible assets whenever current events or circumstances indicate the carrying amounts may not be recoverable. An impairment is required when the net book value of an asset exceeds the expected future undiscounted cash flows to be generated by that asset or group of assets and the loss is measured by the amount that the carrying value of the assets exceeds their fair value. Considerable management judgment is necessary to estimate the fair value of assets; accordingly, actual results could vary from estimates. Assets to be disposed of are carried at the lower of their carrying amount or fair value less costs to sell. The Company's asset impairment tests did not result in any impairment charges during the years ended December 31, 2013, 2012 or 2011.

Asset Retirement Obligations

The Company records the estimated fair value of an asset retirement obligation when incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over the asset's estimated useful life. The Company has asset retirement obligations related to decommissioning of electronics in leased facilities and the removal of certain fiber and conduit systems. Considerable management judgment is required in estimating these obligations. Important assumptions include estimates of retirement costs, the timing of the future retirement activities and the likelihood of retirement provisions being enforced. Changes in these assumptions based on future information could result in adjustments to estimated liabilities.

Regulation and Other Contingencies

The Company is subject to significant government and jurisdictional regulation, some of which is uncertain due to legal challenges of existing rules. Such regulation is subject to differing interpretations, inconsistent application and has resulted in disputes with carriers and municipalities regarding the classification of traffic, rights-of-way, rates and minutes of use.

Management estimates and accrues for its estimate of probable losses associated with government and jurisdictional regulation and other carrier contingencies. These estimates are based on assumptions and other considerations including studies of traffic patterns, expectations regarding regulatory rulings, historic experience and ongoing negotiations. The Company evaluates these reserves on an ongoing basis and makes adjustments as necessary.

Revenue

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

Revenue for network, data and Internet, and the majority of voice services is generally billed in advance on a monthly fixed rate basis and recognized over the period the services are provided. Revenue for the majority of intercarrier compensation and certain components of voice services, such as long distance, is generally billed on a transactional basis in arrears based on a customer's actual usage; therefore, estimates are used to recognize revenue in the period earned.

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

The Company classifies certain taxes and fees billed to customers and remitted to government authorities on a gross versus net basis in revenue and expense. In making this determination, the Company assesses, among other things, whether the Company is the primary obligor or principal taxpayer for the taxes and fees assessed in each jurisdiction where the Company does business. In jurisdictions where the Company determines that it is the principal taxpayer, the Company records the taxes and fees on a gross basis, including the taxes and fees in revenue and expense. In jurisdictions where the Company determines that it is merely a collection agent for the government authority, the Company records the taxes on a net basis. The total amounts classified as revenue, primarily included in voice services, associated with such taxes and fees were approximately \$83.2 million, \$79.8 million and \$63.5 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Operating Expenses

Operating expenses consist of costs directly related to the operation and maintenance of the Company's network and the provisioning of services, but exclude depreciation, amortization and accretion, which is reported separately. These costs, which are net of capitalized labor and overhead costs on capital projects (see "Property, Plant and Equipment" above), include the salaries and related expenses of customer care, provisioning, network maintenance, technical field and network operations and engineering personnel, costs to repair and maintain the Company's network, and costs paid to other carriers for access to their facilities, interconnection, and facilities leased and associated utilities.

Accumulated Other Comprehensive Income

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

Significant Customers

The Company has substantial business relationships with a few large customers, including major telecommunications carriers. The Company's 10 largest customers accounted for an aggregate of 18%, 18% and 20% of the Company's total revenue for the years ended December 31, 2013, 2012 and 2011, respectively. No customer accounted for 5% or more of total revenue in 2013, 2012 and 2011.

Stock-Based Compensation

The Company recognizes the cost of stock-based employee compensation payments as expense over the requisite service period, which is generally the vesting period of the award. The fair value of restricted stock awards and restricted stock units granted is determined based on the market price of the Company's common stock at the date of grant. The fair value of options is estimated at the date of grant using a Black-Scholes option pricing model. For purposes of the actual expense recognized in the years ended December 31, 2013, 2012 and 2011, the estimated fair value of the share-based payments is generally amortized to expense on a straight-line basis (net of estimated forfeitures) over the award's vesting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Expected volatilities are based on the historical volatility of the Company's common stock over a period generally commensurate with the expected term of the option. The risk-free rate for stock options granted during the period is determined by using the U.S. Treasury rate for the nearest period that coincides with the expected term. The expected term of stock options represents the weighted-average period the stock options are expected to remain outstanding and is based on historical data.

Recently Adopted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the "FASB") issued an accounting standard update that requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, entities are required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of accumulated other comprehensive income and the respective income statement line items affected by the reclassification. The guidance does not change the current requirements for reporting net income or other comprehensive income. The accounting standard update is effective on a prospective basis for interim and annual periods beginning after December 15, 2012. The Company adopted this accounting standard update in the three months ended March 31, 2013. This update affected presentation and disclosure, but did not affect the Company's consolidated financial position, results of operations or cash flows. See "Accumulated Other Comprehensive Income" above.

2. Earnings Per Common Share and Potential Common Share

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

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

| | Years ended December 31, | | |
|--|--|-----------|-----------|
| | 2013 | 2012 | 2011 |
| | (amounts in thousands, except per share amounts) | | |
| Numerator | | | |
| Net income | \$ 36,458 | \$ 76,888 | \$ 57,911 |
| Allocation of net income to unvested restricted stock awards | (700) | (1,604) | (1,093) |
| Net income allocated to common stockholders, basic | 35,758 | 75,284 | 56,818 |
| Net income allocated to common stockholders, diluted | \$ 35,758 | \$ 75,284 | \$ 56,818 |
| Denominator | | | |
| Basic weighted average shares outstanding | 144,920 | 147,675 | 147,247 |
| Dilutive potential common shares: | | | |
| Stock options | 923 | 1,679 | 1,495 |
| Unvested restricted stock | 637 | 705 | 607 |
| Diluted weighted average shares outstanding | 146,480 | 150,059 | 149,349 |
| Basic earnings per share | \$ 0.25 | \$ 0.51 | \$ 0.39 |
| Diluted earnings per share | \$ 0.24 | \$ 0.50 | \$ 0.38 |

Restricted stock awards and restricted stock units to be settled in common stock upon vesting, which were excluded from the computation of diluted weighted average shares outstanding because their inclusion would be anti-dilutive, totaled 2.7 million shares for the year ended December 31, 2013. Shares of common stock subject to issuance upon conversion of the Company's 2 ³/₈ % Convertible Senior Debentures due 2026 (the "Convertible Debentures"), options to purchase shares of the Company's common stock and restricted stock awards and restricted stock units to be settled in common stock upon vesting, which were excluded from the computation of diluted weighted average shares outstanding because their inclusion would be anti-dilutive, totaled 23.2 million shares and 26.1 million shares at December 31, 2012 and 2011, respectively.

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Investments

The Company's investments at December 31, 2013 and 2012 are summarized as follows:

| | December 31, | |
|--|------------------------|------------|
| | 2013 | 2012 |
| | (amounts in thousands) | |
| Cash equivalents: | | |
| U.S. Treasury money market mutual funds | \$ 28,845 | \$ 262,967 |
| Commercial paper | 1,335 | 30,692 |
| Prime money market mutual funds | — | 425,165 |
| Certificates of deposit | — | 8,000 |
| Debt securities issued by U.S. Government agencies | — | 4,999 |
| Total cash equivalents | \$ 30,180 | \$ 731,823 |
| Investments: | | |
| Commercial paper | \$ 75,460 | \$ 32,480 |
| Debt securities issued by the U.S. Treasury | 69,628 | 89,870 |
| Debt securities issued by U.S. Government agencies | 49,488 | 45,214 |
| Total investments | \$ 194,576 | \$ 167,564 |
| Total cash equivalents and investments | \$ 224,756 | \$ 899,387 |

At December 31, 2013 and December 31, 2012, the carrying values of investments included in cash and cash equivalents approximated fair value. The aggregate fair value of available-for-sale securities by major security type is included in Note 7. The amortized cost basis of the available-for-sale securities was not materially different from the aggregate fair value. The contractual maturities of the Company's available-for-sale securities are all within one year.

Proceeds from the sale and maturity of available-for-sale securities during the year ended December 31, 2013, 2012 and 2011 were \$283.8 million, \$204.6 million and \$208.3 million, respectively. The Company recognized no material unrealized or realized net gains or losses from available-for-sale securities during the years ended December 31, 2013, 2012 and 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Property, Plant and Equipment

Property, plant and equipment consists of:

| | December 31, | |
|----------------------------------|------------------------|---------------------|
| | 2013 | 2012 |
| | (amounts in thousands) | |
| Communications network equipment | \$ 3,090,976 | \$ 2,869,304 |
| Fiber and right to use | 1,283,472 | 1,089,210 |
| Vehicles and other equipment | 239,510 | 227,977 |
| Land, buildings and improvements | 61,377 | 61,377 |
| | 4,675,335 | 4,247,868 |
| Less accumulated depreciation | (2,980,379) | (2,755,622) |
| Total | <u>\$ 1,694,956</u> | <u>\$ 1,492,246</u> |

Depreciation expense was \$300.0 million , \$275.8 million and \$274.5 million for the years ended December 31, 2013 , 2012 and 2011 , respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's asset retirement obligations are included as a component of other long-term liabilities in the consolidated balance sheets. The following table provides asset retirement obligation liability activity for the years ended December 31, 2013 , 2012 and 2011 :

| | Years ended December 31, | | |
|-------------------------------|--------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| | (amounts in thousands) | | |
| Asset retirement obligations: | | | |
| Balance at January 1 | \$ 29,552 | \$ 25,138 | \$ 23,141 |
| Accretion expense | 2,791 | 2,273 | 2,085 |
| Liabilities incurred | 1,640 | 2,483 | — |
| Liabilities settled | — | (342) | (88) |
| Change in estimate | (10,192) | — | — |
| Balance at December 31 | <u>\$ 23,791</u> | <u>\$ 29,552</u> | <u>\$ 25,138</u> |

During 2013, the Company revised its estimates of the timing and amounts of its original estimate of undiscounted cash flows related to certain future asset retirement obligations. These revisions resulted in a reduction of \$10.2 million to its asset retirement obligations and an offsetting reduction to property, plant and equipment in the Company's consolidated balance sheets for the year ended December 31, 2013.

5. Intangible Assets

Goodwill

The Company had goodwill of \$412.7 million at both December 31, 2013 and 2012 .

Definite Life Intangibles

Definite life intangibles consist primarily of acquired customer relationships. Definite life intangible assets are amortized using methods that correlate to the pattern in which the economic benefits are expected to be realized. Customer relationships are amortized using the sum of the years digits method over an estimated life of 10 years. Other intangible assets, primarily acquired intangible assets, are amortized on a straight-line basis using expected lives of four or 10 years. Definite life intangible assets subject to amortization were as follows:

| | December 31, 2013 | | | December 31, 2012 | | |
|------------------------|------------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| | (amounts in thousands) | | | | | |
| Customer relationships | \$ 59,086 | \$ (53,177) | \$ 5,909 | \$ 59,086 | \$ (49,059) | \$ 10,027 |
| Other | 12,392 | (6,746) | 5,646 | 12,392 | (4,841) | 7,551 |
| | <u>\$ 71,478</u> | <u>\$ (59,923)</u> | <u>\$ 11,555</u> | <u>\$ 71,478</u> | <u>\$ (53,900)</u> | <u>\$ 17,578</u> |

Intangible asset amortization expense was \$6.0 million , \$6.2 million and \$6.7 million for the years ended December 31, 2013 , 2012 and 2011 , respectively.

The amortization expense related to intangible assets recorded as of December 31, 2013 for each of the five succeeding years is estimated as follows: 2014 — \$4.9 million ; 2015 — \$3.9 million ; 2016 — \$2.2 million ; 2017 — \$0 and 2018 — \$0 .

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Long-Term Debt

The components of long-term debt at December 31, 2013 and 2012 were as follows:

| | Date of | | | Interest Rate | Original Principal | Outstanding balance as of December 31, | |
|---|------------------------|-----------|--------------------|---------------------------------|--------------------|--|--------------|
| | Issuance/ Amendment | Maturity | Interest Payments | | | 2013 | 2012 |
| (amounts in thousands) | | | | | | | |
| Term Loan B— December 2016 tranche (1) | Dec 2010 | Dec 2016 | At least quarterly | Eurodollar rate + 3.25% | \$ 474,100 | \$ — | \$ 463,019 |
| Term Loan B | Apr 2013 | Apr 2020 | At least quarterly | Eurodollar rate + 2.50% | 520,000 | 517,400 | — |
| 8% Senior Notes | Mar 2010 | Mar 2018 | Mar/Sept | 8% | 430,000 | 23,479 | 430,000 |
| 5 ³ / ₈ % Senior Notes | Oct 2012 | Oct 2022 | Apr/Oct | 5 ³ / ₈ % | 480,000 | 480,000 | 480,000 |
| 5 ³ / ₈ % Senior Notes | Aug 2013 | Oct 2022 | Apr/Oct | 5 ³ / ₈ % | 450,000 | 450,000 | — |
| 6 ³ / ₈ % Senior Notes | Aug 2013 | Sept 2023 | Mar/Sept | 6 ³ / ₈ % | 350,000 | 350,000 | — |
| 2 ³ / ₈ % Convertible Senior Debentures | Mar 2006 | Apr 2026 | Apr/Oct | 2 ³ / ₈ % | 373,750 | — | 373,743 |
| Total debt | | | | | | \$ 1,820,879 | \$ 1,746,762 |
| Unamortized discounts | | | | | | (18,680) | (7,642) |
| Current portion | | | | | | (28,592) | (373,026) |
| Total long-term debt | | | | | | \$ 1,773,607 | \$ 1,366,094 |

(1) The Term Loan B due December 2016 was amended in April 2013 to increase the Term Loan to \$520 million and extend the maturity date to April 2020. See further discussion below.

The schedule of principal payments on long-term debt as of December 31, 2013 is as follows (amounts in thousands):

| | |
|----------------|--------------|
| 2014 (1) | \$ 28,679 |
| 2015 | 5,200 |
| 2016 | 5,200 |
| 2017 | 5,200 |
| 2018 | 5,200 |
| Thereafter | 1,771,400 |
| Total payments | \$ 1,820,879 |

(1) In January 2014, **tw telecom holdings inc.** notified holders of the 8% Senior Notes due 2018 that all outstanding notes will be redeemed on March 1, 2014. Therefore, the maturity date of these notes is reflected in 2014 (see "Subsequent Event - 2018 Notes" below).

Modification of Term Loan and Revolver

As of December 31, 2012, **tw telecom holdings inc.** ("Holdings") had a senior secured credit facility (the "Credit Facility") consisting of a \$463.0 million outstanding amount Term Loan B (the "Term Loan") due December 2016 and an undrawn \$80 million Revolving Credit Facility (the "Revolver") expiring December 2014. In April 2013, Holdings entered into a Second Amended and Restated Credit Agreement ("Amendment and Restatement") to increase the Term Loan to \$520 million and extend the maturity date to April 2020. The Term Loan was issued at an offering price of 99.5% of the principal amount. Additionally, the Amendment and Restatement increased the Revolver, which

remains undrawn, to \$100 million and extended the maturity date to April 2018. Components of the Amendment and Restatement are detailed below:

- The Term Loan is a secured obligation, on a first lien basis, of Holdings and is guaranteed by the Company and Holdings' subsidiaries. Repayments of the Term Loan are due quarterly in an amount equal to $\frac{1}{4}$ of 1% of the aggregate principal amount on the last day of each quarter. Interest is reset periodically. Based on the Eurodollar rate in effect at December 31, 2013, the effective interest rate was 2.67%. In accordance with applicable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

accounting guidance, the amended and restated Term Loan agreement was accounted for as a modification of the existing debt.

- The Revolver is secured and guaranteed in the same manner as the Term Loan. Interest on outstanding Revolver amounts, if any, will be computed based on a specified Eurodollar rate plus 1.75% to 2.75% , depending on the Company's consolidated total leverage ratio, as defined in the Revolver, and will be reset periodically. The Company is required to pay a commitment fee on the undrawn commitment amounts on a quarterly basis of 0.375% to 0.5% per annum. The Amendment and Restatement contains customary affirmative and negative covenants. Most of the Revolver covenants apply whether or not the Company draws on that facility. In addition, if the Revolver were drawn, certain financial covenants would apply.

5 ³/₈% Senior Notes due 2022

In October 2012, Holdings completed a private offering of \$480 million principal amount of 5 ³/₈% Senior Notes due 2022 (the "2022 Notes"), at an offering price of 100% of the principal amount. The net proceeds of this offering were used to settle the repurchase and conversion of the Convertible Debentures. See "Retirement of Convertible Senior Debentures" below. The 2022 Notes are unsecured obligations of Holdings and are guaranteed by the Company and substantially all of Holdings' subsidiaries. The 2022 Notes are redeemable in whole or in part, at Holdings' option at any time prior to October 1, 2017 at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, liquidated damages, if any, plus a make-whole premium . Holdings may redeem the 2022 Notes in whole or in part at any time on or after October 1, 2017. If a redemption occurs on or after October 1 of the years indicated below, the redemption premiums will be as follows:

| Year | Redemption Price |
|------|------------------|
| 2017 | 102.688% |
| 2018 | 101.792% |
| 2019 | 100.896% |
| 2020 | 100.000% |

In addition, any time prior to October 1, 2015, at the Company's option, the Company may redeem up to 35% of the aggregate principal amount of the 2022 Notes with net proceeds from one or more equity offerings by the Company at a redemption price of 105.375% of their principal amount, plus accrued and unpaid interest, if any, and liquidated damages, if any.

8% Senior Notes due 2018

As of December 31, 2012, Holdings had outstanding \$ 430 million aggregate principal amount of 8% Senior Notes due 2018 (the "2018 Notes"). The 2018 Notes are unsecured obligations of Holdings and are guaranteed by the Company and substantially all of Holdings' subsidiaries. Holdings may redeem the 2018 Notes in whole or in part at any time on or after March 1, 2014. If a redemption occurs on or after March 1 of the years indicated below, the redemption premium will be as follows (see "Subsequent Event- 2018 Notes" below):

| Year | Redemption Price |
|------|------------------|
| 2014 | 104.000% |
| 2015 | 102.000% |
| 2016 | 100.000% |

Debt Offering and Concurrent Cash Tender Offer

In August 2013, Holdings completed a private offering of \$ 800 million Senior Notes, including \$ 450 million principal amount of 5 ³/₈% Senior Notes due 2022 (the "2022 Mirror Notes") at an offering price of 96.250% of the principal amount and \$ 350 million principal amount of 6 ³/₈% Senior Notes due 2023 (the "2023 Notes") at an offering price of 100% of the principal amount. The net proceeds from the offerings were used to fund Holdings' repurchase of a portion of its \$ 430 million principal amount of the 2018 Notes that were tendered in a concurrent cash tender offer (see discussion below) and for general corporate purposes.

The 2022 Mirror Notes have substantially the same terms and conditions as the 2022 Notes. The 2022 Mirror Notes are unsecured obligations of Holdings and are guaranteed by the Company and substantially all of Holdings' subsidiaries. Interest

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

accrued on the 2022 Mirror Notes from April 1, 2013, and the first interest payment on the 2022 Mirror Notes included accrued interest from April 1, 2013. Purchasers of the 2022 Mirror Notes paid pre-settlement interest of \$ 9.7 million from April 1, 2013 to the settlement date (August 26, 2013). The 2022 Mirror Notes are redeemable in whole or in part, at Holdings' option at any time prior to October 1, 2017 at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, liquidated damages, if any, plus a make-whole premium . Holdings may redeem the 2022 Notes in whole or in part at any time on or after October 1, 2017. If a redemption occurs on or after October 1 of the years indicated below, the redemption premiums will be as follows:

| Year | Redemption Price |
|------|------------------|
| 2017 | 102.688% |
| 2018 | 101.792% |
| 2019 | 100.896% |
| 2020 | 100.000% |

In addition, at any time prior to October 1, 2015, at Holdings' option, Holdings may redeem up to 35% of the aggregate principal amount of the 2022 Mirror Notes with net proceeds from one or more equity offerings by the Company at a redemption price of 105.375% of their principal amount, plus accrued and unpaid interest, if any, and liquidated damages, if any.

The 2023 Notes are unsecured obligations of Holdings and are guaranteed by the Company and substantially all of Holdings' subsidiaries. The 2023 Notes are redeemable in whole or in part, at Holdings' option, at any time prior to September 1, 2018 at a price equal to 100% of the principal amount, plus accrued and unpaid interest, if any, liquidated damages, if any, plus a make-whole premium . Holdings may redeem the 2023 Notes in whole or in part at any time on or after September 1, 2018. If a redemption occurs on or after September 1 of the years indicated below, the redemption premiums will be as follows:

| Year | Redemption Price |
|------|------------------|
| 2018 | 103.188% |
| 2019 | 102.125% |
| 2020 | 101.063% |
| 2021 | 100.000% |

In addition, at any time prior to September 1, 2016, at Holdings' option, it may redeem up to 35% of the aggregate principal amount of the 2023 Notes with net proceeds from one or more equity offerings by the Company at a redemption price of 106.375% of their principal amount, plus accrued and unpaid interest, if any, and liquidated damages, if any.

In the year ended December 31, 2013, Holdings received and accepted tenders of approximately \$ 406.5 million aggregate principal amount of the 2018 Notes for \$ 438.7 million in a tender offer that was made concurrently with the Senior Notes offering. The completion of this tender offer resulted in debt extinguishment costs of \$ 38.9 million , comprised of premiums and fees associated with this tender offer of \$ 32.2 million and write-offs of unamortized deferred debt issuance costs and issuance discount related to the 2018 Notes of \$ 5.1 million and \$ 1.6 million , respectively. Approximately \$ 23.5 million principal amount of the 2018 Notes remained outstanding as of December 31, 2013 (see "Subsequent Event - 2018 Notes" below).

As required by a Registration Rights Agreement with the initial purchasers of the 2022 Mirror Notes and 2023 Notes, Holdings conducted an exchange offer that closed in January 2014 to enable the holders of these Notes to exchange the unregistered notes for notes registered under the Securities Act of 1933 with essentially identical terms. Pursuant to the exchange offer, \$450 million and \$350 million in principal amount of unregistered 2022 Mirror Notes and 2023 Notes, respectively, were exchanged for \$450 million and \$350 million in principal amount of registered 2022 Mirror Notes and 2023 Notes, respectively. The exchange offer for both the 2022 Mirror Notes and the 2023 Notes did not have a material impact on the Company's financial position or results of operation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Subsequent Event - 2018 Notes

On January 30, 2014, Holdings notified holders of the 2018 Notes that all outstanding 2018 Notes will be redeemed on March 1, 2014 at a redemption price of 104% of the principal amount. The aggregate principal amount of the notes being redeemed is \$23.5 million and is included as a component of current portion debt and capital lease obligations, net in the Company's consolidated balance sheets for the year ended December 31, 2013.

Retirement of Convertible Senior Debentures

As of December 31, 2012, the Company had outstanding \$373.7 million principal amount of Convertible Debentures. In accordance with authoritative guidance issued by the FASB for convertible debt instruments, the Company separated the Convertible Debentures into debt and equity components at issuance and assigned a value to each. The value assigned to the equity component was \$120.5 million, net of an allocable portion of deferred debt issuance costs, as of December 31, 2012, and is included as a component of additional paid in capital. The value assigned to the debt component was \$253.3 million and represents the estimated fair value, as of the issuance date (March 29, 2006), of a similar instrument without the conversion feature. The unamortized discount was amortized to interest expense using the interest rate method through March 31, 2013.

The following table reflects the principal and discount included in the consolidated balance sheets as of December 31, 2013 and 2012 :

| | 2013 | 2012 |
|---|------|------------|
| Principal amount of Convertible Debentures | \$ — | \$ 373,743 |
| Unamortized discount | — | (5,643) |
| Net carrying amount of Convertible Debentures | \$ — | \$ 368,100 |

The Company recognized the following amounts to interest expense related to the Convertible Debentures for the years ended December 31, 2013, 2012 and 2011 :

| | 2013 | 2012 | 2011 |
|--|----------|-----------|-----------|
| Interest expense, contractual amount at $2\frac{3}{8}\%$ | \$ 3,800 | \$ 8,877 | \$ 8,876 |
| Interest expense, amortization of discount | 5,642 | 21,414 | 19,675 |
| Interest expense, amortization of deferred debt issuance costs | 275 | 1,098 | 1,098 |
| Total interest expense for Convertible Debentures | \$ 9,717 | \$ 31,389 | \$ 29,649 |
| Effective interest rate on liability component | 3.0% | 8.5% | 8.5% |

The Convertible Debentures were redeemable in whole or in part at the Company's option at any time on or after April 6, 2013 at a redemption price equal to 100% of the principal amount of the debentures to be redeemed, plus accrued and unpaid interest. On May 29, 2013, the Company called for redemption all of the remaining outstanding Convertible Debentures. Holders of the Convertible Debentures had the option to require the Company to purchase all or part of the Convertible Debentures on April 1, 2013, at 100% of the principal and unpaid interest, or at any time prior to April 1, 2026, to convert the debentures into shares of the Company's common stock. Upon conversion, the Company had the right to deliver, in lieu of shares of common stock, cash or a combination of cash and shares of common stock. The Company elected to settle its conversion obligation entirely in cash.

For the year ended December 31, 2013, the Company settled the \$ 373.7 million principal amount of the Convertible Debentures for \$ 552.7 million as a result of the redemption and other repurchases by the Company and conversions by holders of the Convertible Debentures. The excess of the fair value of the debt component of \$373.7 million at settlement, or \$179.2 million, was recorded as a reduction to additional paid in capital.

Debt Offering Costs

For the years ended December 31, 2013, 2012 and 2011, the Company deferred debt offering costs of \$ 23.3 million, \$ 9.2 million, and \$ 0.1 million, respectively, in connection with debt issuances, that are being amortized to interest expense over the respective terms of the debt. At December 31, 2013 and 2012, there was \$33.3 million and \$19.1 million, respectively, of unamortized debt issuance costs.

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Covenant Compliance

As of December 31, 2013, **tw telecom inc.** and its wholly-owned subsidiary, Holdings, were in compliance with all of their debt covenants.

Interest Expense

Interest expense, including amortization of deferred debt issuance costs, discounts, commitment fees and the effect of interest rate swap agreements, as applicable, was as follows:

| | Years Ended December 31, | | |
|---|--------------------------|------------------|------------------|
| | 2013 | 2012 | 2011 |
| | (amounts in thousands) | | |
| Term Loan B - all instruments | \$ 16,063 | \$ 18,800 | \$ 22,295 |
| 8% Senior Notes | 24,190 | 35,980 | 35,980 |
| 5 ³ / ₈ % Senior Notes, issued October 2012 | 26,652 | 6,681 | — |
| 5 ³ / ₈ % Senior Notes, issued August 2013 | 9,375 | — | — |
| 6 ³ / ₈ % Senior Notes | 8,000 | — | — |
| 2 ³ / ₈ % Convertible Senior Debentures | 9,717 | 31,389 | 29,649 |
| Revolving Credit Facility (undrawn) | 664 | 624 | 501 |
| Interest expense from debt | \$ 94,661 | \$ 93,474 | \$ 88,425 |
| Other interest expense | 1,475 | 283 | (707) |
| Total interest expense | <u>\$ 96,136</u> | <u>\$ 93,757</u> | <u>\$ 87,718</u> |

7. Fair Value Measurements

Fair value, as defined by relevant accounting standards, is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would complete a transaction and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Relevant accounting standards set forth a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Relevant accounting standards establish three levels of inputs that may be used to measure fair value:

- *Level 1* —Quoted prices in active markets for identical assets or liabilities. Level 1 assets that are measured at fair value on a recurring basis consist of the Company's investments in prime money market mutual funds and U.S. Treasury money market mutual funds that are traded in an active market with sufficient volume and frequency of transactions, and are included as a component of cash and cash equivalents in the consolidated balance sheets.
- *Level 2* —Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets that are measured at fair value on a recurring basis consist of the Company's investments in certificates of deposit, commercial paper and debt securities issued by the U.S. Treasury and government agencies using observable

inputs in less active markets and are included as components of cash and cash equivalents and investments in the consolidated balance sheets. Level 2 liabilities that are measured, but not carried, at fair value on a recurring basis include the Company's long-term debt. The Company's long-term debt has not been listed on any securities exchange or quoted on an inter-dealer automated quotation system. The Company has estimated the fair value of its long-term debt based on indicative pricing published by certain investment banks or trading levels in our long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- *Level 3* —Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The Company did not have any Level 3 assets or liabilities that were measured at fair value at December 31, 2013 and 2012 .

The following tables reflect assets and liabilities that are measured and carried at fair value on a recurring basis as of December 31, 2013 and 2012 :

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

| | Fair Value Measurements At December 31, 2012 | | | Assets/Liabilities at Fair Value |
|--|---|------------|---------|-------------------------------------|
| | Level 1 | Level 2 | Level 3 | |
| | (amounts in thousands) | | | |
| Assets | | | | |
| Prime money market mutual funds | \$ 425,165 | \$ — | \$ — | \$ 425,165 |
| U.S. Treasury money market mutual funds | 262,967 | — | — | 262,967 |
| Commercial paper | — | 30,692 | — | 30,692 |
| Certificates of deposit | — | 8,000 | — | 8,000 |
| Debt securities issued by U.S. Government agencies | — | 4,999 | — | 4,999 |
| Investments included in cash and cash equivalents | \$ 688,132 | \$ 43,691 | \$ — | \$ 731,823 |
| Debt securities issued by the U.S. Treasury | — | 89,870 | — | 89,870 |
| Debt securities issued by U.S. Government agencies | — | 45,214 | — | 45,214 |
| Commercial paper | — | 32,480 | — | 32,480 |
| Short-term investments | \$ — | \$ 167,564 | \$ — | \$ 167,564 |
| Total assets | \$ 688,132 | \$ 211,255 | \$ — | \$ 899,387 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the carrying amounts and estimated fair values of the Company's long-term debt, including the current portion:

| | December 31, 2013 | | December 31, 2012 | |
|---|------------------------|--------------------|-------------------|--------------------|
| | Carrying Value | Fair Value Level 2 | Carrying Value | Fair Value Level 2 |
| | (amounts in thousands) | | | |
| Term Loan B—December 2016 tranche | \$ — | \$ — | \$ 463,019 | \$ 465,334 |
| Term Loan B, net of discount | 515,063 | 519,987 | — | — |
| 8% Senior Notes, net of discount | 23,392 | 24,594 | 428,001 | 470,850 |
| 5 ³ / ₈ % Senior Notes, issued October 2012 | 480,000 | 474,000 | 480,000 | 505,200 |
| 5 ³ / ₈ % Senior Notes, net of discount, issued August 2013 | 433,744 | 444,375 | — | — |
| 6 ³ / ₈ % Senior Notes | 350,000 | 364,000 | — | — |
| 2 ³ / ₈ % Convertible Senior Debentures, net of discount | — | — | 368,100 | 512,159 |
| Total debt | \$ 1,802,199 | \$ 1,826,956 | \$ 1,739,120 | \$ 1,953,543 |

8. Income Taxes

Income tax expense (benefit) for the years ended December 31, 2013 , 2012 and 2011 was as follows:

| | Years ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2013 | 2012 | 2011 |
| | (amounts in thousands) | | |
| Current: | | | |
| Federal | \$ 312 | \$ 3,525 | \$ 1,317 |
| State | 2,655 | 4,974 | 4,406 |
| | 2,967 | 8,499 | 5,723 |
| Deferred: | | | |
| Federal | 29,736 | 46,611 | 34,800 |
| State | 1,002 | 1,948 | 1,826 |
| | 30,738 | 48,559 | 36,626 |
| Income tax benefit of change in valuation allowance | — | — | (870) |
| Income tax expense | \$ 33,705 | \$ 57,058 | \$ 41,479 |

Total income tax expense differed from the amounts computed by applying the federal statutory income tax rate of 35% to income before income taxes as a result of the following items for the years ended December 31, 2013 , 2012 and 2011 :

| | Years ended December 31, | | |
|---|--------------------------|-------|--------|
| | 2013 | 2012 | 2011 |
| Federal statutory income tax expense | 35.0% | 35.0% | 35.0 % |
| Compensation limitation | 6.3 | 2.8 | 2.1 |
| State income tax expense, net of federal income tax benefit | 3.9 | 3.9 | 4.7 |
| Stock compensation | 1.8 | 0.2 | |

| | | | |
|-------------------------------|--------------|--------------|---------------|
| Other | 1.0 | 0.6 | 0.8 |
| Change in valuation allowance | — | — | (0.9) |
| Income tax expense | <u>48.0%</u> | <u>42.6%</u> | <u>41.7 %</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The tax effects of temporary differences that give rise to significant components of the Company's deferred tax assets and liabilities at December 31, 2013 and 2012 are as follows:

| | December 31, | |
|---|------------------------|------------|
| | 2013 | 2012 |
| | (amounts in thousands) | |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 235,737 | \$ 253,827 |
| Accrued liabilities | 23,329 | 25,897 |
| Stock compensation | 8,868 | 18,794 |
| AMT and other business credit carryforwards | 8,772 | 6,277 |
| Other | 11,027 | 19,356 |
| Total deferred tax assets | 287,733 | 324,151 |
| Deferred tax liabilities: | | |
| Depreciation and amortization | (110,865) | (108,988) |
| Other | (2,270) | (3,893) |
| Total deferred tax liabilities | (113,135) | (112,881) |
| Less: Valuation allowance | (26,996) | (33,225) |
| Total deferred tax asset, net | \$ 147,602 | \$ 178,045 |
| Balance sheet classification of deferred taxes: | | |
| Deferred income tax asset, net - current | \$ 54,026 | \$ 76,160 |
| Deferred income tax asset, net - noncurrent | 96,087 | 101,885 |
| Deferred income tax liability, net - noncurrent | (2,511) | — |
| Total deferred tax asset, net | \$ 147,602 | \$ 178,045 |

The Company continues to maintain a valuation allowance against certain deferred tax assets totaling \$27.0 million. The Company believes it is more likely than not that certain deferred tax assets, including those resulting from net operating loss carryforwards ("NOLs") subject to certain limitations and those that require future income of special character, will not be realized. Additionally, the Company has certain deferred tax assets attributable to stock option deductions for which the related valuation allowance cannot be reversed due to relevant accounting guidance concerning tax benefits related to the exercise of non-qualified stock options prior to the adoption of such accounting guidance. At December 31, 2013, \$20.6 million of the valuation allowance related to stock compensation for which subsequently recognized tax benefits will be allocated directly to additional paid in capital.

As a result of certain realization requirements of applicable accounting guidance, the table of deferred tax assets and liabilities shown above does not include certain deferred tax assets that arose directly from (or the use of which was postponed by) tax deductions related to equity compensation in excess of compensation recognized for financial reporting. Stockholders' equity will be increased by \$64.4 million if and when such deferred tax assets are ultimately realized. The Company uses the ordering rules prescribed by relevant accounting guidance for purposes of determining when the excess tax benefits have been realized. At December 31, 2013, the Company had \$8.9 million in deferred tax assets related to stock-based compensation. If the actual future tax deductions are less than the deferred tax asset recorded, this may result in an increase to income tax expense.

At December 31, 2013, the Company had NOLs for federal income tax purposes of approximately \$800 million. The Company's NOLs, if not utilized to reduce taxable income in future periods, generally expire in various amounts beginning in 2022 and ending in 2026. Due to the presence of these NOLs, tax years that remain subject to examination date back to the year ended December 31, 2000. The Tax Reform Act of 1986 contains provisions that limit the utilization of NOLs if there has been an "ownership change" as described in Section 382 of the Internal Revenue Code. In general, this would occur if certain ownership changes related to the Company's common stock that are held by 5 percent or greater stockholders exceeds 50 percent measured over a rolling three year period. If the Company experienced such an ownership change at a time when its market capitalization is below a certain level, the utilization of its NOLs to reduce future federal income tax obligations could be limited.

As of December 31, 2013, the Company had no material uncertain tax positions.

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Stock-Based Compensation

tw telecom 1998 Employee Stock Option Plan

The Company maintains the **tw telecom** 1998 Employee Stock Option Plan that reserved 9.0 million shares of common stock to be issued to officers and eligible employees under terms and conditions to be set by the Company's Board of Directors. As of December 31, 2013, approximately 0.2 million shares of common stock were reserved for issuance upon exercise of outstanding options under that plan. Generally, the options vest over periods of up to four years and expire seven or ten years from the date of issuance. These options have been granted to employees of the Company with an exercise price equal to market value at the date of grant. The **tw telecom** 1998 Employee Stock Option Plan expired in August 2008 and no additional awards may be granted under this plan.

tw telecom 2000 Employee Stock Plan

The Company maintains the **tw telecom** 2000 Employee Stock Plan (as amended in June 2009) that permits up to 39.0 million shares of common stock to be issued pursuant to stock options and stock awards granted to officers, directors, and eligible employees under terms and conditions to be set by the Company's Board of Directors. As of December 31, 2013, approximately 2.1 million shares of common stock were reserved for issuance upon exercise of outstanding options and vesting of stock awards and approximately 12.5 million shares of common stock were available for grant under the plan. Generally, the options and awards vest over periods of up to four years and options expire either seven or ten years from the date of issuance.

The options have been granted to employees of the Company with an exercise price equal to market value of the underlying stock at the date of grant. The fair value of the restricted stock awards and restricted stock units granted was measured based on the market value of the shares on the date of grant and the resulting expense related to these awards is recorded over their vesting periods, generally up to four years. The Company did not grant any stock options in the years ended December 31, 2013 and 2012 and granted an immaterial number of stock options in the year ended December 31, 2011.

The table below summarizes the Company's stock option activity and related information for the year ended December 31, 2013 :

| | Options (thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (thousands) |
|--|------------------------|--|---|--|
| Options outstanding at January 1, 2013 | 4,860 | \$ 16.36 | | |
| Granted | — | — | | |
| Exercised | (3,841) | 16.75 | | |
| Forfeited | (3) | 11.03 | | |
| Expired | (16) | 17.93 | | |
| Options outstanding at December 31, 2013 | 1,000 | \$ 14.85 | 3.35 | \$ 15,628 |
| Vested and expected to vest at December 31, 2013 | 1,000 | \$ 14.85 | 3.35 | \$ 15,622 |
| Exercisable at December 31, 2013 | 860 | \$ 14.74 | 2.90 | \$ 13,526 |

The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012 and 2011 was \$40.9 million, \$17.8 million and \$13.4 million, respectively.

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes the Company's restricted stock and restricted stock units and related information for the year ended December 31, 2013 :

| | Shares (thousands) | Weighted Average Grant Date Fair Value |
|--------------------------------|-----------------------|--|
| Nonvested at January 1, 2013 | 4,573 | \$ 17.30 |
| Granted | 1,412 | 27.50 |
| Vested | (1,932) | 26.96 |
| Forfeited | (64) | 20.35 |
| Nonvested at December 31, 2013 | 3,989 | \$ 21.45 |

The total fair value of restricted stock and restricted stock units vested during the years ended December 31, 2013 , 2012 and 2011 was \$52.1 million , \$29.1 million and \$17.7 million , respectively. As of December 31, 2013 , there was \$55.9 million of total unrecognized compensation expense related to non-vested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted-average period of 2.0 years.

During the year ended December 31, 2013, the Company modified the outstanding share-based awards for an executive who retired to accelerate vesting of such awards, resulting in total incremental cost of \$4.3 million (net of forfeitures) over the initial grant date value.

Effective October 1, 2004, the Company adopted the **tw telecom** 2004 Qualified Stock Purchase Plan (the "2004 Stock Purchase Plan"). Employees who met certain eligibility requirements could elect to designate up to 15% of their eligible compensation, up to an annual limit of \$25,000 , to purchase shares of the Company's common stock at a 15% discount to fair market value. Stock purchases occurred semi-annually, with the price per share equaling the lower of 85% of the market price at the beginning or end of the offering period. The Company is authorized to issue a total of 600,000 shares of the Company's common stock to participants in the 2004 Stock Purchase Plan. In September 2007, the 2004 Stock Purchase Plan was amended to authorize an additional 600,000 shares for issuance under the 2004 Stock Purchase Plan. During the years ended December 31, 2013 , 2012 and 2011 , no shares were issued under the amended 2004 Stock Purchase Plan because the Company has not made any offerings under the amended plan.

10. Commitments and Contingencies

Leases and Fixed Obligations

The Company leases office space and furniture, facilities housing telecommunications equipment, and fiber optic use rights. Certain of the leases contain renewal clauses. The Company also enters into fixed price maintenance agreements for maintenance of its network.

In November 2013, the Company announced a market expansion to increase its metropolitan fiber route miles by approximately 17% into five new markets and in 27 existing markets. The Company is also expanding its regional fiber footprint in order to achieve greater network control and cost efficiency. To facilitate this expansion, the Company entered into long-term capital leases for fiber that the Company plans to light with its own electronics. The initial term of the leases is 20 years, with two ten -year renewals at the Company's option, and automatic renewals thereafter until terminated by either party. During the three months ended December 31, 2013, the Company recognized a right-to-use asset and corresponding capital lease obligation of \$119.8 million , representing the present value of the minimum commitment under the leases, which are expected to result in aggregate committed lease payments over the initial 20 year lease term of approximately \$216.5 million . The Company will accept the fiber under the minimum commitment beginning in the first quarter of 2014, at which time the related assets will begin depreciation.

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2013 , commitments under capital leases, non-cancelable operating leases and maintenance agreements with terms in excess of one year were as follows:

| | Capital Leases | Operating Leases | Fixed Maintenance Obligations |
|---|------------------------|---------------------|-------------------------------------|
| | (amounts in thousands) | | |
| Year ended December 31: | | | |
| 2014 | \$ 10,517 | \$ 55,192 | \$ 4,380 |
| 2015 | 10,110 | 49,141 | 5,242 |
| 2016 | 10,003 | 42,992 | 5,242 |
| 2017 | 9,566 | 38,612 | 5,242 |
| 2018 | 11,751 | 34,583 | 5,242 |
| Thereafter | 207,342 | 138,989 | 62,318 |
| Total minimum lease payments | \$ 259,289 | \$ 359,509 | \$ 87,666 |
| Less amount representing interest | (112,243) | | |
| Present value of obligations under capital leases | 147,046 | | |
| Less current portion of obligations under capital leases | (3,878) | | |
| Obligations under capital leases, excluding current portion | \$ 143,168 | | |

As of December 31, 2013 and 2012 , assets under capital lease obligations, which primarily consist of fiber optic network components, were \$152.6 million and \$24.6 million , respectively, with related accumulated depreciation of \$8.9 million and \$7.8 million , respectively. Depreciation expense related to assets under capital lease obligations was \$2.2 million , \$1.7 million and \$1.2 million for years ended December 31, 2013 , 2012 and 2011 , respectively. The obligations under capital leases have been discounted at an average imputed interest rate of 5.8% . Rental expense under operating leases aggregated \$88.2 million , \$77.1 million and \$76.8 million for the years ended December 31, 2013 , 2012 and 2011 , respectively.

Other Contingencies

Management routinely reviews the Company's exposure to liabilities incurred in the normal course of its business operations. The Company is subject to significant government and jurisdictional regulation, some of which is uncertain due to legal challenges of existing rules. Such regulation is subject to differing interpretations and inconsistent application, and has historically resulted in disputes with other carriers, regulatory authorities and municipalities regarding the classification of traffic, rates, minutes of use and right-of-way fees. Where a probable contingency exists and the amount of the loss can be reasonably estimated, the Company records the estimated liability. Considerable judgment is required in analyzing and recording such liabilities and actual results may vary from the estimates.

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

11. Employee Benefit Plans

Effective January 1, 1999, the Company adopted the **tw telecom** 401(k) Plan (the "401(k) Plan"). Employees who meet certain eligibility requirements may contribute up to 60% of their eligible compensation, subject to statutory limitations, to a trust for investment in several diversified investment choices, as directed by the employee. The Company makes a matching contribution of 100% of each employee's contribution up to a maximum of 5% of the employee's eligible compensation. The Company's contributions to the 401(k) Plan aggregated \$12.9 million , \$11.9 million and \$11.6 million for the years ended December 31, 2013 , 2012 and 2011 , respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. Quarterly Results of Operations (Unaudited)

The following summarizes the Company's unaudited quarterly results of operations for 2013 and 2012 :

| | Three Months Ended | | | |
|--|--------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| (amounts in thousands, except per share amounts) | | | | |
| Year ended December 31, 2013 | | | | |
| Total revenue | \$ 381,209 | \$ 389,483 | \$ 393,190 | \$ 400,019 |
| Operating income | 52,170 | 53,262 | 46,932 | 52,557 |
| Net income (loss) | 13,144 | 17,347 | (9,434) | 15,401 |
| Basic earnings (loss) per share | \$ 0.09 | \$ 0.12 | \$ (0.07) | \$ 0.11 |
| Diluted earnings (loss) per share | \$ 0.09 | \$ 0.11 | \$ (0.07) | \$ 0.11 |
| Year ended December 31, 2012 | | | | |
| Total revenue | \$ 358,925 | \$ 364,503 | \$ 368,934 | \$ 377,893 |
| Operating income | 55,248 | 56,468 | 58,672 | 56,599 |
| Net income | 19,332 | 19,319 | 20,969 | 17,268 |
| Basic earnings per share | \$ 0.13 | \$ 0.13 | \$ 0.14 | \$ 0.11 |
| Diluted earnings per share | \$ 0.13 | \$ 0.13 | \$ 0.14 | \$ 0.11 |

The total earnings per share for the quarters may not equal earnings per share for the respective years because the per share amounts for each quarter and for each year are computed based on their respective discrete periods.

13. Supplemental Guarantor Information

The 2018 Notes, 2022 Notes, 2022 Mirror Notes and 2023 Notes (collectively, the "Senior Notes") are unsecured obligations of Holdings ("Issuer") and are fully and unconditionally guaranteed by the Company ("Parent Guarantor") and substantially all of the Issuer's subsidiaries ("Combined Subsidiary Guarantors"). The guarantees are joint and several. The Combined Subsidiary Guarantors are directly or indirectly wholly owned by the Issuer, which is wholly owned by the Parent Guarantor. A significant amount of the Issuer's cash flow is generated by the Combined Subsidiary Guarantors. As a result, funds necessary to meet the Issuer's debt service obligations are provided in large part by distributions or advances from the Combined Subsidiary Guarantors. The Senior Notes are governed by indentures that contain certain restrictive covenants. These restrictions affect, and in many respects limit or prohibit, among other things, the ability of the Parent Guarantor, the Issuer and its subsidiaries to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, engage in transactions with stockholders and affiliates, issue capital stock of subsidiaries, create liens, sell assets, and engage in mergers and consolidations.

The following information sets forth the Company's Condensed Consolidating Balance Sheets as of December 31, 2013 and 2012 , Condensed Consolidating Statements of Operations for the years ended December 31, 2013 , 2012 and 2011 , Condensed Consolidating Statements of Comprehensive Income for the years ended December 31, 2013 , 2012 and 2011 and Condensed Consolidating Statements of Cash Flows for the years ended December 31, 2013 , 2012 and 2011 .

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

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

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

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING BALANCE SHEET
December 31, 2012

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|--------------|--------------------------------------|----------------|--------------|
| | (amounts in thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 24,544 | \$ 782,184 | \$ — | \$ — | \$ 806,728 |
| Investments | — | 167,564 | — | — | 167,564 |
| Receivables, net | — | — | 99,703 | — | 99,703 |
| Prepaid expenses and other current assets | — | 11,270 | 7,894 | — | 19,164 |
| Deferred income taxes | — | 76,140 | 20 | — | 76,160 |
| Intercompany receivable | 1,864,694 | 506,610 | — | (2,371,304) | — |
| Total current assets | 1,889,238 | 1,543,768 | 107,617 | (2,371,304) | 1,169,319 |
| Property, plant and equipment, net | — | 48,686 | 1,443,560 | — | 1,492,246 |
| Deferred income taxes | — | 101,401 | 484 | — | 101,885 |
| Goodwill | — | — | 412,694 | — | 412,694 |
| Intangible and other assets, net | 275 | 20,634 | 26,684 | — | 47,593 |
| Total assets | \$ 1,889,513 | \$ 1,714,489 | \$ 1,991,039 | \$ (2,371,304) | \$ 3,223,737 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ — | \$ 7,141 | \$ 48,716 | \$ — | \$ 55,857 |
| Current portion debt and capital lease obligations, net | 368,100 | 5,475 | 1,394 | — | 374,969 |
| Other current liabilities | 2,219 | 64,564 | 165,530 | — | 232,313 |
| Intercompany payable | — | — | 2,371,304 | (2,371,304) | — |
| Total current liabilities | 370,319 | 77,180 | 2,586,944 | (2,371,304) | 663,139 |
| Losses in subsidiary in excess of investment | 407,286 | 862,681 | — | (1,269,967) | — |
| Long-term debt and capital lease obligations, net | — | 1,366,463 | 17,779 | — | 1,384,242 |
| Long-term deferred revenue | — | — | 23,177 | — | 23,177 |
| Other long-term liabilities | — | 7,024 | 34,216 | — | 41,240 |
| Stockholders' equity (deficit) | 1,111,908 | (598,859) | (671,077) | 1,269,967 | 1,111,939 |
| Total liabilities and stockholders' equity (deficit) | \$ 1,889,513 | \$ 1,714,489 | \$ 1,991,039 | \$ (2,371,304) | \$ 3,223,737 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2013

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|-----------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Total revenue | \$ — | \$ — | \$ 1,563,901 | \$ — | \$ 1,563,901 |
| Costs and expenses: | | | | | |
| Operating, selling, general and administrative | — | 270,955 | 779,257 | — | 1,050,212 |
| Depreciation, amortization and accretion | — | 27,989 | 280,779 | — | 308,768 |
| Corporate expense allocation | — | (298,944) | 298,944 | — | — |
| Total costs and expenses | — | — | 1,358,980 | — | 1,358,980 |
| Operating income | — | — | 204,921 | — | 204,921 |
| Interest expense, net | (9,717) | (74,747) | (10,980) | — | (95,444) |
| Debt extinguishment costs | (327) | (38,987) | — | — | (39,314) |
| Interest expense allocation | 10,044 | 113,734 | (123,778) | — | — |
| Income before income taxes and equity in undistributed earnings of subsidiaries | — | — | 70,163 | — | 70,163 |
| Income tax expense | — | 32,051 | 1,654 | — | 33,705 |
| Net income (loss) before equity in undistributed earnings of subsidiaries | — | (32,051) | 68,509 | — | 36,458 |
| Equity in undistributed earnings of subsidiaries | 36,458 | 68,509 | — | (104,967) | — |
| Net income | \$ 36,458 | \$ 36,458 | \$ 68,509 | \$ (104,967) | \$ 36,458 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2012

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|-----------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Total revenue | \$ — | \$ — | \$ 1,470,255 | \$ — | \$ 1,470,255 |
| Costs and expenses: | | | | | |
| Operating, selling, general and administrative | — | 221,340 | 737,636 | — | 958,976 |
| Depreciation, amortization and accretion | — | 24,268 | 260,024 | — | 284,292 |
| Corporate expense allocation | — | (245,608) | 245,608 | — | — |
| Total costs and expenses | — | — | 1,243,268 | — | 1,243,268 |
| Operating income | — | — | 226,987 | — | 226,987 |
| Interest expense, net | (31,388) | (54,420) | (7,156) | — | (92,964) |
| Debt extinguishment costs | — | (77) | — | — | (77) |
| Interest expense allocation | 31,388 | 54,497 | (85,885) | — | — |
| Income before income taxes and equity in undistributed earnings of subsidiaries | — | — | 133,946 | — | 133,946 |
| Income tax expense | — | 55,310 | 1,748 | — | 57,058 |
| Net income (loss) before equity in undistributed earnings of subsidiaries | — | (55,310) | 132,198 | — | 76,888 |
| Equity in undistributed earnings of subsidiaries | 76,888 | 132,198 | — | (209,086) | — |
| Net income | \$ 76,888 | \$ 76,888 | \$ 132,198 | \$ (209,086) | \$ 76,888 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2011

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|-----------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Total revenue | \$ — | \$ — | \$ 1,366,891 | \$ — | \$ 1,366,891 |
| Costs and expenses: | | | | | |
| Operating, selling, general and administrative | — | 209,677 | 687,322 | — | 896,999 |
| Depreciation, amortization and accretion | — | 22,170 | 261,159 | — | 283,329 |
| Corporate expense allocation | — | (231,847) | 231,847 | — | — |
| Total costs and expenses | — | — | 1,180,328 | — | 1,180,328 |
| Operating income | — | — | 186,563 | — | 186,563 |
| Interest expense, net | (29,648) | (45,302) | (12,223) | — | (87,173) |
| Interest expense allocation | 29,648 | 45,302 | (74,950) | — | — |
| Income before income taxes and equity in undistributed earnings of subsidiaries | — | — | 99,390 | — | 99,390 |
| Income tax expense | — | 39,927 | 1,552 | — | 41,479 |
| Net income (loss) before equity in undistributed earnings of subsidiaries | — | (39,927) | 97,838 | — | 57,911 |
| Equity in undistributed earnings of subsidiaries | 57,911 | 97,838 | — | (155,749) | — |
| Net income | \$ 57,911 | \$ 57,911 | \$ 97,838 | \$ (155,749) | \$ 57,911 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2013

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|--|------------------------|------------------|--------------------------------------|---------------------|------------------|
| | (amounts in thousands) | | | | |
| Net income | \$ 36,458 | \$ 36,458 | \$ 68,509 | \$ (104,967) | \$ 36,458 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on available-for-sale securities | 63 | 63 | — | (63) | 63 |
| Other comprehensive income, net of tax | 63 | 63 | — | (63) | 63 |
| Comprehensive income | <u>\$ 36,521</u> | <u>\$ 36,521</u> | <u>\$ 68,509</u> | <u>\$ (105,030)</u> | <u>\$ 36,521</u> |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2012

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|--|------------------------|------------------|--------------------------------------|---------------------|------------------|
| | (amounts in thousands) | | | | |
| Net income | \$ 76,888 | \$ 76,888 | \$ 132,198 | \$ (209,086) | \$ 76,888 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on available-for-sale securities | 46 | 46 | — | (46) | 46 |
| Other comprehensive income, net of tax | 46 | 46 | — | (46) | 46 |
| Comprehensive income | <u>\$ 76,934</u> | <u>\$ 76,934</u> | <u>\$ 132,198</u> | <u>\$ (209,132)</u> | <u>\$ 76,934</u> |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Year Ended December 31, 2011

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|--|------------------------|------------------|--------------------------------------|---------------------|------------------|
| | (amounts in thousands) | | | | |
| Net income | \$ 57,911 | \$ 57,911 | \$ 97,838 | \$ (155,749) | \$ 57,911 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on cash flow hedging activities | 1,816 | 1,816 | — | (1,816) | 1,816 |
| Unrealized gain on available-for-sale securities | 32 | 32 | — | (32) | 32 |
| Other comprehensive income, net of tax | 1,848 | 1,848 | — | (1,848) | 1,848 |
| Comprehensive income | <u>\$ 59,759</u> | <u>\$ 59,759</u> | <u>\$ 97,838</u> | <u>\$ (157,597)</u> | <u>\$ 59,759</u> |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2013

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|-----------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 36,458 | \$ 36,458 | \$ 68,509 | \$ (104,967) | \$ 36,458 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation, amortization and accretion | — | 27,989 | 280,779 | — | 308,768 |
| Deferred income taxes | — | 30,738 | — | — | 30,738 |
| Stock-based compensation | — | — | 38,832 | — | 38,832 |
| Extinguishment costs, amortization of discount on debt and deferred debt issue costs and other | 6,244 | 43,797 | — | — | 50,041 |
| Intercompany and equity investment changes | 875,802 | (972,870) | (7,899) | 104,967 | — |
| Changes in operating assets and liabilities | (2,219) | 21,108 | (45,265) | — | (26,376) |
| Net cash provided by (used in) operating activities | 916,285 | (812,780) | 334,956 | — | 438,461 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (54,376) | (318,492) | — | (372,868) |
| Purchases of investments | — | (312,526) | — | — | (312,526) |
| Proceeds from sale of investments | — | 283,845 | — | — | 283,845 |
| Equipment purchases in advance of installation and other, net | — | 398 | (14,968) | — | (14,570) |
| Net cash used in investing activities | — | (82,659) | (333,460) | — | (416,119) |
| Cash flows from financing activities: | | | | | |
| Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units | 43,495 | — | — | — | 43,495 |
| Purchases of treasury stock | (406,514) | — | — | — | (406,514) |
| Excess tax benefits from stock-based compensation | — | 692 | — | — | 692 |
| Proceeds from modification of debt, net of financing costs | — | 49,684 | — | — | 49,684 |
| Proceeds from issuance of debt, net of financing costs | — | 765,800 | — | — | 765,800 |
| Retirement of debt obligations | (553,264) | (438,714) | — | — | (991,978) |
| Payment of debt and capital lease obligations | — | (4,334) | (1,496) | — | (5,830) |
| Net cash provided by (used in) financing activities | (916,283) | 373,128 | (1,496) | — | (544,651) |
| Increase (decrease) in cash and cash equivalents | 2 | (522,311) | — | — | (522,309) |

| | | | | | |
|--|------------------|-------------------|-------------|-------------|-------------------|
| Cash and cash equivalents at beginning of period | 24,544 | 782,184 | — | — | 806,728 |
| Cash and cash equivalents at end of period | <u>\$ 24,546</u> | <u>\$ 259,873</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 284,419</u> |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|------------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 76,888 | \$ 76,888 | \$ 132,198 | \$ (209,086) | \$ 76,888 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation, amortization and accretion | — | 24,268 | 260,024 | — | 284,292 |
| Deferred income taxes | — | 48,559 | — | — | 48,559 |
| Stock-based compensation | — | — | 29,300 | — | 29,300 |
| Amortization of discount on debt and deferred debt issue costs and other | 22,512 | 3,034 | — | — | 25,546 |
| Intercompany and equity investment changes | (99,451) | (14,613) | (95,022) | 209,086 | — |
| Changes in operating assets and liabilities | — | 5,280 | (6,189) | — | (909) |
| Net cash (used in) provided by operating activities | (51) | 143,416 | 320,311 | — | 463,676 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (17,490) | (320,628) | — | (338,118) |
| Purchases of investments | — | (243,048) | — | — | (243,048) |
| Proceeds from sale of investments | — | 204,629 | — | — | 204,629 |
| Proceeds from sale of assets and other investing activities, net | — | 1,258 | 1,308 | — | 2,566 |
| Net cash used in investing activities | — | (54,651) | (319,320) | — | (373,971) |
| Cash flows from financing activities: | | | | | |
| Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units | 13,462 | — | — | — | 13,462 |
| Purchases of treasury stock | (13,409) | — | — | — | (13,409) |
| Excess tax benefits from stock-based compensation | — | 1,213 | — | — | 1,213 |
| Retirement of debt obligations | — | (101,518) | — | — | (101,518) |
| Net proceeds from issuance of debt | — | 470,796 | — | — | 470,796 |
| Payment of debt and capital lease obligations | (1) | (5,923) | (991) | — | (6,915) |
| Net cash provided by (used) in financing activities | 52 | 364,568 | (991) | — | 363,629 |
| Increase in cash and cash equivalents | 1 | 453,333 | — | — | 453,334 |
| Cash and cash equivalents at beginning of period | 24,543 | 328,851 | — | — | 353,394 |
| Cash and cash equivalents at end of period | \$ 24,544 | \$ 782,184 | \$ — | \$ — | \$ 806,728 |

tw telecom inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Year Ended December 31, 2011

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|------------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 57,911 | \$ 57,911 | \$ 97,838 | \$ (155,749) | \$ 57,911 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation, amortization and accretion | — | 22,170 | 261,159 | — | 283,329 |
| Deferred income taxes | — | 35,736 | 20 | — | 35,756 |
| Stock-based compensation | — | — | 27,817 | — | 27,817 |
| Amortization of discount on debt and debt issue costs and other | 20,773 | 2,615 | — | — | 23,388 |
| Intercompany and equity investment changes | (30,087) | (73,468) | (52,194) | 155,749 | — |
| Changes in operating assets and liabilities | — | 6,254 | (30,867) | — | (24,613) |
| Net cash provided by operating activities | 48,597 | 51,218 | 303,773 | — | 403,588 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (39,701) | (301,030) | — | (340,731) |
| Purchases of investments | — | (223,638) | — | — | (223,638) |
| Proceeds from sale of investments | — | 208,340 | — | — | 208,340 |
| Proceeds from sales of assets and other investing activities, net | — | 5,183 | (1,953) | — | 3,230 |
| Net cash used in investing activities | — | (49,816) | (302,983) | — | (352,799) |
| Cash flows from financing activities: | | | | | |
| Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units | 9,966 | — | — | — | 9,966 |
| Purchases of treasury stock | (58,562) | — | — | — | (58,562) |
| Excess tax benefits from stock-based compensation | — | 1,385 | — | — | 1,385 |
| Payment of debt and capital lease obligations | — | (6,316) | (790) | — | (7,106) |
| Net cash used in financing activities | (48,596) | (4,931) | (790) | — | (54,317) |
| Increase (decrease) in cash and cash equivalents | 1 | (3,529) | — | — | (3,528) |
| Cash and cash equivalents at beginning of period | 24,542 | 332,380 | — | — | 356,922 |
| Cash and cash equivalents at end of period | \$ 24,543 | \$ 328,851 | \$ — | \$ — | \$ 353,394 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

14. Subsequent Event

Level 3 Merger

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

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

Exhibit 99.2**tw telecom inc.****CONDENSED CONSOLIDATED BALANCE SHEETS**

| | March 31, 2014 | December 31, 2013 |
|---|--|----------------------|
| | (unaudited) | |
| | (amounts in thousands, except per share amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 178,839 | \$ 284,419 |
| Investments | 176,394 | 194,576 |
| Receivables, less allowances of \$6,290 and \$6,748, respectively | 98,811 | 107,258 |
| Prepaid expenses and other current assets | 23,734 | 22,545 |
| Deferred income taxes | 54,026 | 54,026 |
| Total current assets | 531,804 | 662,824 |
| Property, plant and equipment | 4,775,473 | 4,675,335 |
| Less accumulated depreciation | (3,049,210) | (2,980,379) |
| | 1,726,263 | 1,694,956 |
| Deferred income taxes | 88,332 | 96,087 |
| Goodwill | 412,694 | 412,694 |
| Intangible assets, net of accumulated amortization | 10,322 | 11,555 |
| Other assets, net | 43,129 | 44,344 |
| Total assets | \$ 2,812,544 | \$ 2,922,460 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 71,711 | \$ 38,454 |
| Deferred revenue | 48,561 | 48,371 |
| Accrued taxes, franchise and other fees | 52,969 | 55,043 |
| Accrued interest | 28,740 | 21,606 |
| Accrued payroll and benefits | 42,820 | 52,604 |
| Accrued carrier costs | 10,997 | 25,507 |
| Current portion debt and capital lease obligations, net | 8,878 | 32,470 |
| Other current liabilities | 37,772 | 35,241 |
| Total current liabilities | 302,448 | 309,296 |
| Long-term debt and capital lease obligations, net | 1,915,081 | 1,916,775 |

| | | |
|---|---------------------|---------------------|
| Long-term deferred revenue | 19,871 | 20,046 |
| Other long-term liabilities | 42,590 | 40,274 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding | — | — |
| Common stock, \$0.01 par value, 439,800 shares authorized, 153,760 shares issued | 1,538 | 1,538 |
| Additional paid-in capital | 1,692,107 | 1,701,356 |
| Treasury stock, 15,851 and 12,593 shares, at cost, respectively | (459,243) | (357,974) |
| Accumulated deficit | (701,966) | (708,979) |
| Accumulated other comprehensive income | 118 | 128 |
| Total stockholders' equity | <u>532,554</u> | <u>636,069</u> |
| Total liabilities and stockholders' equity | <u>\$ 2,812,544</u> | <u>\$ 2,922,460</u> |

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2014 | 2013 |
| | (amounts in thousands, except per share amounts) | |
| Revenue: | | |
| Data and Internet services | \$ 243,671 | \$ 211,721 |
| Voice services | 77,361 | 76,030 |
| Network services | 58,367 | 64,955 |
| Service revenue | 379,399 | 352,706 |
| Taxes and fees | 22,752 | 20,594 |
| Intercarrier compensation | 6,142 | 7,909 |
| Total revenue | 408,293 | 381,209 |
| Costs and expenses ^(a) : | | |
| Operating (exclusive of depreciation, amortization and accretion shown separately below) | 174,039 | 161,082 |
| Selling, general and administrative | 106,832 | 93,562 |
| Depreciation, amortization and accretion | 82,456 | 74,395 |
| Total costs and expenses | 363,327 | 329,039 |
| Operating income | 44,966 | 52,170 |
| Interest expense | (25,648) | (28,340) |
| Debt extinguishment costs | (1,282) | — |
| Interest income | 148 | 277 |
| Income before income taxes | 18,184 | 24,107 |
| Income tax expense | 8,393 | 10,963 |
| Net income | \$ 9,791 | \$ 13,144 |
| Earnings per share: | | |
| Basic | \$ 0.07 | \$ 0.09 |
| Diluted | \$ 0.07 | \$ 0.09 |
| Weighted average shares outstanding: | | |
| Basic | 138,088 | 149,129 |
| Diluted | 140,097 | 152,452 |

^(a) Includes non-cash stock-based employee compensation expense (Note 6):

| | | |
|-------------------------------------|----------|----------|
| Operating | \$ 539 | \$ 583 |
| Selling, general and administrative | \$ 8,847 | \$ 8,879 |

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------|
| | 2014 | 2013 |
| | (amounts in thousands) | |
| Net income | \$ 9,791 | \$ 13,144 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gain (loss) on available-for-sale securities | (10) | 8 |
| Other comprehensive income (loss), net of tax | (10) | 8 |
| Comprehensive income | \$ 9,781 | \$ 13,152 |

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|---|---|-------------|
| | 2014 | 2013 |
| | (amounts in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 9,791 | \$ 13,144 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and accretion | 82,456 | 74,395 |
| Deferred income taxes | 8,017 | 10,617 |
| Stock-based compensation expense | 9,386 | 9,462 |
| Loss on debt extinguishment | 1,282 | — |
| Amortization of discount on debt and deferred debt issue costs | 1,613 | 6,795 |
| Changes in operating assets and liabilities: | | |
| Receivables, prepaid expenses and other assets | 7,844 | (6,952) |
| Accounts payable, deferred revenue and other liabilities | (5,164) | (25,861) |
| Net cash provided by operating activities | 115,225 | 81,600 |
| Cash flows from investing activities: | | |
| Capital expenditures | (101,633) | (87,800) |
| Purchases of investments | (51,703) | (50,932) |
| Proceeds from sale of investments | 69,509 | 33,990 |
| Other investing activities, net | 4,338 | (2,240) |
| Net cash used in investing activities | (79,489) | (106,982) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock upon exercise of stock options | 8,517 | 24,449 |
| Taxes paid related to net share settlement of equity awards | (18,897) | (18,291) |
| Purchases of treasury stock | (104,170) | (54,627) |
| Excess tax benefits from stock-based compensation | 412 | 601 |
| Retirement of debt obligations | (24,418) | (59) |
| Payment of debt and capital lease obligations | (2,760) | (1,709) |
| Net cash used in financing activities | (141,316) | (49,636) |
| Decrease in cash and cash equivalents | (105,580) | (75,018) |

| | | |
|---|-------------------|-------------------|
| Cash and cash equivalents at beginning of period | 284,419 | 806,728 |
| Cash and cash equivalents at end of period | <u>\$ 178,839</u> | <u>\$ 731,710</u> |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest | <u>\$ 17,083</u> | <u>\$ 21,631</u> |
| Cash paid for income taxes, net of refunds | <u>\$ (76)</u> | <u>\$ (60)</u> |
| Cash paid for debt extinguishment costs | <u>\$ 939</u> | <u>\$ —</u> |
| Non-cash investing & financing activities: | | |
| Addition of capital lease obligations | <u>\$ 537</u> | <u>\$ 3,053</u> |

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2014
(Unaudited)

| | Common Stock | | Treasury Stock | | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income | Total stockholders' equity |
|--|----------------|-----------------|-----------------|---------------------|----------------------------------|------------------------|---|----------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| (amounts in thousands) | | | | | | | | |
| Balance at December 31, 2013 | 153,760 | \$ 1,538 | (12,593) | \$ (357,974) | \$ 1,701,356 | \$ (708,979) | \$ 128 | \$ 636,069 |
| Net income | — | — | — | — | — | 9,791 | — | 9,791 |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (10) | (10) |
| Excess tax benefits from stock-based compensation, net | — | — | — | — | 262 | — | — | 262 |
| Purchases of treasury stock | — | — | (3,674) | (112,564) | — | — | — | (112,564) |
| Exercise of stock options net of (withholdings) to satisfy employee tax obligations upon vesting of stock awards | — | — | 512 | 14,635 | (23,664) | (1,351) | — | (10,380) |
| Stock-based compensation | — | — | (96) | (3,340) | 14,153 | (1,427) | — | 9,386 |
| Balance at March 31, 2014 | <u>153,760</u> | <u>\$ 1,538</u> | <u>(15,851)</u> | <u>\$ (459,243)</u> | <u>\$ 1,692,107</u> | <u>\$ (701,966)</u> | <u>\$ 118</u> | <u>\$ 532,554</u> |

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business and Capital Structure

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

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

Basis of Presentation

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

Prior Year Reclassifications

Beginning January 1, 2014, the Company is reporting revenue from taxes and fees in a separate line item on the condensed consolidated statements of operations and is reporting revenue from dedicated high capacity Ethernet services in data and Internet services rather than network services. These reclassifications have been made in the prior year condensed consolidated statement of operations to conform to the current year presentation. Neither of these changes affects total revenue for the current period or prior periods. The following table provides revenue as currently reported and previously reported for the three months ended March 31, 2013:

| Three months ended March 31, 2013 | | | |
|-----------------------------------|------------------------|---------|------------------------|
| | As Currently Reported | | As Previously Reported |
| | (amounts in thousands) | | |
| Revenue: | | | |
| Data and Internet services | \$ | 211,721 | \$ 202,082 |
| Voice services | | 76,030 | 92,355 |
| Network services | | 64,955 | 78,863 |

| | | |
|---------------------------|-------------------|-------------------|
| Service revenue | 352,706 | 373,300 |
| Taxes and fees | 20,594 | — |
| Intercarrier compensation | 7,909 | 7,909 |
| Total revenue | <u>\$ 381,209</u> | <u>\$ 381,209</u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)*****Use of Estimates***

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

Accumulated Other Comprehensive Income

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

Revenue

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

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Revenue for network, data and Internet, and the majority of voice services is generally billed in advance on a monthly fixed rate basis and recognized over the period the services are provided. Revenue for the majority of intercarrier compensation and certain components of voice services, such as long distance, is generally billed on a transactional basis in arrears based on a customer's actual usage; therefore, estimates are used to recognize revenue in the period earned.

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

Significant Customers

The Company has substantial business relationships with a few large customers, including major telecommunications carriers. The Company's 10 largest customers accounted for an aggregate of 17% of the Company's total revenue for both the three months ended March 31, 2014 and 2013. No customer accounted for 5% or more of total revenue for the three months ended March 31, 2014 or 2013.

2. Earnings per Common Share and Potential Common Share

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

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

| | Three Months Ended March 31, | |
|---|---|-----------|
| | 2014 | 2013 |
| | (amounts in thousands, except per share amounts) | |
| Numerator | | |
| Net income | \$ 9,791 | \$ 13,144 |
| Allocation of net income to unvested restricted stock | (179) | (255) |
| Net income allocated to common stockholders, basic | \$ 9,612 | \$ 12,889 |
| Net income allocated to common stockholders, diluted | \$ 9,612 | \$ 12,889 |
| Denominator | | |
| Basic weighted average shares outstanding | 138,088 | 149,129 |
| Dilutive potential common shares: | | |
| Stock options | 384 | 1,432 |
| Unvested restricted stock | 1,625 | 1,891 |
| Diluted weighted average shares outstanding | 140,097 | 152,452 |
| Basic earnings per share | \$ 0.07 | \$ 0.09 |
| Diluted earnings per share | \$ 0.07 | \$ 0.09 |

There were no anti-dilutive shares for the three months ended March 31, 2014. Shares of common stock subject to issuance upon conversion of the Company's 2³/₈% Convertible Senior Debentures due 2026 (the "Convertible Debentures") and restricted stock awards and restricted stock units to be settled in common stock upon vesting, which were excluded from the computation of diluted weighted average shares outstanding because their inclusion would be anti-dilutive, totaled 21.0 million shares for the three months ended March 31, 2013.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

3. Investments

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

| | March 31, 2014 | December 31, 2013 |
|--|-------------------|----------------------|
| (amounts in thousands) | | |
| Cash equivalents: | | |
| U.S. Treasury money market mutual funds | \$ 28,371 | \$ 28,845 |
| Commercial paper | 19,895 | 1,335 |
| Total cash equivalents | \$ 48,266 | \$ 30,180 |
| Investments: | | |
| Debt securities issued by the U.S. Treasury | \$ 75,019 | \$ 69,628 |
| Commercial paper | 54,978 | 75,460 |
| Debt securities issued by U.S. Government agencies | 46,397 | 49,488 |
| Total investments | \$ 176,394 | \$ 194,576 |
| Total cash equivalents and investments | \$ 224,660 | \$ 224,756 |

At March 31, 2014 and December 31, 2013, the carrying values of investments included in cash and cash equivalents approximated fair value. The aggregate fair value of available-for-sale securities by major security type is included in Note 5. The amortized cost basis of the available-for-sale securities was not materially different from the aggregate fair value. The contractual maturities of the Company's available-for-sale securities are all within one year.

Proceeds from the sale and maturity of available-for-sale securities were \$69.5 million and \$34.0 million during the three months ended March 31, 2014 and 2013, respectively. Gains and losses on investments are calculated using the specific identification method and are recognized during the period the investment is sold. The Company recognized no material unrealized or realized net gains or losses during the three months ended March 31, 2014 and 2013.

4. Long-Term Debt and Capital Lease Obligations

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

| | Date of | | | Interest Rate | Original Principal | Outstanding Balance as of | |
|--|-------------------------|-----------|--------------------|---------------------------------|--------------------|---------------------------|----------------------|
| | Issuance / Amendment | Maturity | Interest Payments | | | March 31, 2014 | December 31, 2013 |
| (amounts in thousands) | | | | | | | |
| Term Loan B | Apr 2013 | Apr 2020 | At least quarterly | Eurodollar rate + 2.50% | \$ 520,000 | \$ 516,100 | \$ 517,400 |
| 8% Senior Notes | Mar 2010 | Mar 2018 | Mar/Sept | 8% | 430,000 | — | 23,479 |
| 5 ³ / ₈ % Senior Notes | Oct 2012 | Oct 2022 | Apr/Oct | 5 ³ / ₈ % | 480,000 | 480,000 | 480,000 |
| 5 ³ / ₈ % Senior Notes | Aug 2013 | Oct 2022 | Apr/Oct | 5 ³ / ₈ % | 450,000 | 450,000 | 450,000 |
| 6 ³ / ₈ % Senior Notes | Aug 2013 | Sept 2023 | Mar/Sept | 6 ³ / ₈ % | 350,000 | 350,000 | 350,000 |
| Capital lease obligations | | | | | | 145,894 | 147,046 |
| Total obligations | | | | | | 1,941,994 | 1,967,925 |
| Unamortized discounts | | | | | | (18,035) | (18,680) |
| Current portion | | | | | | (8,878) | (32,470) |
| Total long-term debt and capital lease obligations | | | | | | \$ 1,915,081 | \$ 1,916,775 |

8% Senior Notes due 2018

As of December 31, 2013, tw telecom holdings inc. ("Holdings") had outstanding \$23.5 million aggregate principal amount of 8% Senior Notes due 2018 (the "2018 Notes"). During the three months ended March 31, 2014, Holdings redeemed all remaining outstanding

2018 Notes at a redemption price of 104% of the principal amount. During the three months ended

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

March 31, 2014 , the Company recognized debt extinguishment costs of \$ 1.3 million , comprised of \$ 0.9 million for premiums associated with the redemption and \$ 0.4 million for write-offs of unamortized deferred debt issuance costs and issuance discount related to the 2018 Notes.

Covenant Compliance

As of March 31, 2014 , **tw telecom inc.** and its wholly-owned subsidiary, Holdings, were in compliance with all of their debt covenants.

5. Fair Value Measurements

Fair value, as defined by relevant accounting standards, is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

value measurements for assets and liabilities required to be recorded at fair value, the Company considers the principal or most advantageous market in which it would complete a transaction and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions and risk of nonperformance.

Fair Value Hierarchy

Relevant accounting standards set forth a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Relevant accounting standards establish three levels of inputs that may be used to measure fair value:

- *Level 1* —Quoted prices in active markets for identical assets or liabilities. Level 1 assets that are measured at fair value on a recurring basis consist of the Company's investments in U.S. Treasury money market mutual funds that are traded in an active market with sufficient volume and frequency of transactions, and are included as a component of cash and cash equivalents in the condensed consolidated balance sheets.
- *Level 2* —Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets that are measured at fair value on a recurring basis consist of the Company's investments in commercial paper and debt securities issued by the U.S. Treasury and other U.S. government agencies using observable inputs in less active markets and are included as a component of cash and cash equivalents and investments in the condensed consolidated balance sheets. Level 2 liabilities that are measured, but not carried, at fair value on a recurring basis include the Company's long-term debt. The Company's long-term debt has not been listed on any securities exchange or quoted on an inter-dealer automated quotation system. The Company has estimated the fair value of its long-term debt based on indicative pricing published by certain investment banks or trading levels in its long-term debt.
- *Level 3* —Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities. The Company did not have any Level 3 assets or liabilities that were measured at fair value at March 31, 2014 and December 31, 2013 .

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

| | Fair Value Measurements At March 31, 2014 | | | Assets at Fair Value |
|--|---|------------|---------|-------------------------|
| | Level 1 | Level 2 | Level 3 | |
| | (amounts in thousands) | | | |
| Assets | | | | |
| U.S. Treasury money market mutual funds | \$ 28,371 | \$ — | \$ — | \$ 28,371 |
| Commercial paper | — | 19,895 | — | 19,895 |
| Investments included in cash and cash equivalents | \$ 28,371 | \$ 19,895 | \$ — | \$ 48,266 |
| Debt securities issued by the U.S. Treasury | — | 75,019 | — | 75,019 |
| Commercial paper | — | 54,978 | — | 54,978 |
| Debt securities issued by U.S. Government agencies | — | 46,397 | — | 46,397 |
| Short-term investments | \$ — | \$ 176,394 | \$ — | \$ 176,394 |
| Total assets | \$ 28,371 | \$ 196,289 | \$ — | \$ 224,660 |

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

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

| | March 31, 2014 | | December 31, 2013 | |
|---|----------------|--------------------|-------------------|--------------------|
| | Carrying Value | Fair Value Level 2 | Carrying Value | Fair Value Level 2 |
| (amounts in thousands) | | | | |
| Term Loan B, net of discount | \$ 513,856 | \$ 516,100 | \$ 515,063 | \$ 519,987 |
| 8% Senior Notes, net of discount | — | — | 23,392 | 24,594 |
| 5 ³ / ₈ % Senior Notes, issued October 2012 | 480,000 | 489,600 | 480,000 | 474,000 |
| 5 ³ / ₈ % Senior Notes, net of discount, issued August 2013 | 434,209 | 459,000 | 433,744 | 444,375 |
| 6 ³ / ₈ % Senior Notes | 350,000 | 372,750 | 350,000 | 364,000 |
| Total debt | \$ 1,778,065 | \$ 1,837,450 | \$ 1,802,199 | \$ 1,826,956 |

6. Stock-Based Compensation

During the three months ended March 31, 2014 , the Company granted restricted stock awards and restricted stock units with respect to 1.4 million shares and no stock options. As of March 31, 2014 , the Company had 3.7 million restricted stock awards and restricted stock units that were unvested and 0.5 million stock options outstanding, of which 0.5 million were exercisable.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

As of March 31, 2014, there was \$86.4 million of total unrecognized compensation expense related to unvested restricted stock awards and restricted stock units, which is expected to be recognized over a weighted-average period of 2.7 years, and no unrecognized compensation expense related to unvested stock options.

7. Commitments and Contingencies

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

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

8. Supplemental Guarantor Information

The \$480 million principal amount $5\frac{3}{8}\%$ Senior Notes due 2022 (the "2022 Notes"), \$450 million principal amount $5\frac{3}{8}\%$ Senior Notes due 2022 (the "2022 Mirror Notes") and \$350 million principal amount $6\frac{3}{8}\%$ Senior Notes due 2023 (the

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

"2023 Notes") (collectively, the "Senior Notes") are unsecured obligations of Holdings ("Issuer") and are fully and unconditionally guaranteed by the Company ("Parent Guarantor") and substantially all of the Issuer's subsidiaries ("Combined Subsidiary Guarantors"). The guarantees are joint and several. The Combined Subsidiary Guarantors are directly or indirectly wholly owned by the Issuer, which is wholly owned by the Parent Guarantor. A significant amount of the Issuer's cash flow is generated by the Combined Subsidiary Guarantors. As a result, funds necessary to meet the Issuer's debt service obligations are provided in large part by distributions or advances from the Combined Subsidiary Guarantors. The Senior Notes are governed by indentures that contain certain restrictive covenants. These restrictions affect, and in many respects limit or prohibit, among other things, the ability of the Parent Guarantor, the Issuer and its subsidiaries to incur indebtedness, make prepayments of certain indebtedness, pay dividends, make investments, engage in transactions with stockholders and affiliates, issue capital stock of subsidiaries, create liens, sell assets and engage in mergers and consolidations.

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

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING BALANCE SHEET
March 31, 2014
(unaudited)

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|--|------------------------|--------------|--------------------------------------|----------------|--------------|
| | (amounts in thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 24,546 | \$ 154,293 | \$ — | \$ — | \$ 178,839 |
| Investments | — | 176,394 | — | — | 176,394 |
| Receivables, net | — | — | 98,811 | — | 98,811 |
| Prepaid expenses and other current assets | — | 14,179 | 9,555 | — | 23,734 |
| Deferred income taxes | — | 54,006 | 20 | — | 54,026 |
| Intercompany receivable | 795,857 | 1,578,083 | — | (2,373,940) | — |
| Total current assets | 820,403 | 1,976,955 | 108,386 | (2,373,940) | 531,804 |
| Property, plant and equipment, net | — | 80,410 | 1,645,853 | — | 1,726,263 |
| Deferred income taxes | — | 87,848 | 484 | — | 88,332 |
| Goodwill | — | — | 412,694 | — | 412,694 |
| Intangible and other assets, net | — | 34,976 | 18,475 | — | 53,451 |
| Total assets | \$ 820,403 | \$ 2,180,189 | \$ 2,185,892 | \$ (2,373,940) | \$ 2,812,544 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ — | \$ 10,541 | \$ 61,170 | \$ — | \$ 71,711 |
| Current portion debt and capital lease obligations | — | 5,480 | 3,398 | — | 8,878 |
| Other current liabilities | — | 82,682 | 139,177 | — | 221,859 |
| Intercompany payable | — | — | 2,373,940 | (2,373,940) | — |
| Total current liabilities | — | 98,703 | 2,577,685 | (2,373,940) | 302,448 |
| Losses in subsidiary in excess of investment | 288,142 | 849,208 | — | (1,137,350) | — |
| Long-term debt and capital lease obligations, net | — | 1,772,865 | 142,216 | — | 1,915,081 |
| Long-term deferred revenue | — | — | 19,871 | — | 19,871 |
| Other long-term liabilities | — | 11,708 | 30,882 | — | 42,590 |
| Stockholders' equity (deficit) | 532,261 | (552,295) | (584,762) | 1,137,350 | 532,554 |
| Total liabilities and stockholders' equity (deficit) | \$ 820,403 | \$ 2,180,189 | \$ 2,185,892 | \$ (2,373,940) | \$ 2,812,544 |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

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

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended March 31, 2014
(unaudited)

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|------------------------|----------|--------------------------------------|--------------|--------------|
| | (amounts in thousands) | | | | |
| Total revenue | \$ — | \$ — | \$ 408,293 | \$ — | \$ 408,293 |
| Costs and expenses: | | | | | |
| Operating, selling, general and administrative | — | 71,941 | 208,930 | — | 280,871 |
| Depreciation, amortization and accretion | — | 8,591 | 73,865 | — | 82,456 |
| Corporate expense allocation | — | (80,532) | 80,532 | — | — |
| Total costs and expenses | — | — | 363,327 | — | 363,327 |
| Operating income | — | — | 44,966 | — | 44,966 |
| Interest expense, net | — | (20,488) | (5,012) | — | (25,500) |
| Debt extinguishment costs | — | (1,282) | — | — | (1,282) |
| Interest expense allocation | — | 21,770 | (21,770) | — | — |
| Income before income taxes and equity in undistributed earnings of subsidiaries | — | — | 18,184 | — | 18,184 |
| Income tax expense | — | 8,017 | 376 | — | 8,393 |
| Net income (loss) before equity in undistributed earnings of subsidiaries | — | (8,017) | 17,808 | — | 9,791 |
| Equity in undistributed earnings of subsidiaries | 9,791 | 17,808 | — | (27,599) | — |
| Net income | \$ 9,791 | \$ 9,791 | \$ 17,808 | \$ (27,599) | \$ 9,791 |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
Three Months Ended March 31, 2013
(unaudited)

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|-----------------------------|---------------|---|---------------------|---------------------|
| | (amounts in thousands) | | | | |
| Total revenue | \$ — | \$ — | \$ 381,209 | \$ — | \$ 381,209 |
| Costs and expenses: | | | | | |
| Operating, selling, general and administrative | — | 64,807 | 189,837 | — | 254,644 |
| Depreciation, amortization and accretion | — | 6,579 | 67,816 | — | 74,395 |
| Corporate expense allocation | — | (71,386) | 71,386 | — | — |
| Total costs and expenses | — | — | 329,039 | — | 329,039 |
| Operating income | — | — | 52,170 | — | 52,170 |
| Interest expense, net | (8,136) | (17,878) | (2,049) | — | (28,063) |
| Interest expense allocation | 8,136 | 17,878 | (26,014) | — | — |
| Income before income taxes and equity in undistributed earnings of subsidiaries | — | — | 24,107 | — | 24,107 |
| Income tax expense | — | 10,617 | 346 | — | 10,963 |
| Net income (loss) before equity in undistributed earnings of subsidiaries | — | (10,617) | 23,761 | — | 13,144 |
| Equity in undistributed earnings of subsidiaries | 13,144 | 23,761 | — | (36,905) | — |
| Net income | \$ 13,144 | \$ 13,144 | \$ 23,761 | \$ (36,905) | \$ 13,144 |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Three Months Ended March 31, 2014
(unaudited)

| | <u>Parent Guarantor</u> | <u>Issuer</u> | <u>Combined Subsidiary Guarantors</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------------|-----------------|---|---------------------|---------------------|
| | (amounts in thousands) | | | | |
| Net income | \$ 9,791 | \$ 9,791 | \$ 17,808 | \$ (27,599) | \$ 9,791 |
| Other comprehensive income (loss), net of tax: | | | | | |
| Unrealized loss on available-for-sale securities | (10) | (10) | — | 10 | (10) |
| Other comprehensive income (loss), net of tax | (10) | (10) | — | 10 | (10) |
| Comprehensive income | <u>\$ 9,781</u> | <u>\$ 9,781</u> | <u>\$ 17,808</u> | <u>\$ (27,589)</u> | <u>\$ 9,781</u> |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME
Three Months Ended March 31, 2013
(unaudited)

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|--|-----------------------------|------------------|---|---------------------|---------------------|
| | (amounts in thousands) | | | | |
| Net income | \$ 13,144 | \$ 13,144 | \$ 23,761 | \$ (36,905) | \$ 13,144 |
| Other comprehensive income, net of tax: | | | | | |
| Unrealized gain on available-for-sale securities | 8 | 8 | — | (8) | 8 |
| Other comprehensive income, net of tax | 8 | 8 | — | (8) | 8 |
| Comprehensive income | <u>\$ 13,152</u> | <u>\$ 13,152</u> | <u>\$ 23,761</u> | <u>\$ (36,913)</u> | <u>\$ 13,152</u> |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

tw telecom inc.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Three Months Ended March 31, 2014
(unaudited)

| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated |
|---|---------------------|------------|--------------------------------------|--------------|--------------|
| (amounts in thousands) | | | | | |
| Cash flows from operating activities: | | | | | |
| Net income | \$ 9,791 | \$ 9,791 | \$ 17,808 | \$ (27,599) | \$ 9,791 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Depreciation, amortization and accretion | — | 8,591 | 73,865 | — | 82,456 |
| Deferred income taxes | — | 8,017 | — | — | 8,017 |
| Stock-based compensation expense | — | — | 9,386 | — | 9,386 |
| Extinguishment costs, amortization of discount on debt and deferred debt issue costs | — | 2,895 | — | — | 2,895 |
| Intercompany and equity investment changes | 104,759 | (112,076) | (20,282) | 27,599 | — |
| Changes in operating assets and liabilities | — | (1,304) | 3,984 | — | 2,680 |
| Net cash provided by (used in) operating activities | 114,550 | (84,086) | 84,761 | — | 115,225 |
| Cash flows from investing activities: | | | | | |
| Capital expenditures | — | (13,880) | (87,753) | — | (101,633) |
| Purchases of investments | — | (51,703) | — | — | (51,703) |
| Proceeds from sale of investments | — | 69,509 | — | — | 69,509 |
| Other investing activities, net | — | 22 | 4,316 | — | 4,338 |
| Net cash provided by (used in) investing activities | — | 3,948 | (83,437) | — | (79,489) |
| Cash flows from financing activities: | | | | | |
| Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units | (10,380) | — | — | — | (10,380) |
| Purchases of treasury stock | (104,170) | — | — | — | (104,170) |
| Excess tax benefits from stock-based compensation | — | 412 | — | — | 412 |
| Retirement of debt obligations | — | (24,418) | — | — | (24,418) |
| Payment of debt and capital lease obligations | — | (1,436) | (1,324) | — | (2,760) |
| Net cash used in financing activities | (114,550) | (25,442) | (1,324) | — | (141,316) |
| Decrease in cash and cash equivalents | — | (105,580) | — | — | (105,580) |
| Cash and cash equivalents at beginning of period | 24,546 | 259,873 | — | — | 284,419 |
| Cash and cash equivalents at end of period | \$ 24,546 | \$ 154,293 | \$ — | \$ — | \$ 178,839 |

tw telecom inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

| tw telecom inc. | | | | | | |
|---|------------------------|------------|--------------------------------------|--------------|--------------|--|
| CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS | | | | | | |
| Three Months Ended March 31, 2013 | | | | | | |
| (unaudited) | | | | | | |
| | Parent Guarantor | Issuer | Combined Subsidiary Guarantors | Eliminations | Consolidated | |
| | (amounts in thousands) | | | | | |
| Cash flows from operating activities: | | | | | | |
| Net income | \$ 13,144 | \$ 13,144 | \$ 23,761 | \$ (36,905) | \$ 13,144 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation, amortization and accretion | — | 6,579 | 67,816 | — | 74,395 | |
| Deferred income taxes | — | 10,617 | — | — | 10,617 | |
| Stock-based compensation expense | — | — | 9,462 | — | 9,462 | |
| Amortization of discount on debt and deferred debt issue costs | 5,918 | 877 | — | — | 6,795 | |
| Intercompany and equity investment changes | 27,247 | (88,651) | 24,499 | 36,905 | — | |
| Changes in operating assets and liabilities | 2,219 | 11,015 | (46,047) | — | (32,813) | |
| Net cash provided by (used in) operating activities | 48,528 | (46,419) | 79,491 | — | 81,600 | |
| Cash flows from investing activities: | | | | | | |
| Capital expenditures | — | (10,903) | (76,897) | — | (87,800) | |
| Purchases of investments | — | (50,932) | — | — | (50,932) | |
| Proceeds from sale of investments | — | 33,990 | — | — | 33,990 | |
| Other investing activities, net | — | (5) | (2,235) | — | (2,240) | |
| Net cash used in investing activities | — | (27,850) | (79,132) | — | (106,982) | |
| Cash flows from financing activities: | | | | | | |
| Net proceeds (tax withholdings) from issuance of common stock upon exercise of stock options and vesting of restricted stock awards and units | 6,158 | — | — | — | 6,158 | |
| Purchases of treasury stock | (54,627) | — | — | — | (54,627) | |
| Excess tax benefits from stock-based compensation | — | 601 | — | — | 601 | |
| Retirement of convertible debt obligations | (59) | — | — | — | (59) | |
| Payment of debt and capital lease obligations | — | (1,350) | (359) | — | (1,709) | |
| Net cash used in financing activities | (48,528) | (749) | (359) | — | (49,636) | |
| Decrease in cash and cash equivalents | — | (75,018) | — | — | (75,018) | |
| Cash and cash equivalents at beginning of period | 24,544 | 782,184 | — | — | 806,728 | |
| Cash and cash equivalents at end of period | \$ 24,544 | \$ 707,166 | \$ — | \$ — | \$ 731,710 | |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

9. Subsequent Event

Level 3 Merger

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

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

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

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

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

| | |
|--|---------|
| Number of tw telecom common shares eligible for merger consideration* | 139 |
| Multiplied by exchange ratio per merger agreement | 0.7 |
| Number of Level 3 shares to be issued* | 97.3 |
| Multiplied by price of Level 3 common stock* | \$44.09 |
| Estimated equity consideration | \$4,290 |
| Estimated cash consideration (\$10 cash for each share of tw telecom's common stock) | \$1,390 |
| Assumption of debt | \$1,924 |
| Estimated aggregate consideration* | \$7,604 |

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

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

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

The following unaudited pro forma financial information related to the tw telecom mergers was prepared using the acquisition method of accounting for business combinations, and is based on the assumption that the mergers took place as of March 31, 2014 for the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet. The

Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2014 and for the year ended December 31, 2013 are presented as if the mergers occurred on January 1, 2013. Unaudited pro forma adjustments, and the assumptions on which they are based, are described in the accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements, which are referred to in this section as the notes. Certain reclassifications have been made relative to tw telecom's historical financial statements in order to present them on a basis consistent with Level 3.

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

Merger-related costs include transaction costs such as legal, accounting, valuation and other professional services and financing costs. Total merger-related transaction and financing costs expected to be incurred by Level 3 and tw telecom are approximately \$329 million, which includes \$39 million of debt issuance costs incurred in connection with the new financing arrangement. The costs associated with these non-recurring activities do not represent ongoing costs of the combined organization and are therefore, not included in the Unaudited Pro Forma Condensed Combined Statements of Operations, but are included in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash and stockholders' equity, except for the portion related to capitalizable debt issuance costs. Level 3 expects to incur additional merger-related expenses associated with the transaction, including integration activities. Based on current plans and information, Level 3 expects to incur approximately \$170 million of integration costs associated with this transaction, however, the ultimate costs incurred may vary from these estimates. For the purpose of the pro forma information, the estimated integration costs have been excluded as the timing and effects of these actions are too uncertain to meet the criteria for pro forma adjustments.

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

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Level 3 and tw telecom included in this filing.

LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet at March 31, 2014

| (dollars in millions) | Historical Level 3 | Historical tw telecom | Pro Forma Adjustments | Pro Forma Financing Adjustments | Pro Forma Combined |
|---|-----------------------|--------------------------|--------------------------|---------------------------------------|-----------------------|
| Assets | | | | | |
| Current Assets: | | | | | |
| Cash and cash equivalents | \$ 607 | \$ 179 | \$ (1,680) (a) | \$ 1,126 (a) | \$ 232 |
| Investments | — | 176 | — | — | 176 |
| Restricted cash and securities | 7 | 1 | — | — | 8 |
| Receivables, net | 699 | 99 | — | — | 798 |
| Other | 159 | 77 | (54) (e) | 5 (a) | 187 |
| Total Current Assets | 1,472 | 532 | (1,734) | 1,131 | 1,401 |
| Property, Plant and Equipment, net | 8,260 | 1,726 | 10 (c) | — | 9,996 |
| Restricted Cash and Securities | 22 | — | — | — | 22 |
| Goodwill | 2,575 | 413 | 4,492 (c)(e) | — | 7,480 |
| Other Intangibles, net | 186 | 10 | 1,134 (c) | — | 1,330 |
| Other Assets, net | 374 | 131 | (128) (b)(c)(e) | 34 (a) | 411 |
| Total Assets | \$ 12,889 | \$ 2,812 | \$ 3,774 | \$ 1,165 | \$ 20,640 |
| Liabilities and Stockholders' Equity | | | | | |
| Current Liabilities: | | | | | |
| Accounts payable | \$ 561 | \$ 83 | \$ — | \$ — | \$ 644 |
| Current portion of long-term debt | 503 | 9 | — | (5) (b) | 507 |
| Accrued payroll and employee benefits | 114 | 43 | — | — | 157 |
| Accrued interest | 174 | 29 | — | (27) (b) | 176 |
| Current portion of deferred revenue | 262 | 48 | (1) (d) | — | 309 |
| Other | 142 | 90 | — | — | 232 |
| Total Current Liabilities | 1,756 | 302 | (1) | (32) | 2,025 |
| Long-Term Debt, less current portion | 7,856 | 1,915 | — | 1,197 (b) | 10,968 |
| Deferred Revenue, less current portion | 901 | 20 | (8) (d) | — | 913 |
| Other Liabilities | 778 | 42 | (2) (e)(i) | — | 818 |
| Total Liabilities | 11,291 | 2,279 | (11) | 1,165 | 14,724 |
| Stockholders' Equity: | | | | | |
| Preferred stock | — | — | — | — | — |
| Common stock | 2 | 2 | (1) (g) | — | 3 |
| Additional paid-in capital | 14,408 | 1,692 | 2,597 (g) | — | 18,697 |
| Treasury stock | — | (459) | 459 (h) | — | — |
| Accumulated other comprehensive income | 42 | — | — | — | 42 |
| Accumulated deficit | (12,854) | (702) | 730 (i) | — | (12,826) |
| Total Stockholders' Equity | 1,598 | 533 | 3,785 | — | 5,916 |
| Total Liabilities and Stockholders' Equity | \$ 12,889 | \$ 2,812 | \$ 3,774 | \$ 1,165 | \$ 20,640 |

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

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

| (dollars in millions, except per share data) | Historical Level 3 | Historical tw telecom | Pro Forma Adjustments | Pro Forma Combined |
|--|-----------------------|--------------------------|--------------------------|-----------------------|
| Revenue | \$ 6,313 | \$ 1,564 | \$ (27) (k) | \$ 7,850 |
| Costs and Expenses (exclusive of depreciation and amortization shown separately below) | | | | |
| Cost of Revenue | 2,471 | 432 | (24) (k) | 2,879 |
| Depreciation and Amortization | 800 | 306 | 121 (c) | 1,227 |
| Selling, General and Administrative | 2,376 | 621 | — | 2,997 |
| Total Costs and Expenses | 5,647 | 1,359 | 97 | 7,103 |
| Operating Income | 666 | 205 | (124) | 747 |
| Other Income (Expense): | | | | |
| Interest expense | (649) | (96) | (39) (b) | (784) |
| Loss on modification and extinguishment of debt, net | (84) | (39) | — | (123) |
| Other, net | (4) | — | — | (4) |
| Total Other Expense | (737) | (135) | (39) | (911) |
| (Loss) Income Before Income Taxes | (71) | 70 | (163) | (164) |
| Income Tax Expense | (38) | (34) | 23 (j) | (49) |
| Net (Loss) Income | \$ (109) | \$ 36 | \$ (140) | \$ (213) |

| | | | | |
|---|-----------|---------|--------|-----------|
| Basic Earnings per Common Share | | | | |
| Net (Loss) Income Per Share | \$ (0.49) | \$ 0.25 | | \$ (0.67) |
| Shares Used to Compute Basic Net (Loss) Income per Share (in thousands) | 222,368 | 144,920 | 97,300 | 319,668 |
| Diluted Earnings per Common Share | | | | |
| Net (Loss) Income Per Share | \$ (0.49) | \$ 0.24 | | \$ (0.67) |
| Shares Used to Compute Diluted Net (Loss) Income per Share (in thousands) | 222,368 | 146,480 | 97,300 | 319,668 |

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 three months ended March 31, 2014

| (dollars in millions, except per share data) | Historical Level 3 | Historical tw telecom | Pro Forma Adjustments | Pro Forma Combined |
|--|-----------------------|--------------------------|--------------------------|-----------------------|
| Revenue | \$ 1,609 | \$ 408 | (7) (k) | \$ 2,010 |
| Costs and Expenses (exclusive of depreciation and amortization shown separately below) | | | | |
| Cost of Revenue | 614 | 115 | (6) (k) | 723 |
| Depreciation and Amortization | 184 | 82 | 25 (c) | 291 |
| Selling, General and Administrative | 547 | 166 | — | 713 |
| Total Costs and Expenses | 1,345 | 363 | 19 | 1,727 |
| Operating Income | 264 | 45 | (26) | 283 |
| Other Income (Expense): | | | | |
| Interest expense | (151) | (26) | (9) (b) | (186) |
| Loss on modification and extinguishment of debt, net | — | (1) | — | (1) |
| Other, net | 6 | — | — | 6 |
| Total Other Expense | (145) | (27) | (9) | (181) |
| Income Before Income Taxes | 119 | 18 | (35) | 102 |
| Income Tax Expense | (7) | (8) | 5 (j) | (10) |
| Net Income | \$ 112 | \$ 10 | \$ (30) | \$ 92 |
| | | | | |
| Basic Earnings per Common Share | | | | |
| Net Income Per Share | \$ 0.48 | \$ 0.07 | | \$ 0.28 |
| Shares Used to Compute Basic Net Income per Share (in thousands) | 235,635 | 138,088 | 97,300 | 332,935 |
| | | | | |
| Diluted Earnings per Common Share | | | | |
| Net Income Per Share | \$ 0.47 | \$ 0.07 | | \$ 0.27 |
| Shares Used to Compute Diluted Net Income per Share (in thousands) | 239,294 | 140,097 | 97,300 | 336,594 |

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

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(1) Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Level 3 would have been had the mergers occurred on the dates assumed, nor are they necessarily indicative of future consolidated results of operations or consolidated financial position. The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect cost savings, operating synergies or revenue enhancements anticipated to result from the mergers, the costs to integrate the operations of Level 3 and tw telecom, or the costs necessary to achieve these cost savings, operating synergies or revenue enhancements. The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the separate historical consolidated financial statements and accompanying notes of Level 3 and tw telecom that are included herein. Certain reclassifications have been made to the historical presentation of tw telecom's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Balance Sheet and relate primarily to other current assets, other current liabilities and other noncurrent liabilities. Certain reclassifications have been made to the historical presentation of tw telecom's financial statements to conform to the presentation used in the Unaudited Pro Forma Condensed Combined Statement of Operations primarily related to cost of revenue, depreciation and amortization and selling, general and administrative expenses.

The following unaudited pro forma adjustments have been reflected in the Unaudited Pro Forma Condensed Combined Financial Statements. These adjustments give effect to pro forma events that are (i) directly attributable to the mergers, (ii) factually supportable and (iii) with respect to the condensed combined statements of operations, expected to have a continuing effect on the combined company. As of the date of this filing, Level 3 has not performed the detailed valuation studies necessary to arrive at the required estimates of the fair market value of tw telecom's assets to be acquired and liabilities to be assumed and the related allocations of purchase price, nor has it identified the adjustments necessary, if any, to conform tw telecom's accounting policies to Level 3's accounting policies. However, as indicated in Note 2 to the Unaudited Pro Forma Condensed Combined Financial Statements, Level 3 has made certain adjustments to the March 31, 2014 historical book values of tw telecom's assets and liabilities to reflect certain preliminary estimates of the fair values necessary to reflect adjustments required by the application of the acquisition method of accounting for business combinations. Any excess purchase price over the estimated fair value of tw telecom's net assets has been recorded as goodwill. Actual results will differ from these Unaudited Pro Forma Condensed Combined Financial Statements once Level 3 has determined the final purchase price for tw telecom, has completed the valuation studies necessary to finalize the required purchase price allocations based on the tangible and intangible assets and liabilities of tw telecom at the completion of the mergers, and has finalized any necessary adjustments from conforming accounting policies and further classification changes. The determination of the final purchase price allocations can be highly subjective and it is possible that other professionals applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts. Level 3 is still in the process of completing the detailed valuation studies and other analysis necessary to finalize the necessary purchase price allocation and identifying any related effect there may be on the Unaudited Pro Forma Condensed Combined Financial Statements. There can be no assurance that the finalization of Level 3's review will not result in material changes.

(2) Basis of Preliminary Purchase Price Allocation

The mergers with tw telecom will be accounted for in accordance with the acquisition method of accounting. The following preliminary purchase price is based on Level 3's preliminary estimates and is allocated to tw telecom's tangible and intangible assets and liabilities based on their estimated fair value as of March 31, 2014. The final determination of the allocation of the purchase price will be based on the fair value of such assets and liabilities as of the actual consummation date of the mergers and will be completed after the mergers are consummated. Such final determination of the purchase price allocation may be significantly different from the preliminary estimates used in these pro forma financial statements. Based on the closing price of Level 3's common stock on June 13, 2014, the purchase price would be approximately \$7.6 billion, including the assumption of debt. The requirement to base the final purchase price on the number of tw telecom shares outstanding and the price of Level 3's common stock as of the closing date will likely result in a per share equity component different from the \$44.09 assumed in these Unaudited Pro Forma Condensed Combined Financial Statements, and that difference may be material. Therefore, the estimated consideration expected to be transferred reflected in these Unaudited Pro Forma Condensed Combined Financial

Statements does not purport to represent what the actual consideration transferred will be when the mergers are completed. For example, an increase or decrease by 10% in the Level 3 common stock price as of the close of business on June 13, 2014 (\$44.09 per share) would increase or decrease the consideration expected to be transferred by approximately \$429 million, which would be reflected in these Unaudited Pro Forma Condensed Combined Financial Statements as an increase or decrease to goodwill.

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

| (dollars in millions) | | March 31, 2014 |
|--|-----------|----------------|
| Assets: | | |
| Cash and cash equivalents | \$ | 179 |
| Investments | | 176 |
| Restricted cash and securities | | 1 |
| Receivables | | 99 |
| Other current assets | | 77 |
| Property, plant and equipment | | 1,736 |
| Goodwill | | 4,905 |
| Other intangibles | | 1,144 |
| Other assets | | 91 |
| Total Assets | | 8,408 |
| Liabilities: | | |
| Accounts payable | | (83) |
| Current portion of long-term debt | | (9) |
| Accrued payroll and employee benefits | | (43) |
| Accrued interest | | (29) |
| Current portion of deferred revenue | | (47) |
| Other current liabilities | | (90) |
| Long-term Debt, less current portion | | (1,915) |
| Deferred revenue, less current portion | | (12) |
| Other noncurrent liabilities | | (500) |
| Total Liabilities | | (2,728) |
| Total Estimated Consideration | \$ | 5,680 |

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

The guidance related to business combinations outlines the methodologies for calculating merger consideration and for determining fair values. It also requires that all transaction and restructuring costs related to business combinations be expensed as incurred, and it requires that changes in deferred tax asset valuation allowances and liabilities for tax uncertainties subsequent to the merger date that do not meet certain re-measurement criteria be recorded in the statement of operations. Total merger-related transaction and financing costs expected to be incurred by Level 3 and tw telecom are estimated to be approximately \$329 million and as they are non-recurring, are reflected only in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash, of which \$39 million is attributable to debt issuance costs and the remainder will reduce stockholders' equity.

The Unaudited Pro Forma Condensed Combined Financial Information does not reflect ongoing cost savings, operating synergies or revenue enhancements that Level 3 expects to achieve as a result of the mergers, the costs to integrate the operations of Level 3 and tw telecom and to achieve these cost savings operating synergies or revenue enhancements. Level 3 expects to incur approximately \$170 million of integration costs associated with this transaction. The mergers are expected to create approximately \$200 million in annualized operating cost synergies and approximately \$40 million in annualized capital expenditure savings. Level 3 expects to recognize the operating cost savings from network expense savings and operating expense savings, primarily from the reduction in back office

areas, public company costs, supplier savings, management overlap and the combination of network platforms. The synergy and cost savings estimates are forward looking statements and are qualified by reference to the important disclosures set forth under “Forward-Looking Statements.” Level 3 cannot assure that these estimated synergies or cost savings will be achieved.

(3) Accounting Policies

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

(4) Pro Forma Adjustments

- (a) Adjustment to record the cash received from merger-related financing as of March 31, 2014 discussed further below, net of \$ 1,796 million to retire tw telecom's short term and long term debt excluding capital lease obligations and debt discount and issuance costs and \$ 27 million of accrued interest on retirement of tw telecom's debt.

| Dollars in millions | Financing Adjustments |
|---|--------------------------|
| Proceeds from Level 3 merger-related financing | \$ 3,000 |
| Discount on merger-related financing | (12) |
| Debt issuance costs of Level 3 merger-related financing (Note 4b), short term | (5) |
| Debt issuance costs of Level 3 merger-related financing (Note 4b), long term | (34) |
| Repayment of certain of tw telecom's debt | (1,796) |
| Payment of accrued interest on retirement of tw telecom's debt | (27) |
| Net proceeds from financing activities | <u>\$ 1,126</u> |

Cash of \$1,731 million was assumed to be used for the cash portion of the merger consideration of \$1,390 million and for \$329 million of Level 3's estimated financing and transaction costs, which includes \$39 million of pro forma financing adjustments for debt issuance costs.

- (b) For the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet, Level 3 has assumed it would borrow through the capital markets transactions an aggregate of \$3.0 billion, comprised of \$2.4 billion aggregate principal amount in a senior secured term loan and \$600 million aggregate principal amount of unsecured senior notes, to fund the cash portion of the merger consideration, the refinancing of tw telecom's short term and long term debt, transaction costs related to the mergers and the refinancings and for general corporate purposes. Level 3 expects to seek this financing ahead of the closing of the mergers. The allocation of the debt financing between the senior secured term loan and unsecured senior notes may vary from the amounts assumed for purposes of the Unaudited Pro Forma Condensed Combined Financial Information.

On June 15, 2014, concurrent with the execution of the merger agreement, Level 3 Financing, Inc. and Level 3 entered into a financing commitment letter (the “Commitment Letter”) with the Commitment Parties, as separately defined in the Commitment Letter. The Commitment Letter provides for a senior secured term loan facility in an aggregate amount of up to \$2.4 billion (the “senior secured facility”). The Commitment Letter also provides for a senior unsecured facility bridge financing of \$600 million (the “unsecured facility”). The unsecured facility portion of the Commitment Letter is reduced by the amount of any senior notes or certain other securities (“debt securities”) that are issued in relation to the mergers on or prior to the closing of the mergers. Under certain circumstances, the committed amounts can be allocated from the senior secured facility to the unsecured facility at the option of Level 3. Unless Level 3 or Level 3 Financing, Inc. has obtained an aggregate of \$3.0 billion in the capital markets prior to closing, Level 3 and Level 3 Financing retain the ability to draw on the commitments contained in the Commitment Letter pursuant to the terms and conditions as specified in the Commitment Letter.

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

| Dollars in millions | As of March 31, 2014 | |
|---|-----------------------------------|--------------------------------------|
| | Current Portion of Long Term Debt | Long Term Debt, less Current Portion |
| Level 3's historical debt balance | \$ 503 | \$ 7,856 |
| tw telecom's historical debt balance | 9 | 1,915 |
| New debt issued by Level 3, net of discount of \$12 million | — | 2,988 |
| Repayment of certain of tw telecom's debt | (5) | (1,791) |
| Total Debt Balance | \$ 507 | \$ 10,968 |

For pro forma purposes, Level 3 assumes that tw telecom debt, except for capital lease obligations, has been replaced with the senior secured facility and \$600 million aggregate principal amount of unsecured senior notes. Level 3 estimates an increase in interest expense of approximately \$39 million in 2013 and an increase of \$9 million in the first three months of 2014 associated with the incremental debt Level 3 will issue in connection with the mergers after retiring tw telecom's existing debt. The change in interest expense for such periods is based on a \$2.4 billion senior secured facility, with an assumed annual interest rate of 4.00% and \$600 million aggregate principal amount of unsecured senior notes with an assumed annual interest rate of 5.25%. The assumed term of the term loan facility is seven years and the assumed term of the unsecured senior notes is eight years. For the purpose of the Unaudited Pro Forma Condensed Combined Statement of Operations, it has been assumed that Level 3 drew down the senior secured facility and issued the unsecured senior notes on January 1, 2013 and therefore incurred interest expense of approximately \$134 million in 2013 and \$33 million in the first three months of 2014. This interest expense was offset by the elimination of tw telecom's interest expense due to the retirement of tw telecom's outstanding debt of \$1,821 million for the year ended December 31, 2013 and \$1,796 million for the three months ended March 31, 2014, which corresponds to \$95 million in interest expense in 2013 and \$24 million in the first three months of 2014.

| Dollars in millions | Twelve months ended December 31, 2013 | Three months ended March 31, 2014 |
|---|---------------------------------------|-----------------------------------|
| tw telecom's historical interest expense | \$ (95) | \$ (24) |
| Interest expense resulting from debt Level 3 will issue in connection with the Merger | 134 | 33 |
| Increase in interest expense | \$ 39 | \$ 9 |

The assumed interest rates of 4.00% for the senior secured facility is based on a LIBOR floor of 1.00% plus 3.00%. Based on the LIBOR Rate of 0.23% on June 15, 2014, a decrease of 1% from the base LIBOR rate assumed on the senior secured facility would not change the pro forma interest expense reflected in the Unaudited Pro Forma Condensed Combined Statement of Operations for the twelve months ended December 31, 2013 or the first three months of 2014. An increase of 1% from the base LIBOR rate assumed on the senior secured facility would increase interest expense on the debt by \$6 million and \$1 million for the twelve months ended December 31, 2013 and the three months ended March 31, 2014, respectively.

An increase or decrease of 1% from the assumed interest rate on the unsecured senior notes would affect interest expense on the debt by \$6 million for the twelve months ended December 31, 2013 and \$2 million for the three months ended March 31, 2014, respectively.

Included in the incremental interest expense is additional interest expense of approximately \$6 million for the twelve months ended December 31, 2013 and \$2 million for the first three months of 2014 for the amortization of debt issuance costs associated with the senior secured facility and the unsecured senior notes. Debt issuance costs associated with the senior secured facility and unsecured senior notes were assumed to be approximately \$39 million (\$30 million of costs associated with the senior secured facility amortized over seven years and \$9 million associated with the unsecured senior notes amortized over eight years). The Unaudited Pro Forma Condensed Combined Balance Sheet also includes an adjustment to reduce other noncurrent assets by \$32 million for the elimination of net deferred financing fees upon retirement of tw telecom's existing debt.

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

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

| Dollars in millions | March 31, 2014 | Estimated Fair Value | Increase | Estimated Remaining Useful Lives (Years) |
|-------------------------------|----------------|----------------------|----------|--|
| Property, Plant and Equipment | \$ 1,726 | \$ 1,736 | \$ 10 | 1-33 years |
| Customer Relationships | 10 | 1,040 | 1,030 | 9-10 years |
| Trademark and trade names | — | 104 | 104 | 5 years |
| Goodwill | 413 | 4,447 | 4,034 | Indefinite |

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

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

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

| Dollars in millions | Twelve months ended December 31, 2013 | Three months ended March 31, 2014 |
|--|--|--------------------------------------|
| tw telecom's historical depreciation and amortization | \$ (306) | \$ (82) |
| Depreciation and amortization after fair value adjustments and changes in the estimated useful lives associated with acquired assets | 427 | 107 |
| Increase in depreciation and amortization expense | \$ 121 | \$ 25 |

A 10% change in the allocation between the acquired tangible and intangible assets and goodwill would result in a change in annual depreciation and amortization expense of approximately \$43 million and would cause Level 3's pro forma basic and diluted loss from continuing operations per common share to change by \$0.13 per share, assuming the 10% change is applied pro rata to the assets.

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

estimated amounts presented for purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet are based upon the deferred revenue of tw telecom as of March 31, 2014.

| Dollars in millions | March 31, 2014 | Estimated Fair Value | Decrease |
|--|-----------------------|-----------------------------|-----------------|
| Current portion of deferred revenue | \$ 48 | \$ 47 | \$ 1 |
| Deferred Revenue, less current portion | 20 | 12 | 8 |

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

As part of the accounting for the mergers, Level 3 will record the acquired assets and liabilities on its books at their estimated fair value as of the date of the mergers. For tax purposes, due to the nature of the acquisition being treated as a non-taxable transaction, Level 3 will assume carryover tax basis of tw telecom's assets and liabilities. This will create material deferred tax liabilities primarily for the book versus tax basis differences of tangible and intangible assets. Based on the preliminary valuation of the intangible and tangible assets, an adjustment of \$458 million was made to the Unaudited Pro Forma Condensed Combined Balance Sheet to record a deferred tax liability for book versus tax differences of the intangible and tangible assets. In the event the valuation of the intangible and tangible assets changes materially in the future, the amount of the recorded deferred tax liability would materially change as well.

Level 3 anticipates that upon consolidation, the portion of the tax provision attributable to tw telecom will be limited to the income tax expense related to indefinite-lived assets due to the substantial net operating losses and full valuation allowance on Level 3's net deferred tax assets. For purposes of the Unaudited Pro Forma Condensed Combined Balance Sheet, Level 3 has reduced tw telecom's net deferred tax assets by \$140 million.

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

| Dollars in millions | Adjustments as of March 31, 2014 |
|--|---|
| Issue 97.3 million shares of Level 3 common stock @ \$0.01 par value | \$ 1 |
| Eliminate tw telecom common stock | (2) |
| Adjustment to common stock | \$ (1) |

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

| Dollars in millions | Adjustments as of March 31, 2014 |
|--|---|
| Total estimated equity consideration | \$ 4,290 |
| Elimination of tw telecom additional paid-in capital | (1,692) |
| Common stock | (1) |
| Adjustment to additional paid-in capital | \$ 2,597 |

- (h) Adjustment to eliminate tw telecom's treasury stock, which will be canceled upon completion of the mergers.

- (i) Adjustment to eliminate tw telecom's accumulated deficit, and to record estimated non-recurring financing and merger-related costs of Level 3, as follows:

| Dollars in millions | Adjustment as of March 31, 2014 |
|---|--|
| Eliminate tw telecom's accumulated deficit | \$ 702 |
| Estimated financing and merger-related expenses | (290) |
| Net adjustments to deferred taxes | 318 |
| Adjustment to accumulated deficit | <u>\$ 730</u> |

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

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

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

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