

LEVEL 3 COMMUNICATIONS INC

FORM 8-K/A

(Amended Current report filing)

Filed 11/17/14 for the Period Ending 09/30/14

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

Washington, D.C. 20549

FORM 8-K/A

Amendment No. 1

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **October 30, 2014**

Level 3 Communications, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other
jurisdiction of incorporation)

001-35134
(Commission File
Number)

47-0210602
(IRS employer
Identification No.)

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

80021
(Zip code)

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

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

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

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.01 Completion of Acquisition or Disposition of Assets.

On November 5, 2014, Level 3 Communications, Inc. (the "Company" or "Level 3") filed with the Securities and Exchange Commission a Current Report on Form 8-K in connection with the completion on October 31, 2014 of the transactions contemplated by the Agreement and Plan of Merger (the "Merger Agreement") dated as of June 15, 2014, by and among the Company, two of its wholly owned subsidiaries and tw telecom inc. ("tw telecom") (the "Form 8-K").

This Current Report on Form 8-K/A of Level 3 amends Item 9.01 of Amendment 1 of the Form 8-K to present (i) Exhibit 99.2: the unaudited condensed consolidated financial statements of tw telecom as of September 30, 2014 and December 31, 2013 and for the periods ended September 30, 2014 and 2013 and (ii) Exhibit 99.3: the unaudited pro forma condensed combined financial statements of Level 3 as of and for the nine months ended September 30, 2014 and for the year ended December 31, 2013 giving effect to the tw telecom acquisition, each as required by Items 9.01(a) and 9.01(b) of Form 8-K.

Item 9.01. Financial Statements and Exhibits**(a) Financial Statements of Business Acquired**

The audited consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 of tw telecom are incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission by Level 3 Communications, Inc. on August 7, 2014; and the unaudited condensed consolidated financial statements as of September 30, 2014 and December 31, 2013 and for the periods ended September 30, 2014 and 2013 of tw telecom are filed as Exhibit 99.2 to this Amendment No. 1 and incorporated in this Item 9.01(a) by reference.

(b) Pro Forma Financial Information

The unaudited pro forma condensed combined financial statements of Level 3 as of and for the nine months ended September 30, 2014 and for the year ended December 31, 2013, giving effect to the tw telecom transaction, are filed as Exhibit 99.3 to this Amendment No. 1 and incorporated in this Item 9.01(b) by reference.

(d) Exhibits

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

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

SIGNATURES

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

Level 3 Communications, Inc.

By: /s/ Eric J. Mortensen

Eric J. Mortensen, Senior Vice President and Controller

Date: November 17, 2014

Exhibit Index

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

tw telecom inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(unaudited)	
(amounts in thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325,875	\$ 284,419
Investments	33,524	194,576
Receivables, less allowances of \$5,893 and \$6,748, respectively	105,158	107,258
Prepaid expenses and other current assets	56,906	22,545
Deferred income taxes	54,026	54,026
Total current assets	575,489	662,824
Property, plant and equipment	4,925,538	4,675,335
Less accumulated depreciation	(3,175,728)	(2,980,379)
	1,749,810	1,694,956
Deferred income taxes	69,256	96,087
Goodwill	412,694	412,694
Intangible assets, net of accumulated amortization	7,857	11,555
Other assets, net	41,208	44,344
Total assets	\$ 2,856,314	\$ 2,922,460
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 64,551	\$ 38,454
Deferred revenue	50,023	48,371
Accrued taxes, franchise and other fees	54,458	55,043
Accrued interest	30,481	21,606
Accrued payroll and benefits	58,916	52,604
Accrued carrier costs	4,589	25,507
Current portion debt and capital lease obligations, net	8,226	32,470
Other current liabilities	26,696	35,241
Total current liabilities	297,940	309,296
Long-term debt and capital lease obligations, net	1,915,790	1,916,775
Long-term deferred revenue	18,857	20,046
Other long-term liabilities	46,375	40,274
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 20,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 439,800 shares authorized, 153,760 shares issued	1,538	1,538
Additional paid-in capital	1,709,927	1,701,356
Treasury stock, 15,647 and 12,593 shares, at cost, respectively	(453,305)	(357,974)
Accumulated deficit	(680,916)	(708,979)
Accumulated other comprehensive income	108	128
Total stockholders' equity	577,352	636,069
Total liabilities and stockholders' equity	\$ 2,856,314	\$ 2,922,460

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(amounts in thousands, except per share amounts)				
Revenue:				
Data and Internet services	\$ 261,321	\$ 226,548	\$ 758,023	\$ 658,332
Voice services	77,684	77,267	232,964	229,734
Network services	54,857	61,574	169,891	190,608
Service revenue	393,862	365,389	1,160,878	1,078,674
Taxes and fees	24,601	20,500	72,765	61,716
Intercarrier compensation	6,202	7,301	19,018	23,492
Total revenue	424,665	393,190	1,252,661	1,163,882
Costs and expenses ^(a) :				
Operating (exclusive of depreciation, amortization and accretion shown separately below)	182,673	164,254	538,103	489,467
Selling, general and administrative	108,195	103,438	323,640	293,438
Depreciation, amortization and accretion	84,924	78,566	251,565	228,613
Total costs and expenses	375,792	346,258	1,113,308	1,011,518
Operating income	48,873	46,932	139,353	152,364
Interest expense	(25,055)	(21,525)	(75,576)	(71,409)
Debt extinguishment costs	—	(38,915)	(1,282)	(39,314)
Interest income	121	98	378	548
Income (loss) before income taxes	23,939	(13,410)	62,873	42,189
Income tax expense (benefit)	11,007	(3,976)	29,001	21,132
Net income (loss)	\$ 12,932	\$ (9,434)	\$ 33,872	\$ 21,057
Earnings (loss) per share:				
Basic	\$ 0.09	\$ (0.07)	\$ 0.24	\$ 0.14
Diluted	\$ 0.09	\$ (0.07)	\$ 0.24	\$ 0.14
Weighted average shares outstanding:				
Basic	136,475	142,920	136,969	146,351
Diluted	138,564	142,920	139,114	149,334

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

Operating	\$ 567	\$ 528	\$ 1,651	\$ 1,656
Selling, general and administrative	\$ 8,177	\$ 12,475	\$ 25,131	\$ 29,223

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(amounts in thousands)			
Net income (loss)	\$ 12,932	\$ (9,434)	\$ 33,872	\$ 21,057
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on available-for-sale securities	(50)	85	(20)	65
Other comprehensive income (loss), net of tax	(50)	85	(20)	65
Comprehensive income (loss)	<u>\$ 12,882</u>	<u>\$ (9,349)</u>	<u>\$ 33,852</u>	<u>\$ 21,122</u>

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
	(amounts in thousands)	
Cash flows from operating activities:		
Net income	\$ 33,872	\$ 21,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	251,565	228,613
Deferred income taxes	27,783	20,103
Stock-based compensation expense	26,782	30,879
Loss on debt extinguishment	1,282	39,314
Amortization of discount on debt and deferred debt issue costs	4,811	9,107
Changes in operating assets and liabilities:		
Receivables, prepaid expenses and other assets	(862)	(8,737)
Accounts payable, deferred revenue and other liabilities	1,497	(9,870)
Net cash provided by operating activities	346,730	330,466
Cash flows from investing activities:		
Capital expenditures	(297,936)	(285,059)
Purchases of investments	(109,275)	(207,209)
Proceeds from sale of investments	238,993	215,291
Other investing activities, net	13,070	(2,555)
Net cash used in investing activities	(155,148)	(279,532)
Cash flows from financing activities:		
Proceeds from issuance of common stock upon exercise of stock options	11,425	59,729
Taxes paid related to net share settlement of equity awards	(19,151)	(20,830)
Purchases of treasury stock	(112,564)	(306,011)
Excess tax benefits from stock-based compensation	1,126	693
Proceeds from modification of debt, net of financing costs	—	49,684
Proceeds from issuance of debt, net of financing costs	—	766,155
Retirement of debt obligations	(24,418)	(991,978)
Payment of debt and capital lease obligations	(6,544)	(3,767)
Net cash used in financing activities	(150,126)	(446,325)
Increase (decrease) in cash and cash equivalents	41,456	(395,391)
Cash and cash equivalents at beginning of period	284,419	806,728
Cash and cash equivalents at end of period	\$ 325,875	\$ 411,337
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 62,699	\$ 65,792
Cash paid for income taxes, net of refunds	\$ 2,329	\$ 4,529
Cash paid for debt extinguishment costs	\$ 939	\$ 32,662
Non-cash investing & financing activities:		
Addition of capital lease obligations	\$ 3,795	\$ 8,789

See accompanying notes to condensed consolidated financial statements.

tw telecom inc.

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

	Common Stock		Treasury Stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount	Shares	Amount				
(amounts in thousands)								
Balance at December 31, 2013	153,760	\$ 1,538	(12,593)	\$ (357,974)	\$ 1,701,356	\$ (708,979)	\$ 128	\$ 636,069
Net income	—	—	—	—	—	33,872	—	33,872
Other comprehensive loss, net of tax	—	—	—	—	—	—	(20)	(20)
Excess tax benefits from stock-based compensation, net	—	—	—	—	939	—	—	939
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	—	—	701	20,115	(23,947)	(3,894)	—	(7,726)
Stock-based compensation	—	—	(81)	(2,882)	31,579	(1,915)	—	26,782
Balance at September 30, 2014	<u>153,760</u>	<u>\$ 1,538</u>	<u>(15,647)</u>	<u>\$ (453,305)</u>	<u>\$ 1,709,927</u>	<u>\$ (680,916)</u>	<u>\$ 108</u>	<u>\$ 577,352</u>

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business and Capital Structure

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

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

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

Basis of Presentation

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

Prior Year Reclassifications

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

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	As Currently Reported	As Previously Reported	As Currently Reported	As Previously Reported
	(amounts in thousands)			
Revenue:				
Data and Internet services	\$ 226,548	215,876	658,332	627,592
Voice services	77,267	93,913	229,734	279,348
Network services	61,574	76,100	190,608	233,450
Service revenue	365,389	385,889	1,078,674	1,140,390
Taxes and fees	20,500	—	61,716	—
Inter-carrier compensation	7,301	7,301	23,492	23,492
Total revenue	<u>\$ 393,190</u>	<u>\$ 393,190</u>	<u>\$ 1,163,882</u>	<u>\$ 1,163,882</u>

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

Revenue

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

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

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

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

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

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

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

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

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

Significant Customers

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

Recently Issued Accounting Pronouncements

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

2. Recent Developments

Level 3 Merger

On June 15, 2014, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Level 3 Communications, Inc. ("Level 3") and certain of its subsidiaries. On October 31, 2014, pursuant to the terms of the Merger Agreement, a wholly owned subsidiary of Level 3 merged with and into the Company and the Company became a wholly owned subsidiary of Level 3 (the "Merger"). Following the Merger, the surviving corporation merged with and into another wholly owned subsidiary of Level 3 (the "Subsequent Merger") and was renamed "tw telecom llc." Under the terms of the Merger Agreement, each issued and outstanding share of common stock of the Company was converted into the right to receive 0.7 shares of Level 3's common stock and \$10 in cash (the "Merger Consideration"). Additionally, the (i) issued and outstanding options to purchase the Company's common stock, were canceled in exchange 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 were exchanged for Merger Consideration. Based on the closing price of Level 3's common stock on October 31, 2014 as reported on the New York Stock Exchange, the aggregate value of the Merger Consideration paid or payable to former holders of the Company's common stock is approximately \$6 billion.

In connection with the consummation of the Merger, **tw telecom holdings inc.** ("Holdings") became a subsidiary of Level 3. Concurrently with the consummation of the Merger, Holdings called for redemption all of Holdings' outstanding 5 ³/₈ % Senior Notes due 2022 in aggregate principal amount of \$930 million and 6 ³/₈ % Senior Notes due 2023 in aggregate principal amount of \$350 million (collectively the "Senior Notes"). Holdings deposited sufficient cash with the trustee to redeem Holdings outstanding principal amount of Senior Notes, accrued interest and premiums up to the respective redemption date of November 30, 2014 and December 2, 2014 and discharged the indentures. On October 31, 2014, the Company repaid the Company's outstanding \$513.5 million Term Loan B and terminated the undrawn \$100 million Revolving Credit Facility.

3. Earnings (Loss) per Common Share and Potential Common Share

Basic earnings (loss) per common share ("EPS") is measured as the income or loss 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:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
(amounts in thousands, except per share amounts)				
Numerator				
Net income (loss)	\$ 12,932	\$ (9,434)	\$ 33,872	\$ 21,057
Allocation of net income to unvested restricted stock	(230)	—	(609)	(407)
Net income (loss) allocated to common stockholders, basic	\$ 12,702	\$ (9,434)	\$ 33,263	\$ 20,650
Net income (loss) allocated to common stockholders, diluted	\$ 12,702	\$ (9,434)	\$ 33,263	\$ 20,650
Denominator				
Basic weighted average shares outstanding	136,475	142,920	136,969	146,351
Dilutive potential common shares:				
Stock options	235	—	306	1,036
Unvested restricted stock	1,854	—	1,839	1,947
Diluted weighted average shares outstanding	138,564	142,920	139,114	149,334
Basic earnings (loss) per share	\$ 0.09	\$ (0.07)	\$ 0.24	\$ 0.14
Diluted earnings (loss) per share	\$ 0.09	\$ (0.07)	\$ 0.24	\$ 0.14

There were no anti-dilutive shares for the three and nine months ended September 30, 2014. 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 5.3 million shares for the three months ended September 30, 2013 . There were no anti-dilutive shares for the nine months ended September 30, 2013.

4. Investments

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

	September 30, 2014	December 31, 2013
	(amounts in thousands)	
Cash equivalents:		
U.S. Treasury money market mutual funds	\$ 24,548	\$ 28,845
Commercial paper	—	1,335
Total cash equivalents	\$ 24,548	\$ 30,180
Investments:		
Debt securities issued by the U.S. Treasury	\$ 19,525	\$ 69,628
Commercial paper	8,999	75,460
Debt securities issued by U.S. Government agencies	5,000	49,488
Total investments	\$ 33,524	\$ 194,576
Total cash equivalents and investments	\$ 58,072	\$ 224,756

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

Proceeds from the sale and maturity of available-for-sale securities were \$109.5 million and \$90.3 million during the three months ended September 30, 2014 and 2013 , respectively, and \$239.0 million and \$215.3 million during the nine months ended September 30, 2014 and 2013 , respectively. Gains and losses on investments are calculated using the specific

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

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 and nine months ended September 30, 2014 and 2013 .

5. Long-Term Debt and Capital Lease Obligations

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

	Date of			Interest Rate	Original Principal	Outstanding Balance as of	
	Issuance / Amendment	Maturity	Interest Payments			September 30, 2014	December 31, 2013
(amounts in thousands)							
Term Loan B	Apr 2013	Apr 2020	At least quarterly	Eurodollar rate +	\$ 520,000	\$ 513,500	\$ 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						147,437	147,046
Total obligations						1,940,937	1,967,925
Unamortized discounts						(16,921)	(18,680)
Current portion						(8,226)	(32,470)
Total long-term debt and capital lease obligations						\$ 1,915,790	\$ 1,916,775

8% Senior Notes due 2018

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

Covenant Compliance

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

Subsequent Events

See Note 2 for a discussion of subsequent events related to debt.

6. Fair Value Measurements

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

Fair Value Hierarchy

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

- *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 September 30, 2014 and December 31, 2013 .

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

	Fair Value Measurements At September 30, 2014			Assets at Fair Value
	Level 1	Level 2	Level 3	
	(amounts in thousands)			
Assets				
U.S. Treasury money market mutual funds	\$ 24,548	\$ —	\$ —	\$ 24,548
Commercial paper	—	—	—	—
Investments included in cash and cash equivalents	\$ 24,548	\$ —	\$ —	\$ 24,548
Debt securities issued by the U.S. Treasury	—	19,525	—	19,525
Commercial paper	—	8,999	—	8,999
Debt securities issued by U.S. Government agencies	—	5,000	—	5,000
Short-term investments	\$ —	\$ 33,524	\$ —	\$ 33,524
Total assets	\$ 24,548	\$ 33,524	\$ —	\$ 58,072

	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 September 30, 2014 and December 31, 2013 :

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

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value Level 2	Carrying Value	Fair Value Level 2
	(amounts in thousands)			
Term Loan B, net of discount	\$ 511,441	\$ 513,500	\$ 515,063	\$ 519,987
8% Senior Notes, net of discount	—	—	23,392	24,594
5 ³ / ₈ % Senior Notes, issued October 2012	480,000	519,600	480,000	474,000
5 ³ / ₈ % Senior Notes, net of discount, issued August 2013	435,138	487,125	433,744	444,375
6 ³ / ₈ % Senior Notes	350,000	393,750	350,000	364,000
Total debt	<u>\$ 1,776,579</u>	<u>\$ 1,913,975</u>	<u>\$ 1,802,199</u>	<u>\$ 1,826,956</u>

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

7. Stock-Based Compensation

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

As of September 30, 2014, there was \$68.2 million of total unrecognized compensation expense related to unvested restricted stock awards and restricted stock units, which was originally expected to be recognized over a weighted-average period of 2.2 years, and no unrecognized compensation expense related to unvested stock options.

Subsequent Event

In connection with the consummation of the Merger on October 31, 2014, 3.7 million unvested restricted stock awards and units became fully vested and the associated expense was fully recognized in October 2014.

8. Commitments and Contingencies

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

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

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

On July 23, 2014, the Court of Chancery consolidated the Class Action Complaints and appointed lead plaintiffs and lead counsel for the consolidated action. On August 6, 2014, lead counsel filed a consolidated amended complaint, which in addition to reiterating the allegations generally made in the Class Action Complaints, also alleges that the joint proxy and registration statement filed by the Company and Level 3 on July 18, 2014 failed to disclose material information relating to the proposed transaction.

On September 16, 2014, the parties in the consolidated action entered into a memorandum of understanding providing for the settlement of the Class Action Complaints. The proposed settlement is subject to court approval, among other conditions. The Company expects the Court of Chancery to consider the approval of the proposed settlement following the closing of the Level 3 merger.

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

9. Supplemental Guarantor Information

The \$480 million principal amount 5 ³/₈ % Senior Notes due 2022 (the "2022 Notes"), \$450 million principal amount 5 ³/₈ % Senior Notes due 2022 (the "2022 Mirror Notes") and \$350 million principal amount 6 ³/₈ % Senior Notes due 2023 (the "2023 Notes") (collectively, the "Senior Notes") are unsecured obligations of Holdings ("Issuer") and are fully and unconditionally guaranteed by the Company ("Parent Guarantor") and substantially all of the Issuer's subsidiaries ("Combined

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 September 30, 2014 and December 31, 2013 , Condensed Consolidating Statements of Operations for the three and nine months ended September 30, 2014 and 2013 , Condensed Consolidating Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013 , and Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 .

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 24,548	\$ 301,327	\$ —	\$ —	\$ 325,875
Investments	—	33,524	—	—	33,524
Receivables, net	—	—	105,158	—	105,158
Prepaid expenses and other current assets	—	46,946	9,960	—	56,906
Deferred income taxes	—	54,006	20	—	54,026
Intercompany receivable	812,998	1,539,379	—	(2,352,377)	—
Total current assets	837,546	1,975,182	115,138	(2,352,377)	575,489
Property, plant and equipment, net	—	88,118	1,661,692	—	1,749,810
Deferred income taxes	—	68,772	484	—	69,256
Goodwill	—	—	412,694	—	412,694
Intangible and other assets, net	—	33,440	15,625	—	49,065
Total assets	\$ 837,546	\$ 2,165,512	\$ 2,205,633	\$ (2,352,377)	\$ 2,856,314
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Current liabilities:					
Accounts payable	\$ —	\$ 9,440	\$ 55,111	\$ —	\$ 64,551
Current portion debt and capital lease obligations	—	5,106	3,120	—	8,226
Other current liabilities	—	86,132	139,031	—	225,163
Intercompany payable	—	—	2,352,377	(2,352,377)	—
Total current liabilities	—	100,678	2,549,639	(2,352,377)	297,940
Losses in subsidiary in excess of investment	261,164	808,267	—	(1,069,431)	—
Long-term debt and capital lease obligations, net	—	1,771,379	144,411	—	1,915,790
Long-term deferred revenue	—	—	18,857	—	18,857
Other long-term liabilities	—	12,735	33,640	—	46,375
Stockholders' equity (deficit)	576,382	(527,547)	(540,914)	1,069,431	577,352
Total liabilities and stockholders' equity (deficit)	\$ 837,546	\$ 2,165,512	\$ 2,205,633	\$ (2,352,377)	\$ 2,856,314

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

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

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

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 424,665	\$ —	\$ 424,665
Costs and expenses:					
Operating, selling, general and administrative	—	72,980	217,888	—	290,868
Depreciation, amortization and accretion	—	9,109	75,815	—	84,924
Corporate expense allocation	—	(82,089)	82,089	—	—
Total costs and expenses	—	—	375,792	—	375,792
Operating income	—	—	48,873	—	48,873
Interest expense, net	—	(20,201)	(4,733)	—	(24,934)
Interest expense allocation	—	20,201	(20,201)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	23,939	—	23,939
Income tax expense	—	10,530	477	—	11,007
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(10,530)	23,462	—	12,932
Equity in undistributed earnings of subsidiaries	12,932	23,462	—	(36,394)	—
Net income	\$ 12,932	\$ 12,932	\$ 23,462	\$ (36,394)	\$ 12,932

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 393,190	\$ —	\$ 393,190
Costs and expenses:					
Operating, selling, general and administrative	—	71,869	195,823	—	267,692
Depreciation, amortization and accretion	—	7,285	71,281	—	78,566
Corporate expense allocation	—	(79,154)	79,154	—	—
Total costs and expenses	—	—	346,258	—	346,258
Operating income	—	—	46,932	—	46,932
Interest expense, net	(12)	(18,231)	(3,184)	—	(21,427)
Debt extinguishment costs	—	(38,915)	—	—	(38,915)
Interest expense allocation	12	57,146	(57,158)	—	—
Income (loss) before income taxes and equity in undistributed earnings of subsidiaries	—	—	(13,410)	—	(13,410)
Income tax expense (benefit)	—	(4,187)	211	—	(3,976)
Net income (loss) before equity in undistributed earnings of subsidiaries	—	4,187	(13,621)	—	(9,434)
Equity in undistributed earnings (losses) of subsidiaries	(9,434)	(13,621)	—	23,055	—
Net income (loss)	\$ (9,434)	\$ (9,434)	\$ (13,621)	\$ 23,055	\$ (9,434)

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 1,252,661	\$ —	\$ 1,252,661
Costs and expenses:					
Operating, selling, general and administrative	—	222,088	639,655	—	861,743
Depreciation, amortization and accretion	—	26,763	224,802	—	251,565
Corporate expense allocation	—	(248,851)	248,851	—	—
Total costs and expenses	—	—	1,113,308	—	1,113,308
Operating income	—	—	139,353	—	139,353
Interest expense, net	—	(60,741)	(14,457)	—	(75,198)
Debt extinguishment costs	—	(1,282)	—	—	(1,282)
Interest expense allocation	—	62,023	(62,023)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	62,873	—	62,873
Income tax expense	—	27,783	1,218	—	29,001
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(27,783)	61,655	—	33,872
Equity in undistributed earnings of subsidiaries	33,872	61,655	—	(95,527)	—
Net income	\$ 33,872	\$ 33,872	\$ 61,655	\$ (95,527)	\$ 33,872

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Total revenue	\$ —	\$ —	\$ 1,163,882	\$ —	\$ 1,163,882
Costs and expenses:					
Operating, selling, general and administrative	—	203,843	579,062	—	782,905
Depreciation, amortization and accretion	—	20,571	208,042	—	228,613
Corporate expense allocation	—	(224,414)	224,414	—	—
Total costs and expenses	—	—	1,011,518	—	1,011,518
Operating income	—	—	152,364	—	152,364
Interest expense, net	(9,717)	(54,051)	(7,093)	—	(70,861)
Debt extinguishment costs	(327)	(38,987)	—	—	(39,314)
Interest expense allocation	10,044	93,038	(103,082)	—	—
Income before income taxes and equity in undistributed earnings of subsidiaries	—	—	42,189	—	42,189
Income tax expense	—	20,102	1,030	—	21,132
Net income (loss) before equity in undistributed earnings of subsidiaries	—	(20,102)	41,159	—	21,057
Equity in undistributed earnings of subsidiaries	21,057	41,159	—	(62,216)	—
Net income	\$ 21,057	\$ 21,057	\$ 41,159	\$ (62,216)	\$ 21,057

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

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

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Combined Subsidiary Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(amounts in thousands)				
Net income	\$ 12,932	\$ 12,932	\$ 23,462	\$ (36,394)	\$ 12,932
Other comprehensive income, net of tax:					
Unrealized gain on available-for-sale securities	(50)	(50)	—	50	(50)
Other comprehensive income, net of tax	(50)	(50)	—	50	(50)
Comprehensive income	<u>\$ 12,882</u>	<u>\$ 12,882</u>	<u>\$ 23,462</u>	<u>\$ (36,344)</u>	<u>\$ 12,882</u>

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

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

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Combined Subsidiary Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(amounts in thousands)				
Net income (loss)	\$ (9,434)	\$ (9,434)	\$ (13,621)	\$ 23,055	\$ (9,434)
Other comprehensive income, net of tax:					
Unrealized gain on available-for-sale securities	85	85	—	(85)	85
Other comprehensive income, net of tax	85	85	—	(85)	85
Comprehensive income (loss)	<u>\$ (9,349)</u>	<u>\$ (9,349)</u>	<u>\$ (13,621)</u>	<u>\$ 22,970</u>	<u>\$ (9,349)</u>

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

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

	<u>Parent Guarantor</u>	<u>Issuer</u>	<u>Combined Subsidiary Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(amounts in thousands)				
Net income	\$ 33,872	\$ 33,872	\$ 61,655	\$ (95,527)	\$ 33,872
Other comprehensive income, net of tax:					
Unrealized gain on available-for-sale securities	(20)	(20)	—	20	(20)
Other comprehensive income, net of tax	(20)	(20)	—	20	(20)
Comprehensive income	<u>\$ 33,852</u>	<u>\$ 33,852</u>	<u>\$ 61,655</u>	<u>\$ (95,507)</u>	<u>\$ 33,852</u>

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Net income	\$ 21,057	\$ 21,057	\$ 41,159	\$ (62,216)	\$ 21,057
Other comprehensive loss, net of tax:					
Unrealized gain on available-for-sale securities	65	65	—	(65)	65
Other comprehensive income, net of tax	65	65	—	(65)	65
Comprehensive income	<u>\$ 21,122</u>	<u>\$ 21,122</u>	<u>\$ 41,159</u>	<u>\$ (62,281)</u>	<u>\$ 21,122</u>

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Cash flows from operating activities:					
Net income	\$ 33,872	\$ 33,872	\$ 61,655	\$ (95,527)	\$ 33,872
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, amortization and accretion	—	26,763	224,802	—	251,565
Deferred income taxes	—	27,783	—	—	27,783
Stock-based compensation expense	—	—	26,782	—	26,782
Extinguishment costs, amortization of discount on debt and deferred debt issue costs	—	(114,313)	—	—	(114,313)
Intercompany and equity investment changes	86,420	6,093	(67,634)	95,527	120,406
Changes in operating assets and liabilities	—	(1,117)	1,752	—	635
Net cash provided by (used in) operating activities	120,292	(20,919)	247,357	—	346,730
Cash flows from investing activities:					
Capital expenditures	—	(39,978)	(257,958)	—	(297,936)
Purchases of investments	—	(109,275)	—	—	(109,275)
Proceeds from sale of investments	—	238,993	—	—	238,993
Other investing activities, net	—	241	12,829	—	13,070
Net cash used in investing activities	—	89,981	(245,129)	—	(155,148)
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	(7,726)	—	—	—	(7,726)
Purchases of treasury stock	(112,564)	—	—	—	(112,564)
Excess tax benefits from stock-based compensation	—	1,126	—	—	1,126
Retirement of debt obligations	—	(24,418)	—	—	(24,418)
Payment of debt and capital lease obligations	—	(4,316)	(2,228)	—	(6,544)
Net cash used in financing activities	(120,290)	(27,608)	(2,228)	—	(150,126)
Decrease in cash and cash equivalents	2	41,454	—	—	41,456
Cash and cash equivalents at beginning of period	24,546	259,873	—	—	284,419
Cash and cash equivalents at end of period	\$ 24,548	\$ 301,327	\$ —	\$ —	\$ 325,875

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

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

	Parent Guarantor	Issuer	Combined Subsidiary Guarantors	Eliminations	Consolidated
	(amounts in thousands)				
Cash flows from operating activities:					
Net income	\$ 21,057	\$ 21,057	\$ 41,159	\$ (62,216)	\$ 21,057
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, amortization and accretion	—	20,571	208,042	—	228,613
Deferred income taxes	—	20,103	—	—	20,103
Stock-based compensation expense	—	—	30,879	—	30,879
Extinguishment costs, amortization of discount on debt and deferred debt issue costs	6,244	42,177	—	—	48,421
Intercompany and equity investment changes	795,294	(866,758)	9,248	62,216	—
Changes in operating assets and liabilities	(2,219)	20,864	(37,252)	—	(18,607)
Net cash provided by (used in) operating activities	820,376	(741,986)	252,076	—	330,466
Cash flows from investing activities:					
Capital expenditures	—	(36,117)	(248,942)	—	(285,059)
Purchases of investments	—	(207,209)	—	—	(207,209)
Proceeds from sale of investments	—	215,291	—	—	215,291
Other investing activities, net	—	(328)	(2,227)	—	(2,555)
Net cash used in investing activities	—	(28,363)	(251,169)	—	(279,532)
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	38,899	—	—	—	38,899
Purchases of treasury stock	(306,011)	—	—	—	(306,011)
Excess tax benefits from stock-based compensation	—	693	—	—	693
Proceeds from modification of debt, net of financing costs	—	49,684	—	—	49,684
Proceeds from issuance of debt, net of financing costs	—	766,155	—	—	766,155
Retirement of convertible debt obligations	(553,264)	(438,714)	—	—	(991,978)
Payment of debt and capital lease obligations	—	(2,860)	(907)	—	(3,767)
Net cash (used in) provided by financing activities	(820,376)	374,958	(907)	—	(446,325)
Decrease in cash and cash equivalents	—	(395,391)	—	—	(395,391)
Cash and cash equivalents at beginning of period	24,544	782,184	—	—	806,728
Cash and cash equivalents at end of period	\$ 24,544	\$ 386,793	\$ —	\$ —	\$ 411,337

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

The following Unaudited Pro Forma Condensed Combined Balance Sheet as of September 30, 2014 and the Unaudited Pro Forma Condensed Combined Statements of Operations for the nine months ended September 30, 2014 and the fiscal year ended December 31, 2013 of Level 3 Communications, Inc. ("Level 3") have been prepared as if Level 3's merger with tw telecom inc. ("tw telecom"), and the assumptions and adjustments described in the accompanying notes herein had occurred on the dates specified below.

On October 31, 2014 (the "Merger Date" or "Acquisition Date"), Level 3 completed the acquisition of tw telecom inc. ("tw telecom") pursuant to the Agreement and Plan of Merger (the "Merger Agreement") dated June 15, 2014. tw telecom became a wholly owned subsidiary of the Company through a tax-free, stock and cash reorganization (the "Merger"). As a result of the Merger, (1) each issued and outstanding shares of common stock of tw telecom was exchanged for 0.7 shares of Level 3 common stock, par value \$0.01 per share and \$10 in cash (together the "merger consideration"); (2) the outstanding stock options were canceled and the holders received the merger consideration, net of aggregate per share exercise price; (3) each restricted stock unit award was canceled and the holders received the merger consideration; and (4) each restricted stock unit was immediately vested and canceled and holders received the merger consideration.

On October 31, 2014, tw telecom had approximately 140 million common shares outstanding, including approximately 1 million shares reserved for stock options, restricted stock awards and restricted stock units. Based on the number of Level 3 shares issued, Level 3's closing stock price of \$46.91 on October 31, 2014, the cash paid to the former holders of tw telecom common stock and the \$1.793 billion of debt of tw telecom refinanced or repaid, the aggregate consideration for acquisition accounting, including assumed debt, approximated \$8.1 billion calculated, as follows (in millions except per share amounts):

Number of tw telecom common shares eligible for merger consideration*	138.4
Multiplied by exchange ratio per Merger Agreement	0.7
Number of Level 3 shares of common stock to be issued*	96.9
Multiplied by price of Level 3 common stock*	\$46.91
Estimated equity consideration	\$4,546
Estimated cash consideration (\$10 cash for each eligible share of tw telecom's common stock)	1,404
Tax withholdings and consideration for converted stock options, restricted stock awards and restricted stock units	68
Assumption of debt, including make-whole payments and capital leases	2,101
Estimated aggregate consideration*	\$8,119

*The number of outstanding tw telecom shares reserved for outstanding share-based awards has been reduced by approximately 1 million shares to reflect the value of withholding taxes paid on behalf of award holders. Level 3 paid, using cash, approximately \$68 million of withholding taxes to various jurisdictions and consideration as a result of the consummation of the Merger.

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 issued its common stock to acquire tw telecom (at a premium), the board of directors of the combined company is composed principally of former Level 3 directors and the executive management team of the combined company will largely be led by former Level 3 executives, among other factors. Therefore, for accounting purposes, the Merger is considered an acquisition of tw telecom by Level 3.

The following unaudited pro forma financial information related to the tw telecom Merger was prepared using the acquisition method of accounting for business combinations, and is based on the assumption that the Merger took place as of September 30, 2014 for the purpose of the Unaudited Pro Forma Condensed Combined Balance Sheet. The Unaudited Pro Forma Condensed Combined Statements of Operations for the nine months ended September 30, 2014 and for the year ended December 31, 2013 are presented as if the Merger 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 Merger only from and after the completion date of the Merger. Level 3 has not yet undertaken a detailed analysis of the fair value of tw telecom's assets and liabilities and will finalize the purchase price allocation related to the Merger no later than October 31, 2015. Thus, the provisional measurements of fair value reflected are subject to change once the valuations are completed. The final valuation will change the allocation of the purchase price, which could significantly affect the fair value assigned to the assets acquired and liabilities assumed, with a corresponding adjustment to goodwill.

Acquisition-related costs include transaction costs such as legal, accounting, valuation and other professional services and financing costs as well as integration costs such as severance and retention. Total acquisition related transaction, integration and financing costs expected to be incurred by Level 3 and tw telecom are approximately \$319 million, which includes \$40 million of debt issuance costs incurred in connection with the new debt. 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. Acquisition-related costs recognized in the historical financial statements of Level 3 and tw telecom were approximately \$16 million in the nine months ended September 30, 2014 (none for the year ended December 31, 2013). These charges were expensed in accordance with the acquisition method of accounting, and were reflected in Network Related Expenses and Selling, General and Administrative Expenses. Level 3 expects to incur additional acquisition-related expenses associated with the Merger including integration activities. Based on current plans and information, Level 3 expects to incur approximately \$170 million of integration costs associated with the Merger; 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 Merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of Level 3. The Unaudited Pro Forma Condensed Combined Financial Statements do not reflect any operating efficiencies and cost savings that we may achieve with respect to combining the companies. Synergies have been excluded from consideration because they are not considered to be factually supportable, which is a required condition for these pro forma adjustments.

The Unaudited Pro Forma Condensed Combined Financial Statements should be read in conjunction with the historical consolidated financial statements and accompanying notes of Level 3 and tw telecom incorporated into this filing, and Level 3's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2014 and of Level 3 included in its Form 10-K for the year ended December 31, 2013.

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

(dollars in millions)	Historical Level 3	Historical tw telecom	Pro Forma Adjustments	Pro Forma Financing Adjustments	Pro Forma Combined
Assets					
Current Assets:					
Cash and cash equivalents	\$ 729	\$ 326	\$ (752) (a)	\$ 140 (a)	\$ 443
Investments	—	34	—	—	34
Restricted cash and securities	1,020	2	(1,014) (a)	—	8
Receivables, net	678	105	—	—	783
Other	173	108	(54) (f)	4 (a)	231
Total Current Assets	2,600	575	(1,820)	144	1,499
Property, Plant and Equipment, net	8,268	1,750	1 (d)	—	10,019
Restricted Cash and Securities	21	—	—	—	21
Goodwill	2,570	413	5,061 (d)	—	8,044
Other Intangibles, net	154	8	1,136 (d)	—	1,298
Other Assets, net	370	110	(99) (c)(f)	21 (a)	402
Total Assets	\$ 13,983	\$ 2,856	\$ 4,279	\$ 165	\$ 21,283
Liabilities and Stockholders' Equity					
Current Liabilities:					
Accounts payable	\$ 607	\$ 69	\$ —	\$ —	\$ 676
Current portion of long-term debt	502	8	—	(5) (c)	505
Accrued payroll and employee benefits	165	59	—	—	224
Accrued interest	184	30	—	(27) (a)	187
Current portion of deferred revenue	244	50	(3) (e)	—	291
Other	151	82	—	—	233
Total Current Liabilities	1,853	298	(3)	(32)	2,116
Long-Term Debt, less current portion	8,856	1,916	16 (c)	197 (b)	10,985
Deferred Revenue, less current portion	877	19	(7) (e)	—	889
Other Liabilities	749	46	(2) (f)	—	793
Total Liabilities	12,335	2,279	4	165	14,783
Stockholders' Equity:					
Preferred stock	—	—	—	—	—
Common stock	2	2	(1) (h)	—	3
Additional paid-in capital	14,446	1,709	2,836 (h)	—	18,991
Treasury stock	—	(453)	453 (i)	—	—
Accumulated other comprehensive loss	(82)	—	—	—	(82)
Accumulated deficit	(12,718)	(681)	987 (j)	—	(12,412)
Total Stockholders' Equity	1,648	577	4,275	—	6,500
Total Liabilities and Stockholders' Equity	\$ 13,983	\$ 2,856	\$ 4,279	\$ 165	\$ 21,283

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

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

(dollars in millions, except per share data)	Historical Level 3 as adjusted*	Historical tw telecom as adjusted*	Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 6,313	\$ 1,564	\$ (52) (l)	\$ 7,825
Costs and Expenses				
Network Access Costs	2,471	444	(52) (l)	2,863
Network Related Expenses	1,214	230	—	1,444
Depreciation and Amortization	800	306	121 (d)	1,227
Selling, General and Administrative Expenses	1,162	379	—	1,541
Total Costs and Expenses	5,647	1,359	69	7,075
Operating Income	666	205	(121)	750
Other Income (Expense):				
Interest expense	(649)	(96)	(53) (c)	(798)
Loss on modification and extinguishment of debt, net	(84)	(39)	—	(123)
Other, net	(4)	—	—	(4)
Total Other Expense	(737)	(135)	(53)	(925)
(Loss) Income Before Income Taxes	(71)	70	(174)	(175)
Income Tax (Expense) Benefit	(38)	(34)	23 (k)	(49)
Net (Loss) Income	\$ (109)	\$ 36	\$ (151)	\$ (224)
Basic Earnings per Common Share				
Net (Loss) Income Per Share	\$ (0.49)	\$ 0.25		\$ (0.70)
Shares Used to Compute Basic Net (Loss) Income per Share (in thousands)	222,368	144,920	96,900	319,268
Diluted Earnings per Common Share				
Net (Loss) Income Per Share	\$ (0.49)	\$ 0.24		\$ (0.70)
Shares Used to Compute Diluted Net (Loss) Income per Share (in thousands)	222,368	146,480	96,900	319,268

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

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

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

(dollars in millions, except per share data)	Historical Level 3 as adjusted*	Historical tw telecom as adjusted*	Pro Forma Adjustments	Pro Forma Combined
Revenue	\$ 4,863	\$ 1,253	(41) (l)	\$ 6,075
Costs and Expenses				
Network Access Costs	1,834	364	(41) (l)	2,157
Network Related Expenses	901	185	—	1,086
Depreciation and Amortization	558	249	71 (d)	878
Selling, General and Administrative Expenses	788	315	—	1,103
Total Costs and Expenses	4,081	1,113	30	5,224
Operating Income	782	140	(71)	851
Other Income (Expense):				
Interest income	1	—	—	1
Interest expense	(459)	(76)	(41) (c)	(576)
Loss on modification and extinguishment of debt, net	—	(1)	—	(1)
Other, net	(49)	—	—	(49)
Total Other Expense	(507)	(77)	(41)	(625)
Income Before Income Taxes	275	63	(112)	226
Income Tax (Expense) Benefit	(27)	(29)	21 (k)	(35)
Net Income (Loss)	\$ 248	\$ 34	\$ (91)	\$ 191
Basic Earnings per Common Share				
Net Income Per Share	\$ 1.05	\$ 0.24		\$ 0.57
Shares Used to Compute Basic Net Income per Share (in thousands)	237,102	136,969	96,900	334,002
Diluted Earnings per Common Share				
Net Income Per Share	\$ 1.03	\$ 0.24		\$ 0.56
Shares Used to Compute Diluted Net Income per Share (in thousands)	241,458	139,114	96,900	338,358

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

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

Notes to Unaudited Pro Forma Condensed Combined Financial Information

(1) Basis of Presentation

The accompanying Unaudited Pro Forma Condensed Combined Financial Statements are provided for illustrative purposes only and do not purport to represent what the actual consolidated results of operations or the consolidated financial position of Level 3 would have been had the Merger 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 Merger, 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.

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 Merger, (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 analysis 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 September 30, 2014 historical book values of tw telecom's assets and liabilities to reflect certain preliminary estimates of the fair values necessary to reflect adjustments required by the application of the acquisition method of accounting for business combinations. Any excess purchase price over the estimated fair value of tw telecom's net assets has been recorded as goodwill. Actual results will differ from these Unaudited Pro Forma Condensed Combined Financial Statements once Level 3 has determined the final purchase price for tw telecom, has completed the valuation studies necessary to finalize the required purchase price allocations based on the tangible and intangible assets and liabilities of tw telecom at the completion of the Merger, 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 Merger 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 September 30, 2014. The final determination of the allocation of the purchase price will be based on the fair value of such assets and liabilities as of October 31, 2014 and will be completed by October 31, 2015. Such final determination of the purchase price allocation may be significantly different from the preliminary estimates used in these pro forma financial statements. Based on the closing price of Level 3's common stock on October 31, 2014, the purchase price is approximately \$8.1 billion, including the assumption of debt.

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)	September 30, 2014
Assets:	
Cash and cash equivalents	\$ 326
Investments	34
Restricted cash and securities	2
Receivables	105
Other current assets	54
Property, plant and equipment	1,751
Goodwill	5,474
Other intangibles	1,144
Other assets	11
Total Assets	8,901
Liabilities:	
Accounts payable	(69)
Current portion of long-term debt	(8)
Accrued payroll and employee benefits	(59)
Accrued interest	(30)
Deferred revenue	(59)
Other current liabilities	(82)
Long-term debt, less current portion	(2,093)
Other noncurrent liabilities	(483)
Total Liabilities	(2,883)
Total Estimated Consideration	\$ 6,018

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

The 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 acquisition related transaction, integration and financing costs expected to be incurred by Level 3 and tw telecom are estimated to be approximately \$319 million and as they are non-recurring, are reflected only in the Unaudited Pro Forma Condensed Combined Balance Sheet as a reduction of cash, of which \$40 million is attributable to debt issuance costs and the remainder will reduce stockholders' equity.

The Unaudited Pro Forma Condensed Combined Financial Information does not reflect ongoing cost savings, operating synergies or revenue enhancements that Level 3 expects to achieve as a result of the acquisition, 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 acquisition is 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 Merger, 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 acquisition related financing as of October 31, 2014 discussed further below, net of approximately \$1.793 billion of tw telecom's short-term and long-term debt that was redeemed or repaid, excluding capital lease obligations and debt discount and issuance costs and \$27 million of accrued interest on retirement of certain of tw telecom's debt.

Dollars in millions	Financing Adjustments
Proceeds from Level 3 acquisition related financing	\$ 2,000
Discount on merger-related financing	(15)
Debt issuance costs of Level 3 merger-related financing (Note 4b), short-term	(4)
Debt issuance costs of Level 3 merger-related financing (Note 4b), long-term	(21)
Repayment of certain of tw telecom's debt	(1,793)
Payment of accrued interest on retirement of certain of tw telecom's debt	(27)
Net proceeds from financing activities	\$ 140

Cash of approximately \$752 million as well as restricted cash of \$1.014 billion was used for the cash portion of the merger consideration of \$1.472 billion, make-whole premiums in connection with the redemption of tw telecom's debt of \$161 million which is included in Level 3's estimated aggregate financing and transaction costs of \$319 million, less \$25 million of pro forma financing adjustments for debt issuance costs.

- (b) In connection with the closing of the Merger, Level 3 Financing amended its existing credit agreement to incur an additional \$2.0 billion of borrowings through an additional tranche (the "Tranche B 2022 Term Loan"). The aggregate net proceeds of Level 3 Financing's Tranche B 2022 Term Loan issued in October 2014 were used to finance the cash portion of the merger consideration payable to tw telecom's stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger. In addition, the \$1.0 billion of proceeds from the issuance of 5.375% Senior Notes due 2022 raised in August 2014 by an indirect, wholly owned subsidiary of Level 3 were deposited into an escrow account. On October 31, 2014, following the consummation of the Merger and the satisfaction of certain escrow release conditions, the 5.375% Senior Notes were assumed by Level 3 Financing and the funds were released from the escrow account. The net proceeds from the 5.375% Senior Notes were used to finance the cash portion of the merger consideration payable to tw telecom stockholders and to refinance certain existing indebtedness of tw telecom, including fees and premiums, in connection with the closing of the Merger.
- (c) The adjustments to account for these financing adjustments are as follows:

Dollars in millions	As of September 30, 2014	
	Current Portion of Long-Term Debt	Long-Term Debt, less Current Portion
Level 3's historical debt balance	\$ 502	\$ 8,856
tw telecom's historical debt balance	8	1,916
New debt issued by Level 3, net of discount of \$15 million	—	1,985
Repayment of certain of tw telecom's debt	(5)	(1,788)
Elimination of tw telecom debt discounts	—	16
Total Debt Balance	\$ 505	\$ 10,985

tw telecom debt, except for capital lease obligations, has been replaced with the \$2.0 billion Tranche B Term Loan and the \$1.0 billion aggregate principal amount of 5.375% Senior Notes. Level 3 estimates an increase in interest expense of approximately \$53 million in 2013 and an increase of \$41 million in the first nine months of 2014 associated with the incremental debt Level 3 issued or incurred in connection with the merger after repaying or redeeming tw telecom's existing debt. The change in interest expense for such periods is based on a \$2.0 billion Tranche B 2022 Term Loan, with a current annual interest rate of 4.50% and \$1.0 billion

aggregate principal amount of unsecured senior notes with an annual interest rate of 5.375%. The term of the Tranche B 2022 Term Loan is seven years and the term of the unsecured senior notes is eight years. For the purpose of the Unaudited Pro Forma Condensed Combined Statement of Operations, it has been assumed that Level 3 borrowed the Tranche B 2022 Term Loan and issued unsecured senior notes on January 1, 2013 and, therefore, incurred interest expense of approximately \$148 million in 2013 and \$111 million in the first nine months of 2014. This interest expense was offset by the elimination of tw telecom's interest expense due to the repayment or redemption of tw telecom's outstanding debt of \$1.821 billion for the year ended December 31, 2013 and \$1.793 billion for the nine months ended September 30, 2014, which corresponds to \$95 million in interest expense in 2013 and \$70 million in the first nine months of 2014.

Dollars in millions	Twelve months ended December 31, 2013	Nine months ended September 30, 2014
tw telecom's historical interest expense	\$ (95)	\$ (70)
Interest expense resulting from debt Level 3 issued in connection with the Merger	148	111
Increase in interest expense	\$ 53	\$ 41

The Tranche B 2022 Term Loan included an up front payment to the Tranche B 2022 Term Loan lenders of 0.75 percent of par, will pay interest equal to LIBOR plus 3.5% with LIBOR set at a minimum of 1.0 percent and mature on January 31, 2022. Based on the interest rates of 4.50% for the Tranche B 2022 Term Loan using the LIBOR Rate of 0.23% on October 31, 2014, a decrease of 1.0% from the base LIBOR rate assumed on the Tranche B 2022 Term Loan would not change the pro forma interest expense reflected in the Unaudited Pro Forma Condensed Combined Statement of Operations for the twelve months ended December 31, 2013 or the first nine months of 2014 given the LIBOR minimum of 1.0%. An increase of 1.0% from the base LIBOR rate assumed on the Tranche B 2022 Term Loan would increase interest expense on the debt by \$5 million and \$3 million for the twelve months ended December 31, 2013 and the nine months ended September 30, 2014, respectively.

Included in the incremental interest expense is additional interest expense of approximately \$5 million for the twelve months ended December 31, 2013 and \$3 million for the first nine months of 2014 for the amortization of debt issuance costs and debt discounts associated with the Tranche B 2022 Term Loan and the 5.375% Senior Notes. Debt discount associated with the Tranche B 2022 Term Loan was approximately \$15 million and will be amortized over seven years. Debt issuance costs associated with the Tranche B 2022 Term Loan and 5.375% Senior Notes were approximately \$40 million (\$25 million of costs associated with the Tranche B 2022 Term Loan amortized over seven years and \$15 million associated with the 5.375% Senior Notes amortized over eight years). The Unaudited Pro Forma Condensed Combined Balance Sheet also includes an adjustment to reduce other noncurrent assets by \$30 million for the elimination of net deferred financing fees and increase long-term debt by \$16 million for the elimination of debt discounts upon repayment or redemption of tw telecom's existing debt.

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

Dollars in millions	September 30, 2014	Estimated Fair Value	Increase	Estimated Remaining Useful Lives (Years)
Property, Plant and Equipment	\$ 1,750	\$ 1,751	\$ 1	1-33 years
Customer Relationships	8	1,040	1,032	9-10 years
Trademark and trade names	—	104	104	5 years
Goodwill	413	5,474	5,061	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 \$16 million and \$30 million was made to goodwill to reflect the elimination of tw telecom's debt discounts and debt costs.

As of the effective date of the Merger, 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	Nine months ended September 30, 2014
tw telecom's historical depreciation and amortization	\$ (306)	\$ (249)
Depreciation and amortization after fair value adjustments and changes in the estimated useful lives associated with acquired assets	427	320
Increase in depreciation and amortization expense	\$ 121	\$ 71

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.

- (e) Adjustment to record the differences between the estimated fair values and the historical carrying amounts of tw telecom's deferred revenue 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 Merger. tw telecom had certain deferred revenue 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 September 30, 2014.

Dollars in millions	September 30, 2014	Estimated Fair Value	Decrease
Current portion of deferred revenue	\$ 50	\$ 47	\$ 3
Deferred Revenue, less current portion	19	12	7

- (f) As of October 31, 2014, 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 Merger, Level 3 will record the acquired assets and liabilities on its books at their estimated fair value as of the date of the Merger. 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 \$439 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 \$121 million.

- (g) On October 31, 2014, all outstanding employee stock option awards, restricted stock awards and restricted stock units of tw telecom were canceled and exchanged for Level 3 shares and cash in accordance with the terms of the Merger Agreement. The employees of tw telecom will participate in Level 3's share-based compensation programs after completion of the Merger.
- (h) Adjustment to reflect the elimination of tw telecom's common shares outstanding, net of the issuance of common shares as a result of the Merger calculated by multiplying tw telecom's common shares outstanding by the 0.7 share exchange ratio.

Dollars in millions	Adjustments as of September 30, 2014
Issue 96.9 million shares of Level 3 common stock, \$0.01 par value	\$ 1
Eliminate tw telecom common stock	(2)
Adjustment to common stock	<u>\$ (1)</u>

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

Dollars in millions	Adjustments as of September 30, 2014
Total estimated equity consideration	\$ 4,546
Elimination of tw telecom additional paid-in capital	(1,709)
Common stock	(1)
Adjustment to additional paid-in capital	<u>\$ 2,836</u>

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

Dollars in millions	Adjustment as of September 30, 2014
Eliminate tw telecom's accumulated deficit	\$ 681
Estimated financing and merger-related expenses	(133)
Net adjustments to deferred taxes	439
Adjustment to accumulated deficit	<u>\$ 987</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.

- (k) 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.

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