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October 17, 2006

Chairman Sara Kyle  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

**FILED ELECTRONICALLY**

in docket office on 10/17/06

Docket No. 06-00261

**Re: Joint Application of Level 3 Communications, Inc., Broadwing Corporation, and Broadwing Communications, LLC for Approval for the Transfer of Control of Broadwing Communications, LLC and Related Transactions, Including the Participation of Broadwing Communications, LLC in Certain Financing Arrangements of Level 3 Financing, Inc.**

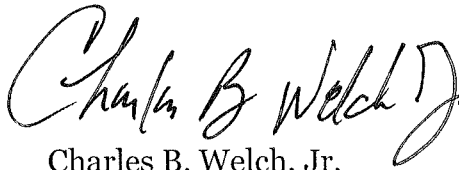
Dear Chairman Kyle:

Please find enclosed, an original and 5 copies of the referenced Petition accompanied by the \$75.00 filing fee. Please date stamp a copy for my records.

Thank you for your assistance regarding this matter. If we can be of further assistance, please do not hesitate to contact us.

Very truly yours,

FARRIS MATHEWS BRANAN  
BOBANGO HELLEN & DUNLAP, PLC



Charles B. Welch, Jr.

CBW/jrh  
Enclosures

**BEFORE THE TENNESSEE REGULATORY AUTHORITY**

**Nashville, Tennessee**

Joint Application of	)	
	)	
<b>Level 3 Communications, Inc.,</b>	)	
<b>Broadwing Corporation,</b>	)	
	)	Docket No. _____
and	)	
	)	
<b>Broadwing Communications, LLC</b>	)	
	)	
For Approval for the Transfer of Control of	)	
Broadwing Communications, LLC and	)	
and Related Transactions, Including the	)	
Participation of Broadwing Communications, LLC	)	
in Certain Existing Financing Arrangements of	)	
Level 3 Financing, Inc.	)	
	)	

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**JOINT APPLICATION**

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Level 3 Communications, Inc. (“Level 3”), Broadwing Corporation (“Broadwing Parent”), and Broadwing Communications, LLC (“Broadwing”) (collectively “Applicants”), through their undersigned counsel and pursuant to Sections 65-4-109 and 65-4-112 of the Tennessee Code, Tenn. Code Ann. §§ 65-4-109 and -112, request Tennessee Regulatory Authority (“Authority”) approval or such authority as may be necessary or required to enable the parties to consummate a transaction whereby Level 3 will acquire indirect control of Broadwing, a non-dominant carrier that holds authority to provide intrastate telecommunications services in Tennessee. Applicants also request approval, to the extent necessary, for certain related transactions including the participation of Broadwing in existing financing arrangements of Level 3 Financing, Inc., as discussed in Section III below.

Although the proposed transaction will result in a change in the ownership of Broadwing, no transfer of certificates, assets, or customers will occur. Broadwing will continue to provide service to its customers in Tennessee pursuant to those authorizations under the same rates, terms, and conditions. This transaction will be transparent to the customers of Broadwing.

Applicants request that the Authority act expeditiously to grant the approval requested prior to, but no later than, December 15, 2006, so that Applicants can timely consummate the transaction before December 31, 2006 and meet important business objectives.

In support, the Applicants state:

## **I. DESCRIPTION OF THE APPLICANTS**

### **A. Broadwing Corporation and Broadwing Communications, LLC**

Broadwing Corporation is a publicly traded (NASDAQ: BWNG) Delaware corporation with principal offices at 1122 Capital of Texas Highway South, Austin, Texas 78746. Broadwing Corporation, through its subsidiaries, is a provider of data, Internet, broadband transport, and voice communications services to small and large enterprise customers and other communications service providers over a nationwide facilities-based network connecting 137 cities. Broadwing Corporation has an all-optical network capable of transmitting up to 800 Gbs per fiber.

Broadwing, an indirect subsidiary of Broadwing Parent, is a telecommunications provider that is authorized to provide telecommunications service in all fifty states and the District of Columbia; Broadwing is authorized to provide local exchange telecommunications services in 19 states and the District of Columbia. In Tennessee, Broadwing is authorized to provide intrastate interexchange telecommunications services pursuant to a certificate of public convenience and necessity granted by the Authority in Docket No. 03-00240 on July 3, 2003.<sup>1</sup> Broadwing is

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<sup>1</sup> The authorization was originally granted to C III Communications Operations, LLC, which changed its name to Broadwing. See Docket No. 03-0559 (February 19, 2004).

authorized to provide interstate and international telecommunications services pursuant to Section 214 authorization granted by the Federal Communications Commission.

Additional information concerning Broadwing was submitted with Broadwing's applications for certification and in connection with certain transactions and is, therefore, a matter of public record. Broadwing requests that the Authority take official notice of that information and incorporate it herein by reference.

**B. Level 3 Communications, Inc.**

Level 3 is a publicly traded (NASDAQ: LVT) Delaware corporation headquartered in Broomfield, Colorado. Through its wholly owned indirect subsidiaries--Level 3 Communications, LLC ("Level 3 LLC"), WilTel Communications, LLC, WilTel Local Network, LLC, and WilTel Communications of Virginia, Inc., Progress Telecom, LLC, Looking Glass Networks, Inc., Looking Glass Networks of Virginia, Inc., ICG Telecom Group, Inc., and various TelCove operating companies (collectively, the "Level 3-Ops")--Level 3 provides high-quality voice and data services to carriers, ISPs, and other business customers over its IP-based network. The Level 3-Ops are non-dominant carriers that are authorized to provide resold and/or facilities-based telecommunications services nationwide pursuant to certification, registration, or tariff requirements, or on a deregulated basis.<sup>2</sup> The Level 3-Ops are also authorized by the FCC to provide international and domestic interstate services as non-dominant carriers.

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<sup>2</sup> In Tennessee, Level 3 LLC is authorized to provide facilities-based and resold local exchange and interexchange telecommunications service pursuant to certificates granted by the Authority in Docket No. 98-00610 on November 24, 1998, as amended in Docket No. 02-00230 on June 28, 2002. WilTel Communications, LLC is authorized to provide resold and facilities-based local exchange, interexchange and exchange access telecommunications services pursuant to a certificate granted by the Authority in Docket No. 99-00398 on October 13, 1999. WilTel Communications, LLC is also authorized to provide service as a reseller and operator service provider pursuant to a certificate granted by the Authority in Docket No. 99-00034 on April 6, 1999. The certificates were originally granted to Williams Communications, Inc. d/b/a Vyvx, Inc. On February 27, 2001, the Authority was notified of the name change to WilTel Communications, LLC d/b/a Vyvx, Inc. The Authority approved the name change to WilTel Communications, LLC in Docket No. 04-0448 on July 28, 2005. TelCove Operations, Inc. is authorized to provide local exchange and interexchange telecommunications services pursuant to

## **II. CONTACT INFORMATION**

For the purposes of this Application, contacts for the Applicants are as follows:

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Farris, Mathews, Branam, Bobango &  
Hellen PLC  
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Catherine Wang  
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Washington, DC 20007-5116  
Tel: (202) 424-7500  
Fax: (202) 424-7647  
Email: catherine.wang@bingham.com  
brett.ferenchak@bingham.com

and:

William P. Hunt, III  
Vice President of Public Policy  
Level 3 Communications, Inc.  
1025 Eldorado Boulevard  
Broomfield, CO 80021  
Tel: (720) 888-2516  
Fax: (720) 888-5134  
Email: Bill.Hunt@Level3.com

Lawrence E. Strickling  
Chief Regulatory Officer  
Broadwing Communications, LLC  
200 North LaSalle Street, Suite 1000  
Chicago, IL 60601  
Tel: (312) 895-4040  
Fax: (312) 895-8414  
Email: Larry.Strickling@broadwing.com

## **III. REQUEST FOR APPROVAL OF TRANSFER OF CONTROL AND RELATED TRANSACTIONS**

### **A. Description of Transfer of Control**

On October 16, 2006, Broadwing Parent, Level 3, and Level 3's wholly owned subsidiary, Level 3 Services, LLC ("Level 3-Services"), entered into an Agreement and Plan of Merger (the "Agreement") to allow Broadwing Parent to merge with and into Level 3-Services as described below. As a result, control of Broadwing will be transferred to Level 3. For the

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Authority approval in Docket No. 98-00732, as amended by Docket Nos. 00-00271 and 03-00458. TelCove of Nashville, L.P. is authorized to provide resold local exchange and interexchange telecommunications services pursuant to Authority approval in Docket No. 94-00661, as amended by Docket Nos. 00-00958 and 03-00458.

Authority's convenience, pre- and post-transaction organizational charts are provided as Exhibit A. A copy of the Agreement is provided as Exhibit B.

Level 3 LLC will acquire Broadwing in a multi-step transaction, with all steps occurring in immediate succession on the day of consummation, resulting in Level 3-Services and Broadwing being wholly-owned subsidiaries of Level 3 LLC.<sup>3</sup> *First*, Broadwing Parent will merge with Level 3-Services, with Level 3-Services surviving.<sup>4</sup> *Second*, Level 3 will contribute all of the membership interest in Level 3-Services to Level 3 Financing, Inc. ("Level 3 Financing"), another Level 3 direct, wholly owned subsidiary.<sup>5</sup> *Third*, Level 3 Financing will contribute all of the membership interest in Level 3-Services to Level 3 LLC, Level 3's principal, indirect operating subsidiary in the United States.<sup>6</sup> Following the completion of these three steps, Level 3-Services will be a direct subsidiary of Level 3 LLC, and Broadwing will be an indirect subsidiary of Level 3 LLC.<sup>7</sup> Following consummation of the transaction, Broadwing will continue to operate its facilities and provide service to its customers under the same name and at the same rates, terms, and conditions, ensuring a seamless transition for those customers. Applicants request authority for the transfer of control of Broadwing to Level 3 LLC as well as any necessary authority for the *pro forma* changes that occur to Broadwing as a result of the transaction steps outlined above and in footnote 3.

Under terms of the Agreement, Level 3 will pay total consideration of approximately \$1.4 billion for approximately 89.9 million shares of stock of Broadwing Parent. Broadwing

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<sup>3</sup> After signing the Agreement and prior to closing, the minority interest in C III Communications, LLC ("CIII") will be extinguished by (1) a merger between CIII and a merger subsidiary of Broadwing Communications Holdings, Inc., with CIII surviving or (2) the purchase of the minority interest by Broadwing Parent.

<sup>4</sup> See "STEP 1 – Merger" chart of Exhibit A.

<sup>5</sup> See "STEP 2(a) – Contribution of Membership Interest" chart of Exhibit A.

<sup>6</sup> See "STEP 2(b) – Contribution of Membership Interest" chart of Exhibit A.

<sup>7</sup> See "POST TRANSACTION" chart of Exhibit A.

Parent stockholders will receive \$8.18 in cash for each share of Broadwing Parent stock plus 1.3411 shares of Level 3 stock. In total, Level 3 currently expects to pay approximately \$744 million of cash and issue approximately 122 million shares. Broadwing Parent's debt and cash, in the approximate amount of \$180 million and \$300 million, respectively, would remain with Level 3-Services, as the surviving company of the merger.

**B. Description of Broadwing's Participation in Certain Financing Arrangements of Level 3 Financing, Inc.**

In addition, upon closing it is expected that Broadwing will be required to provide a guaranty for existing indebtedness of Level 3 Financing, Inc. including: (1) an offering of 10.75% Senior Notes due in 2011 in the aggregate principal amount of \$500 million; (2) a \$730 million senior secured term loan that will mature in 2011 and has an interest rate of LIBOR plus an applicable margin of 300 basis points (the "Credit Agreement"); and (3) \$150 million of floating rate Senior Notes due in 2011 and \$550 million of 12.25% Senior Notes due in 2013. Level 3 used a portion of the funds from these financing arrangements to repay existing indebtedness and to fund the cash purchase price of certain Level 3-Ops. In addition, upon closing, it is anticipated that Broadwing will pledge its assets as security for the guaranty that Broadwing is expected to provide under the Credit Agreement. Applicants request authority, to the extent necessary, for Broadwing to participate in the financing arrangements described above.

**C. Level 3's Qualifications**

Level 3 has the technical, managerial, and financial qualifications to acquire control of Broadwing. Level 3, through its operating subsidiaries, is a leading global communications company, operating one of the world's newest and most advanced telecommunications platforms. As of July 31, 2006, the Level 3 network spans over 33,000 route miles and delivers

services to customers in major markets across the United States and Europe. It serves a substantial number of the world's largest and most sophisticated communications companies, including interexchange carriers, local phone companies, European PTTs, cable operators, ISPs, wireless companies, and Internet content providers. In 2005, Level 3 had worldwide communications revenues of \$1.645 billion and total revenues of \$3.613 billion. A copy of Level 3's most recent financial statements from SEC Form 10-K is attached hereto as Exhibit C. Level 3's results for the 2nd Quarter 2006 saw a marked increase in communications revenues (\$819 million) and total revenues (\$1.53 billion) versus the previous quarter's communications revenues (\$804 million) and total revenues (\$1.27 billion). A copy of Level 3's unaudited financial statements for the 2nd Quarter 2006 is attached as Exhibit D. For full year 2006, Level 3 has projected communications revenues of \$3.15 to \$3.4 billion, approximately a 92% to 107% increase from 2005 (Level 3 has not publicly released projections of total revenue).

Level 3 is operated by a highly qualified management team, all of whom have extensive backgrounds in telecommunications. Information concerning the legal, technical, managerial and financial qualifications of Level 3 was submitted with the various applications filed with the Authority with respect to its operations in Tennessee, and is, therefore, already a matter of record. Applicants request that the Authority take official notice of these descriptions of Level 3's qualifications and incorporate them by reference. Moreover, as indicated, following the transaction Broadwing will operate as a separate subsidiary of Level 3. In addition, Level 3 has a history of successfully acquiring and integrating network facilities and customers from other companies including: (1) the acquisition of the dial-up Internet businesses of McLeodUSA, ICG, and Sprint, (2) the acquisition of Genuity, a Tier 1 Internet Protocol communications company, (3) the acquisition of substantially all of 360networks' nationwide long-haul transport business,



and (4) the recent acquisitions of WilTel, Progress Telecom, ICG, Looking Glass Networks, and TelCove. Applicants note that the Authority found that Level 3 was qualified to acquire WilTel and TelCove when it approved those transactions; there is no new information regarding Level 3 that could lead the Authority to determine otherwise in this case.

**D. Additional Information**

Level 3 and Broadwing are filing similar applications and notices of the proposed transaction in additional states. Specifically, Level 3 and Broadwing are seeking approval of the transaction in Arizona, California, Delaware, Georgia, Hawaii, Indiana, Louisiana, Minnesota, Mississippi, New Jersey, New York, Ohio, Pennsylvania, Texas, Virginia, West Virginia, and Wyoming. Applicants expect to contemporaneously file the necessary requests for approval in all states. Applicants have requested that all state regulatory agencies approve the transaction by December 15, 2006. Level 3 and Broadwing are filing notices of the transaction in the remaining states.

Level 3 and Broadwing are filing applications for approval of the proposed transaction with the Federal Communications Commission ("FCC"). The FCC applications are also expected to be filed contemporaneously with this Application.

Broadwing has approximately 1,085 customers (intrastate and interstate) located in Tennessee. The Applicants do not intend to provide customer notice of the proposed transaction because Broadwing will continue to be their service provider. Following consummation of the proposed transaction, Broadwing will continue to provide high-quality communications services to their customers without interruption and without immediate change in rates, terms or conditions. Therefore, customer notice is not required under Tenn. Comp. R. & Regs. 1220-4-2-.56(2)(d).

#### IV. PUBLIC INTEREST CONSIDERATIONS

Applicants submit that the transaction described herein will serve the public interest. The transaction will provide Broadwing access to Level 3's substantial technical and management expertise, financial resources, and complementary suite of services. Further, the proposed transaction will enable Broadwing's customers to benefit from Level 3's national network and broad suite of IP-based services. These benefits are expected to strengthen Broadwing's ability to expand its offerings and provide more advanced telecommunications services to a broader customer base in Tennessee. Applicants expect that the transaction will enable both Broadwing and Level 3 to strengthen their competitive positions to the benefit of Tennessee consumers and the telecommunications marketplace.

Further, the transaction will be conducted in a manner that will be transparent to customers of Broadwing. The transfer of control of Broadwing will not result in a change of carrier for customers or any transfer of authorizations. Following consummation of the transaction, Broadwing will continue to provide high-quality communications services to its customers without interruption and without immediate change in rates, terms, or conditions.

The public interest will also be served by expeditious consideration and approval of the transaction no later than December 15, 2006. For various important business, tax, and financial reasons, Applicants require that the transaction be closed as quickly as possible and in any event before December 31, 2006. Delay in the regulatory approval process can have multiple adverse consequences to the stakeholders in the transaction including the customers and end-users of Broadwing and Level 3:

- (1) Customers of the two entities may become increasingly uncertain about their provider – and the services upon which they depend – the longer the process takes to solidify the proposed transaction that has been publicly announced. This can result in the loss of sales and churn of customers at both companies.

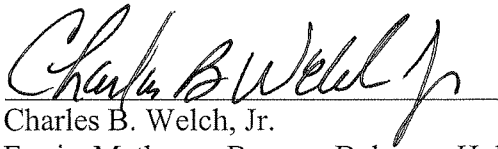
- (2) Uncertainty among the employees of the respective companies, and Broadwing in particular, is another potential adverse consequence of delay. The longer the uncertainty persists, the more difficult it becomes for management to retain employees and maintain motivation of the employee base.
- (3) The competitive telecommunications marketplace continues to be a very challenging business environment. The proposed transaction is aimed at strengthening the competitive position of the combined entities and, therefore, delay in the regulatory approval process prevents the parties from realizing the economic benefits of integration of the carriers' networks or offering the expanded combined network footprint to customers as quickly as the parties otherwise could.
- (4) Applicants need to close the transaction before year end in order to reduce administrative costs associated with carrying separate entities into a new tax year.

Applicants emphasize that the proposed indirect transfer of control will be seamless and transparent to Broadwing's customers, and in no event will it result in the discontinuance, reduction, loss, or impairment of service to customers. Accordingly, Applicants request that the Authority commence its examination of the proposed transaction as soon as possible and complete its review no later than December 15, 2006.

V. CONCLUSION

For the reasons stated above, Applicants respectfully submit that the public interest, convenience, and necessity would be furthered by a grant of this Application for the transfer of control of Broadwing Communications, LLC and related transactions. Applicants respectfully request expedited treatment to permit Applicants to complete the transaction no later than December 31, 2006.

Respectfully submitted,

By:   
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COUNSEL FOR  
LEVEL 3 COMMUNICATIONS, INC.

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COUNSEL FOR APPLICANTS

Dated: October 16, 2006

## **LIST OF EXHIBITS**

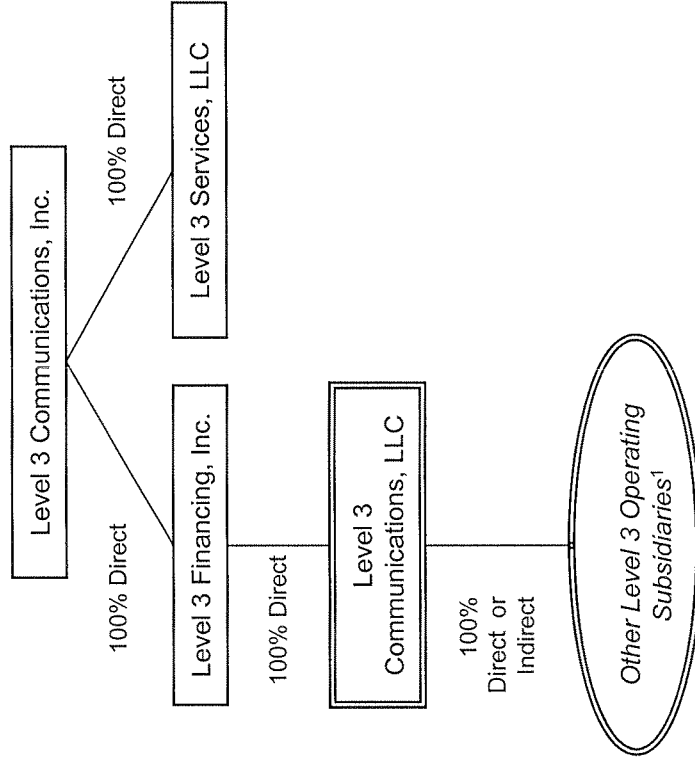
Exhibit A	Pre- and Post-Transaction Illustrative Chart
Exhibit B	Agreement
Exhibit C	Financial Statements of Level 3 Communications, Inc. from SEC Form 10-K
Exhibit D	Level 3 Communications, Inc. 2nd Quarter 2006 Unaudited Financial Statements
Verifications	

**EXHIBIT A**

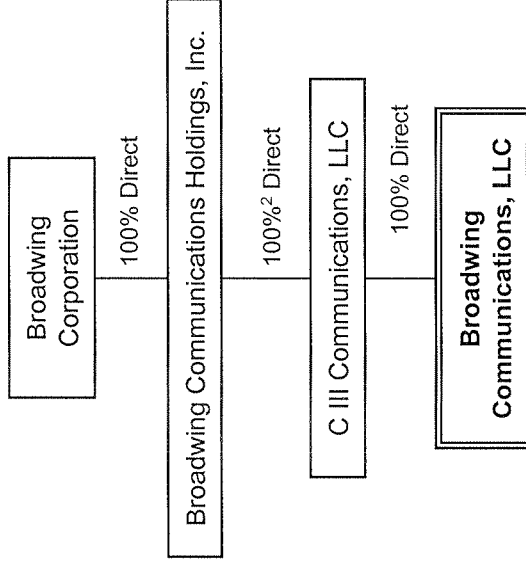
**Pre- and Post-Transaction Illustrative Chart**

# Level 3 Communications, Inc. – Broadwing Corporation Pre- and Post-Transaction Illustrative Chart

## PRE-TRANSACTION



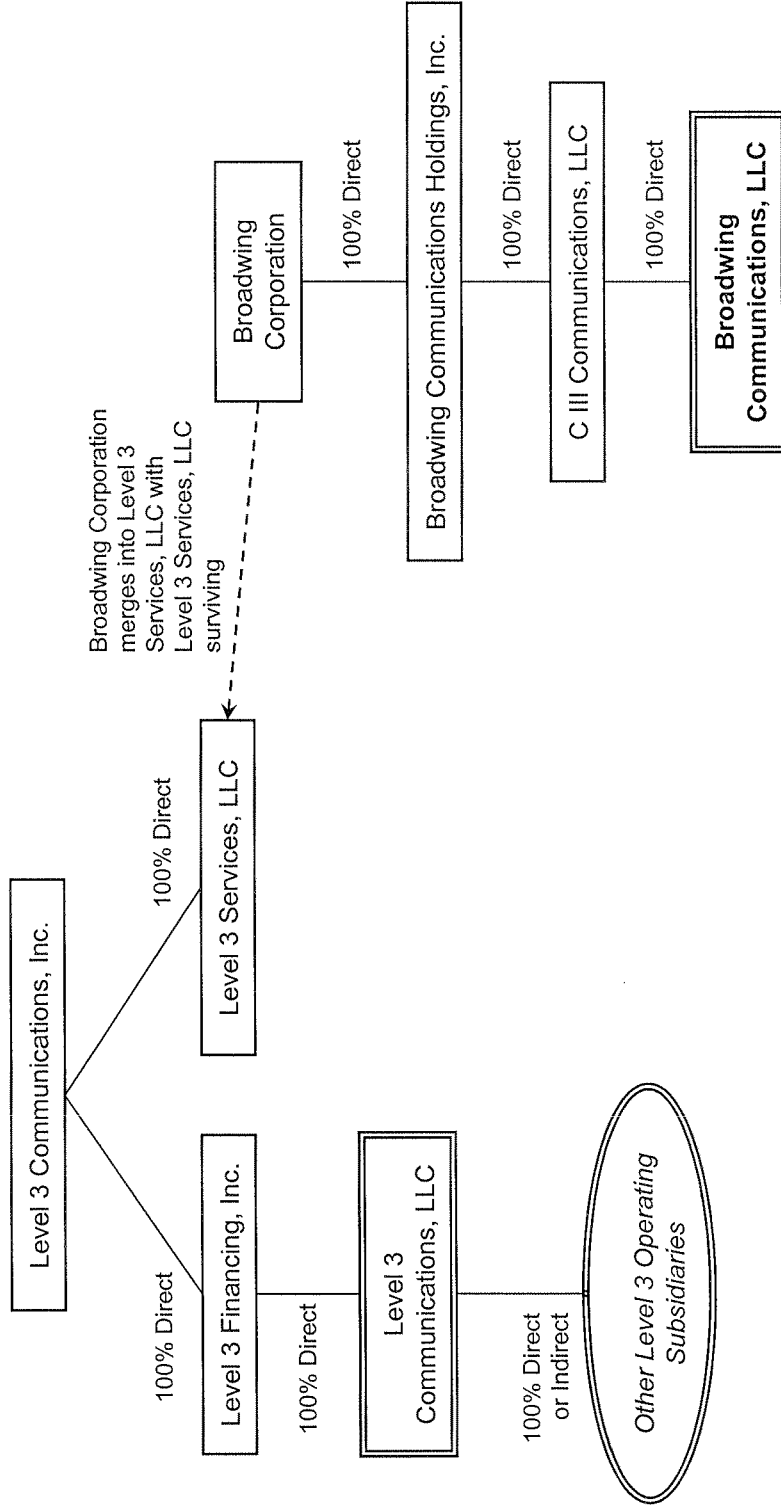
<sup>1</sup> The "Other Level 3 Operating Subsidiaries" include: (1) the WilTel operating companies, (2) Progress Telecom, LLC, (3) Looking Glass Networks, Inc. and Looking Glass Networks of Virginia, Inc., (4) ICG Telecom Group, Inc., and (5) the TelCove operating companies



<sup>2</sup> After signing the Agreement and prior to closing, the minority interest in C III Communications, LLC ("CIII") will be extinguished by (1) a merger between CIII and a merger subsidiary of Broadwing Communications Holdings, Inc., with CIII surviving or (2) the purchase of the minority interest by Broadwing Corporation.

Level 3 Communications, Inc. – Broadwing Corporation  
Pre- and Post-Transaction Illustrative Chart

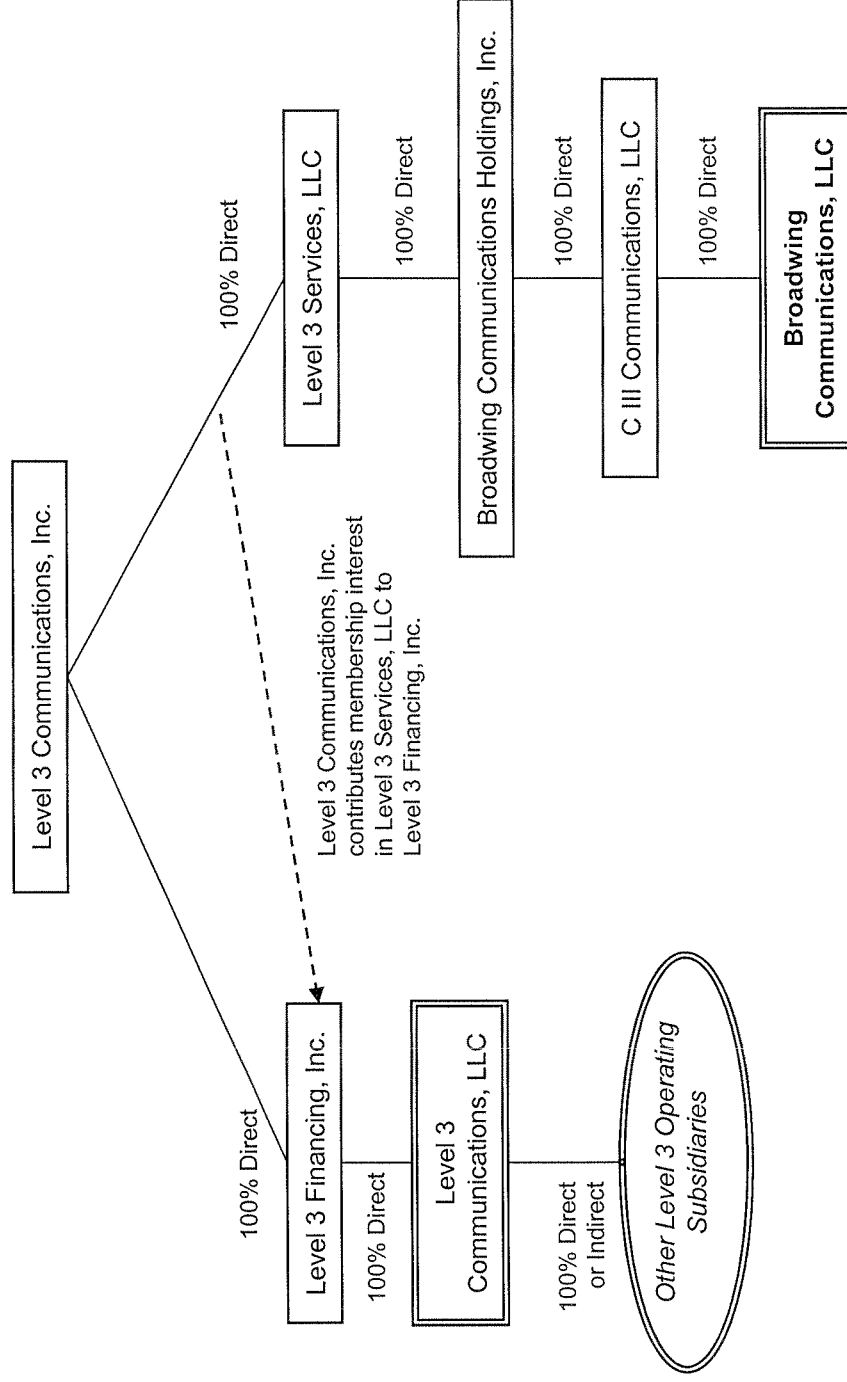
STEP 1 - Merger





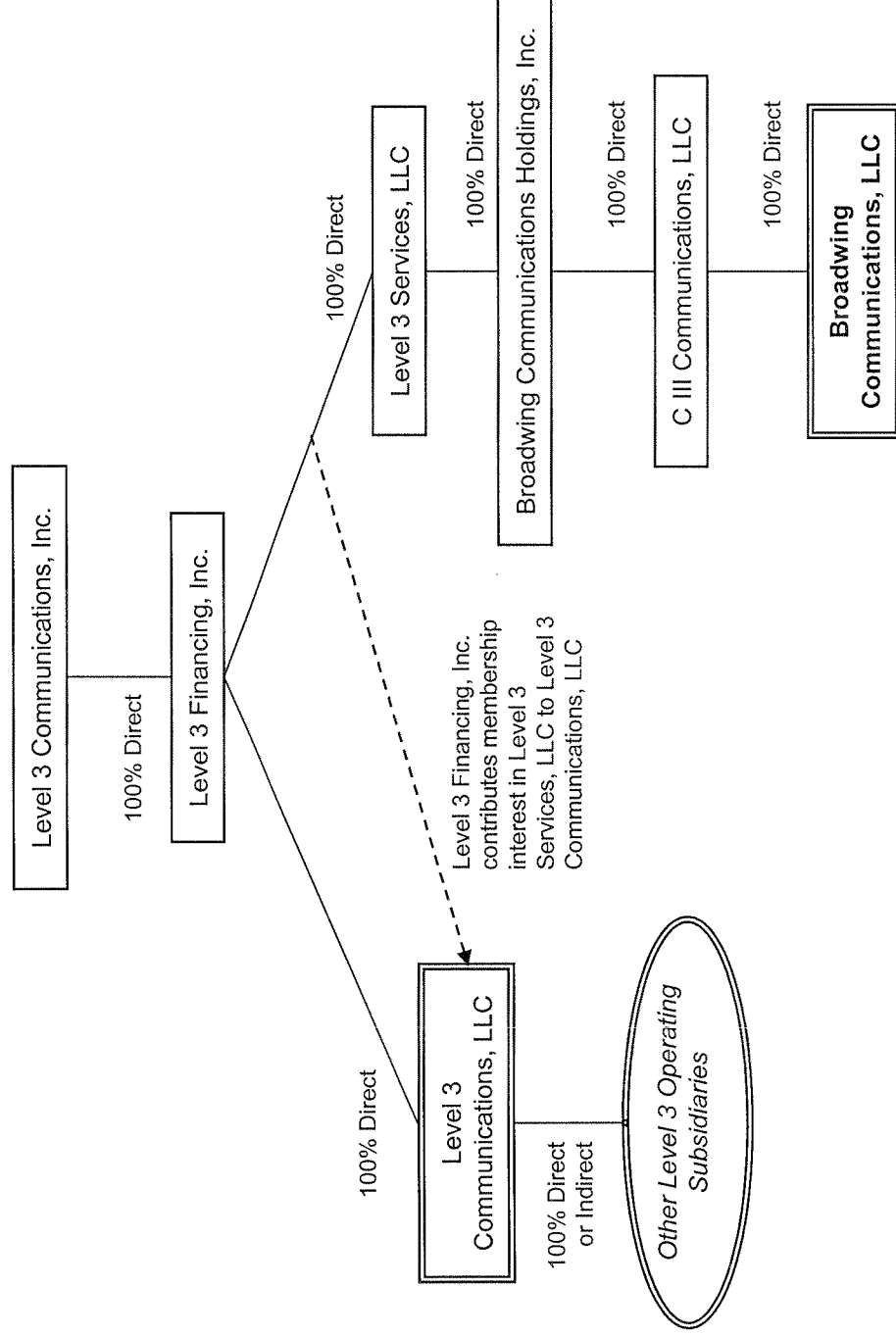
Level 3 Communications, Inc. – Broadwing Corporation  
Pre- and Post-Transaction Illustrative Chart

STEP 2(a) – Contribution of Membership Interest



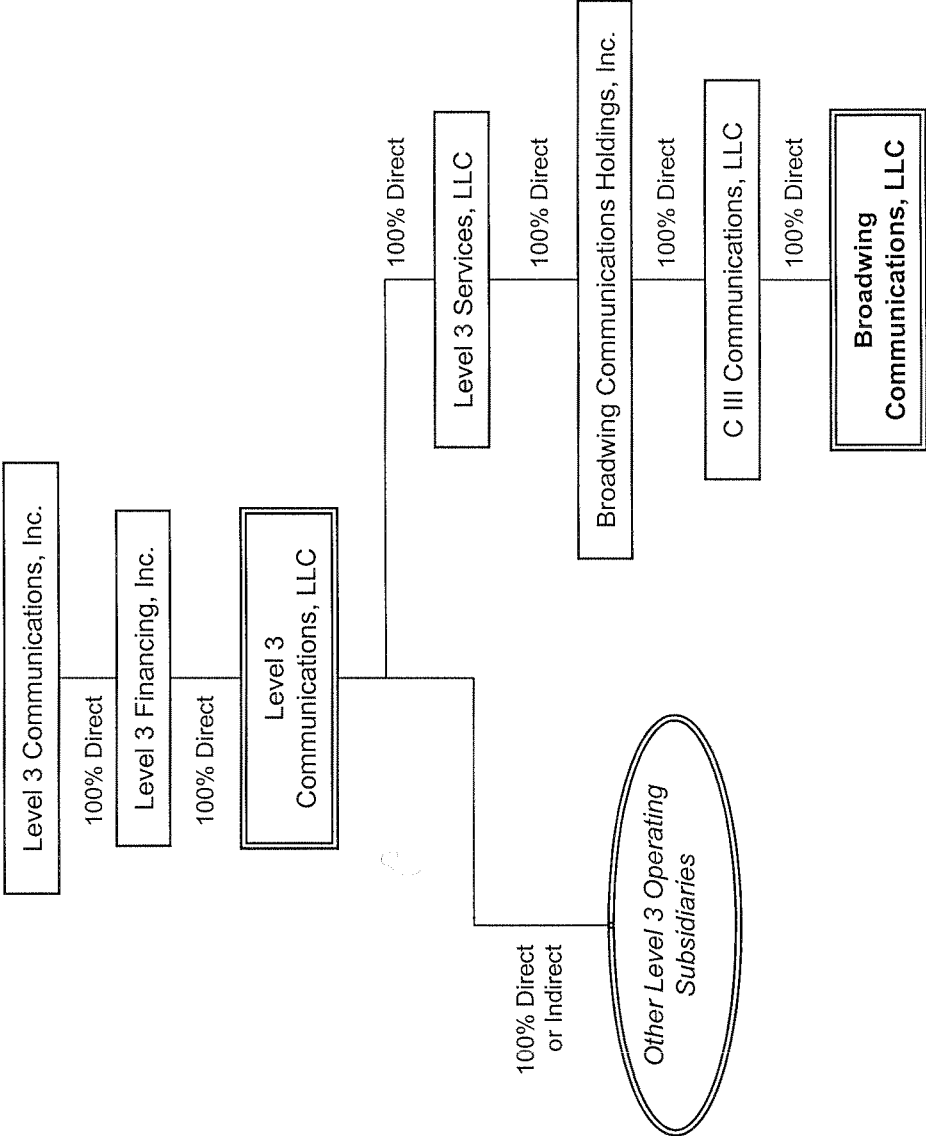
**Level 3 Communications, Inc. – Broadwing Corporation  
Pre- and Post-Transaction Illustrative Chart**

**STEP 2(b) – Contribution of Membership Interest**



**Level 3 Communications, Inc. – Broadwing Corporation**  
**Pre- and Post-Transaction Illustrative Chart**

**POST TRANSACTION**



**EXHIBIT B**

**Agreement**

**EXHIBIT C**

**Financial Statements of Level 3 Communications, Inc. from SEC Form 10-K**

**EXHIBIT D**

**Level 3 Communications, Inc.  
2nd Quarter 2006 Unaudited Financial Statements**

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the transition period                      to

Commission file number 0-15658

**LEVEL 3 COMMUNICATIONS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

47-0210602  
(I.R.S. Employer  
Identification No.)

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

80021  
(Zip Code)

(720) 888-1000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of an "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check One):

Large accelerated filer ☒      Accelerated filer ☐      Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of each class of the issuer's common stock, as of August 3, 2006:

Common Stock: 1,172,885,573 shares

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**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
(unaudited)

(dollars in millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue:				
Communications	\$ 819	\$ 371	\$ 1,623	\$ 881
Information services	695	504	1,140	970
Coal mining	16	19	34	36
Total revenue	1,530	894	2,797	1,887
Costs and Expenses:				
Communications	385	110	781	226
Information services	627	457	1,032	886
Coal mining	14	9	30	22
Total cost of revenue	1,026	576	1,843	1,134
Depreciation and amortization	167	164	357	333
Selling, general and administrative	326	215	639	439
Restructuring and impairment charges	7	4	12	19
Total costs and expenses	1,526	959	2,851	1,925
Operating Income (Loss)	4	(65)	(54)	(38)
Other Income (Expense):				
Interest income	16	10	25	14
Interest expense	(170)	(139)	(320)	(253)
Other, net	(48)	9	(17)	15
Total other income (expense)	(202)	(120)	(312)	(224)
Loss from Continuing Operations Before Income Tax	(198)	(185)	(366)	(262)
Income Tax Expense	(3)	(3)	(3)	(3)
Loss from Continuing Operations	(201)	(188)	(369)	(265)
Loss from Discontinued Operations	—	—	—	—
Net Loss	<u>\$ (201)</u>	<u>\$ (188)</u>	<u>\$ (369)</u>	<u>\$ (265)</u>
Basic and Diluted Earnings (Loss) per Share:				
Loss from Continuing Operations	\$ (0.23)	\$ (0.27)	\$ (0.43)	\$ (0.38)
Loss from Discontinued Operations	—	—	—	—
Net Loss	<u>\$ (0.23)</u>	<u>\$ (0.27)</u>	<u>\$ (0.43)</u>	<u>\$ (0.38)</u>

See accompanying notes to consolidated financial statements.



**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(unaudited)

(dollars in millions, except share amounts)	June 30, 2006	December 31, 2005
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,658	\$ 452
Marketable securities	507	176
Restricted cash and securities	35	34
Receivables, less allowances of \$26 and \$23, respectively	868	823
Other	184	185
Total Current Assets	3,252	1,670
Property, Plant and Equipment, net	5,537	5,638
Marketable Securities	—	234
Restricted Cash and Securities	90	75
Goodwill and Other Intangibles, net	728	533
Other Assets, net	144	127
Total Assets	<u>\$ 9,751</u>	<u>\$ 8,277</u>
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities:		
Accounts payable	\$ 834	\$ 787
Current portion of long-term debt	462	—
Accrued payroll and employee benefits	82	96
Accrued interest	153	102
Deferred revenue	220	266
Other	168	172
Total Current Liabilities	1,919	1,423
Long-Term Debt, less current portion	6,558	6,023
Deferred Revenue	746	748
Other Liabilities	561	559
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred Stock, \$.01 par value authorized 10,000,000 shares: no shares outstanding	—	—
Common Stock, \$.01 par value, authorized 2,250,000,000 shares: 1,000,173,489 outstanding in 2006 and 817,767,818 outstanding in 2005	10	8
Additional paid-in capital	8,545	7,759
Accumulated other comprehensive loss	(24)	(51)
Accumulated deficit	(8,564)	(8,192)
Total Stockholders' Deficit	(33)	(476)
Total Liabilities and Stockholders' Deficit	<u>\$ 9,751</u>	<u>\$ 8,277</u>

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(unaudited)

(dollars in millions)	Six Months Ended June 30,	
	2006	2005
<b>Cash Flows from Operating Activities:</b>		
Net Loss	\$ (369)	\$ (265)
(Income) Loss from discontinued operations	—	—
Loss from continuing operations	(369)	(265)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation and amortization	357	333
Gain on sale of property, plant and equipment and other assets	(4)	(3)
Non-cash compensation expense attributable to stock awards	36	20
Deferred revenue	(54)	(169)
Loss on extinguishment of debt, net	28	—
Non-cash impairment expenses	7	4
Amortization of debt issuance costs	7	8
Accreted interest on long-term debt discount	20	23
Accrued interest on long-term debt	52	35
Changes in working capital items net of amounts acquired:		
Receivables	(15)	(12)
Other current assets	11	8
Payables	35	(14)
Other current liabilities	(37)	(25)
Other	(1)	(15)
<b>Net Cash Provided by (Used in) Operating Activities of Continuing Operations</b>	<b>73</b>	<b>(72)</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(134)	(143)
Proceeds from sales and maturities of marketable securities	5	150
Purchases of marketable securities	(98)	(648)
Decrease (increase) in restricted cash and securities, net	(12)	1
Proceeds from sale of property, plant and equipment, and other assets	2	4
Investments and acquisitions	(82)	(10)
<b>Net Cash Used in Investing Activities</b>	<b>(319)</b>	<b>(646)</b>

(continued)

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows — (Continued)**  
(unaudited)

(dollars in millions)	Six Months Ended June 30,	
	2006	2005
Cash Flows from Financing Activities:		
Long-term debt borrowings, net of issuance costs	\$ 1,007	\$ 877
Refinancing costs and payments on long-term debt, including current portion (net of restricted cash)	(104)	(130)
Equity offering	543	—
Net Cash Provided by Financing Activities	1,446	747
Discontinued Operations (Revised):		
Net Cash Used in Discontinued Operating Activities	—	(5)
Net Cash Used in Investing Activities	—	(3)
Net Cash Used in Financing Activities	—	—
Net Cash Used in Discontinued Operations	—	(8)
Effect of Exchange Rates on Cash and Cash Equivalents	6	(16)
Net Change in Cash and Cash Equivalents	1,206	5
Cash and Cash Equivalents at Beginning of Period	452	443
Cash and Cash Equivalents at End of Period	<u>\$ 1,658</u>	<u>\$ 448</u>
Supplemental Disclosure of Cash Flow Information:		
Cash interest paid	\$ 241	\$ 187
Income Taxes Paid	2	1
Noncash Investing and Financing Activities		
Common stock issued for acquisitions	\$ 197	\$ —
Amendment and restatement of \$730 million credit facility	730	—
Long-term debt issued in exchange transaction	619	—
Long-term debt retired in exchange transaction	692	—
Use of restricted securities to repay long-term debt	—	13

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Stockholders' Deficit**  
**For the three months ended March 31, 2006**  
(unaudited)

(dollars in millions)	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balances at December 31, 2005	\$ 8	\$ 7,759	\$ (51)	\$ (8,192)	\$ (476)
Adjustment for EITF No. 04-6				(3)	(3)
Adjusted balance at December 31, 2005	8	7,759	(51)	(8,195)	(479)
Common Stock:					
Issuances, net of offering costs	2	541			543
Stock plan grants		28			28
Shareworks plan		12			12
401(k) plan		8			8
Acquisitions		197			197
Net Loss				(369)	(369)
Other Comprehensive Income			27		27
Balances at June 30, 2006	<u>\$ 10</u>	<u>\$ 8,545</u>	<u>\$ (24)</u>	<u>\$ (8,564)</u>	<u>\$ (33)</u>

See accompanying notes to consolidated financial statements.

**LEVEL 3 COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Comprehensive Loss**  
(unaudited)

(dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net Loss	\$ (201)	\$ (188)	\$ (369)	\$ (265)
Other Comprehensive Income (Loss) Before Tax:				
Foreign currency translation income (losses)	23	(35)	30	(64)
Unrealized holding gains (losses) on marketable equity securities and other arising during period	(4)	(1)	(2)	(1)
Reclassification adjustments for (income) losses included in net loss	(1)	(2)	(1)	2
Other Comprehensive Income (Loss) Before Tax	18	(38)	27	(63)
Income Tax Benefit Related to Items of Other Comprehensive Income (Loss)	—	—	—	—
Other Comprehensive Income (Loss), Net of Taxes	18	(38)	27	(63)
Comprehensive Loss	<u>\$ (183)</u>	<u>\$ (226)</u>	<u>\$ (342)</u>	<u>\$ (328)</u>

**SUPPLEMENTARY STOCKHOLDERS' DEFICIT INFORMATION**  
(unaudited)

(dollars in millions)	Net Foreign Currency Translation Adjustment	Other	Total
Accumulated other comprehensive income (loss):			
Balance at December 31, 2005	\$ (19)	\$ (32)	\$ (51)
Change	30	(3)	27
Balance at June 30, 2006	<u>\$ 11</u>	<u>\$ (35)</u>	<u>\$ (24)</u>

See accompanying notes to consolidated financial statements.

## **Verifications**

**VERIFICATION**

**STATE OF COLORADO**


§

**COUNTY OF BROOMFIELD**

§

§

I, William P. Hunt, III, state that I am Vice President of Public Policy for Level 3 Communications, Inc., a Party in the foregoing filing; that I am authorized to make this Verification on behalf of Level 3 Communications, Inc.; that the foregoing filing was prepared under my direction and supervision; and that the statements in the foregoing filing are true and correct to the best of my knowledge, information, and belief.



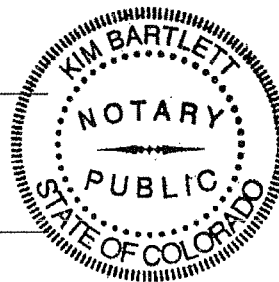
Name: William P. Hunt, III

Title: Vice President of Public Policy  
Level 3 Communications, Inc.

Sworn and subscribed before me this 15<sup>th</sup> day of October, 2006.

  
Notary Public

My commission expires: 9-30-2010



Tennessee

VERIFICATION

DISTRICT OF COLUMBIA

§

§

CITY OF WASHINGTON

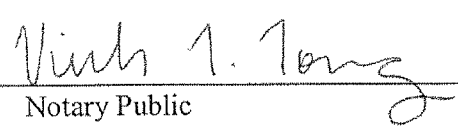
§

I, Kim Larsen, state that I am Senior Vice President, General Counsel and Secretary for Broadwing Corporation, parent company of Broadwing Communications, LLC, Parties in the foregoing filing; that I am authorized to make this Verification on behalf of both Broadwing Corporation and Broadwing Communications, LLC; that the foregoing filing was prepared under my direction and supervision; and that the statements in the foregoing filing are true and correct to the best of my knowledge, information, and belief.

  
Name: Kim Larsen

Title: Senior Vice President, General Counsel and  
Secretary  
Broadwing Corporation

Sworn and subscribed before me this 14 day of October, 2006.

  
Notary Public

My commission expires: 11/14/2010

Vinh Tong  
Notary Public, District of Columbia  
My Commission Expires 11/14/2010

Tennessee