

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2020
or

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

For the transition period from _____ to _____
Commission File No. 001-7784

LUMEN[®]

CENTURYLINK, INC.

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive,

Monroe, Louisiana

(Address of principal executive offices)

72-0651161

(I.R.S. Employer
Identification No.)

71203

(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value \$1.00 per share	LUMN	New York Stock Exchange
Preferred Stock Purchase Rights	N/A	New York Stock Exchange

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 has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐ Smaller Reporting Company ☐
Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On October 30, 2020, there were 1,097,131,230 shares of common stock outstanding.

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* All references to "Notes" in this quarterly report refer to these Notes to Consolidated Financial Statements.

Special Note Regarding Name Change

On September 14, 2020, we announced the “Lumen” brand launch and effective September 18, 2020, began trading under the ticker symbol “LUMN”. As a result, CenturyLink, Inc. is referred to as “Lumen Technologies”, or simply “Lumen”. The legal name “CenturyLink, Inc.” is expected to be formally changed to “Lumen Technologies, Inc.” upon satisfying all applicable legal requirements.

Special Note Regarding Forward-Looking Statements

This report and other documents filed by us under the federal securities law include, and future oral or written statements or press releases by us and our management may include, forward-looking statements about our business, financial condition, operating results and prospects. These “forward-looking” statements are defined by, and are subject to the “safe harbor” protections under, the federal securities laws. These statements include, among others:

- statements regarding how the health and economic challenges raised by the COVID-19 pandemic may impact our business, operations, cash flows or financial position;
- forecasts of our anticipated future results of operations, cash flows or financial position;
- statements concerning the anticipated impact of our transactions, investments, product development, participation in government programs, and other initiatives, including synergies or costs associated with these initiatives;
- statements about our liquidity, profitability, profit margins, tax position, tax assets, tax rates, asset values, contingent liabilities, growth opportunities, growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, market share, product capabilities, investment and expenditure plans, business strategies, dividend and securities repurchase plans, debt leverage, capital allocation plans, financing alternatives and sources, and pricing plans; and
- other similar statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts, many of which are highlighted by words such as “may,” “will,” “would,” “could,” “should,” “plan,” “believes,” “expects,” “anticipates,” “estimates,” “projects,” “intends,” “likely,” “seeks,” “hopes,” or variations or similar expressions with respect to the future.

These forward-looking statements are based upon our judgment and assumptions as of the date such statements are made concerning future developments and events, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, (i) are not guarantees of future results, (ii) are inherently speculative and (iii) are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. All of our forward-looking statements are qualified in their entirety by reference to our discussion of factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward-looking statements. Factors that could affect actual results include but are not limited to:

- uncertainties due to events outside of our control regarding the impact that COVID-19 health and economic disruptions will continue to have on our business, operations, employees, customers, suppliers, distribution channels, controls, regulatory environment, access to capital, operating or capital plans and corporate initiatives, and ultimately on our financial performance, financial position and cash flows;
- the effects of competition from a wide variety of competitive providers, including decreased demand for our more mature service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;

- our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection, privacy and net neutrality;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- our ability to successfully and timely implement our operating plans and corporate strategies, including our delevering strategy;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon COVID-19 disruptions, changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- the negative impact of increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics, regulations or disruptions caused by the COVID-19 pandemic;
- the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to collect our receivables from, or continue to do business with, financially-troubled customers, including, but not limited to, those adversely impacted by the economic dislocations caused by the COVID-19 pandemic;
- our ability to use our net operating loss carryforwards in the amounts projected;
- our ability to obtain approvals to implement our new brand name change;

- any adverse developments in legal or regulatory proceedings involving us;
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels, including those that might occur after the U.S. elections on November 3, 2020;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require additional future impairment charges;
- the effects of adverse weather, terrorism epidemics, pandemics or other natural or man-made disasters;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions; and
- other risks set forth or referenced in "Risk Factors" in Item 1A of Part II of this report or other of our filings with the U.S. Securities and Exchange Commission (the "SEC").

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or other capital allocation plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CENTURYLINK, INC.
(doing business as *Lumen Technologies*)
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions, except per share amounts, and shares in thousands)			
OPERATING REVENUE	\$ 5,167	5,350	15,587	16,152
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	2,236	2,334	6,703	6,877
Selling, general and administrative	850	831	2,598	2,723
Depreciation and amortization	1,193	1,235	3,515	3,619
Goodwill impairment	—	—	—	6,506
Total operating expenses	4,279	4,400	12,816	19,725
OPERATING INCOME (LOSS)	888	950	2,771	(3,573)
OTHER (EXPENSE) INCOME				
Interest expense	(409)	(496)	(1,272)	(1,537)
Other income (loss), net	1	(44)	(73)	(5)
Total other expense, net	(408)	(540)	(1,345)	(1,542)
INCOME (LOSS) BEFORE INCOME TAXES	480	410	1,426	(5,115)
Income tax expense	114	108	369	377
NET INCOME (LOSS)	\$ 366	302	1,057	(5,492)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE				
BASIC	\$ 0.34	0.28	0.98	(5.13)
DILUTED	\$ 0.34	0.28	0.98	(5.13)
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	1,080,505	1,072,543	1,078,672	1,070,921
DILUTED	1,085,666	1,074,790	1,083,368	1,070,921

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
(doing business as Lumen Technologies)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
NET INCOME (LOSS)	\$ 366	302	1,057	(5,492)
OTHER COMPREHENSIVE INCOME (LOSS):				
Items related to employee benefit plans:				
Change in net actuarial loss, net of \$(12), \$(13), \$(37) and \$(41) tax	38	41	115	126
Change in net prior service cost, net of \$—, \$(1), \$(1) and \$(2) tax	1	2	4	5
Curtailment loss, net of \$(1), \$—, \$(1), and \$— tax	3	—	3	—
Reclassification of realized loss on interest rate swaps to net income, net of \$(5), \$—, \$(10) and \$— tax	15	—	31	—
Unrealized holding gain (loss) on interest rate swaps, net of \$—, \$3, \$28 and \$17 tax	1	(11)	(87)	(54)
Foreign currency translation adjustment and other, net of \$(21), \$22, \$(2) and \$24 tax	49	(112)	(181)	(115)
Other comprehensive income (loss)	107	(80)	(115)	(38)
COMPREHENSIVE INCOME (LOSS)	\$ 473	222	942	(5,530)

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
(doing business as Lumen Technologies)
CONSOLIDATED BALANCE SHEETS

	September 30, 2020 (Unaudited)	December 31, 2019
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 526	1,690
Accounts receivable, less allowance of \$156 and \$106	2,143	2,259
Other	835	819
Total current assets	3,504	4,768
Property, plant and equipment, net of accumulated depreciation of \$30,921 and \$29,346	26,290	26,079
GOODWILL AND OTHER ASSETS		
Goodwill	21,476	21,534
Other intangible assets, net	8,563	9,567
Other, net	2,766	2,794
Total goodwill and other assets	32,805	33,895
TOTAL ASSETS	\$ 62,599	64,742
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,487	2,300
Accounts payable	1,364	1,724
Accrued expenses and other liabilities		
Salaries and benefits	898	1,037
Income and other taxes	378	311
Current operating lease liabilities	401	416
Interest	278	280
Other	335	386
Current portion of deferred revenue	738	804
Total current liabilities	5,879	7,258
LONG-TERM DEBT	31,105	32,394
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,232	2,918
Benefit plan obligations, net	4,345	4,594
Other	4,349	4,108
Total deferred credits and other liabilities	11,926	11,620
COMMITMENTS AND CONTINGENCIES (Note 12)		
<u>STOCKHOLDERS' EQUITY</u>		
Preferred stock—non-redeemable, \$25.00 par value, authorized 2,000 and 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 2,200,000 and 2,200,000 shares, issued and outstanding 1,097,237 and 1,090,058 shares	1,097	1,090
Additional paid-in capital	21,130	21,874
Accumulated other comprehensive loss	(2,795)	(2,680)
Accumulated deficit	(5,743)	(6,814)
Total stockholders' equity	13,689	13,470
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 62,599	64,742

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
(doing business as Lumen Technologies)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2020	2019
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income (loss)	\$ 1,057	(5,492)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,515	3,619
Impairment of goodwill	—	6,516
Deferred income taxes	315	350
Provision for uncollectible accounts	137	116
Net loss (gain) on early retirement of debt	78	(70)
Share-based compensation	120	114
Changes in current assets and liabilities:		
Accounts receivable	(34)	(7)
Accounts payable	(325)	(265)
Accrued income and other taxes	90	131
Other current assets and liabilities, net	(408)	(323)
Retirement benefits	(96)	(24)
Changes in other noncurrent assets and liabilities, net	287	72
Other, net	106	34
Net cash provided by operating activities	4,842	4,771
INVESTING ACTIVITIES		
Capital expenditures	(2,971)	(2,688)
Proceeds from sale of property, plant and equipment and other assets	119	54
Other, net	12	(37)
Net cash used in investing activities	(2,840)	(2,671)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	3,257	988
Payments of long-term debt	(6,334)	(1,459)
Net proceeds from revolving line of credit	825	150
Dividends paid	(837)	(829)
Other, net	(83)	(37)
Net cash used in financing activities	(3,172)	(1,187)
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,170)	913
Cash, cash equivalents and restricted cash at beginning of period	1,717	518
Cash, cash equivalents and restricted cash at end of period	\$ 547	1,431
Supplemental cash flow information:		
Income taxes refunded, net	\$ 51	54
Interest paid (net of capitalized interest of \$60 and \$42)	\$ (1,254)	(1,506)
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 526	1,404
Restricted cash included in Other current assets	3	3
Restricted cash included in Other, net noncurrent assets	18	24
Total	\$ 547	1,431

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
(doing business as Lumen Technologies)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in millions except per share amounts)				
COMMON STOCK				
Balance at beginning of period	\$ 1,097	1,090	1,090	1,080
Issuance of common stock through dividend reinvestment, incentive and benefit plans	—	—	7	10
Balance at end of period	1,097	1,090	1,097	1,090
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of period	21,376	22,342	21,874	22,852
Shares withheld to satisfy tax withholdings	(4)	(6)	(39)	(35)
Share-based compensation and other, net	33	38	132	115
Dividends declared	(275)	(273)	(837)	(831)
Balance at end of period	21,130	22,101	21,130	22,101
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(2,902)	(2,419)	(2,680)	(2,461)
Other comprehensive income (loss)	107	(80)	(115)	(38)
Balance at end of period	(2,795)	(2,499)	(2,795)	(2,499)
ACCUMULATED DEFICIT				
Balance at beginning of period	(6,109)	(7,321)	(6,814)	(1,643)
Net income (loss)	366	302	1,057	(5,492)
Cumulative effect of adoption of ASU 2016-02, <i>Leases</i> , net \$37 tax	—	—	—	115
Cumulative effect of adoption of ASU 2016-13, <i>Measurement of Credit losses</i> , net of \$2 tax	—	—	9	—
Other	—	1	5	2
Balance at end of period	(5,743)	(7,018)	(5,743)	(7,018)
TOTAL STOCKHOLDERS' EQUITY	\$ 13,689	13,674	13,689	13,674
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.25	0.25	0.75	0.75

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
(doing business as Lumen Technologies)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

References in the Notes to "Lumen Technologies" or "Lumen," "we," "us" and "our" refer to CenturyLink, Inc. (doing business as Lumen Technologies) and its consolidated subsidiaries, unless the context otherwise requires and except in Note 5—Long-Term Debt and Credit Facilities, where such references refer solely to CenturyLink, Inc. References in the Notes to "Level 3" refer Level 3 Parent, LLC and its predecessor Level 3 Communications, Inc., which we acquired on November 1, 2017.

(1) Background

General

We are an international facilities-based communications company engaged primarily in providing a broad array of integrated services to our business and residential customers. Our specific products and services are detailed in Note 11—Segment Information

Basis of Presentation

Our consolidated balance sheet as of December 31, 2019, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the SEC. However, in our opinion, the disclosures made therein are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries in which we have a controlling interest. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other loss, net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net, financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenue and expenses in our segment reporting. See Note 11—Segment Information for additional information. These changes had no impact on total operating revenue, total operating expenses or net income (loss) for any period.

Operating lease assets are included in Other, net under goodwill and other assets on our consolidated balance sheets. Noncurrent operating lease liabilities are included in Other under deferred credits and other liabilities on our consolidated balance sheets.

There were no book overdrafts included in accounts payable at September 30, 2020. Included in accounts payable at December 31, 2019 was \$106 million representing book overdrafts.

Summary of Significant Accounting Policies

The significant accounting policy below is in addition to the significant accounting policies described in Note 1 — Background and Summary of Significant Accounting Policies to the consolidated financial statements and accompanying notes in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2019.

Change in Accounting Policy

During the first quarter of 2020, we elected to change the presentation for taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, including federal and certain state Universal Service Fund (USF) regulatory fees, to present all such taxes on a net basis in our consolidated statements of operations. Prior to the first quarter of 2020, we assessed whether we were the primary obligor or principal taxpayer for the taxes assessed in each jurisdiction where we do business. The previous policy resulted in presenting such USF fees on a gross basis within operating revenue and cost of services and products, and all other significant taxes on a net basis. We applied this change in accounting policy retrospectively during the first quarter of 2020. As a result, we have decreased both operating revenue and cost of services and products by \$253 million and \$256 million for the three months ended September 30, 2020 and 2019, respectively, and \$672 million and \$679 million for the nine months ended September 30, 2020 and 2019, respectively. The change has no impact on operating income (loss), net income (loss), or earnings (loss) per share in our consolidated statements of operations. Refer to our Form 8-K filing dated April 30, 2020 for further information.

We changed our policy to present such taxes on the net basis and believe the new policy is preferable because of the historical and potential future regulatory rate changes outside of our control resulting in significant variability in tax and fee revenue that are not indicative of our operating performance. We believe the net presentation provides the most useful and transparent financial information and improves comparability and consistency of financial results.

Operating Lease Income

Lumen Technologies leases various dark fiber, office facilities, switching facilities and other network sites to third parties under operating leases. Lease and sublease income are included in operating revenue in our consolidated statements of operations.

For the three months ended September 30, 2020 and 2019, our gross rental income was \$332 million and \$202 million, respectively, which represents approximately 6% and 4%, respectively, of our operating revenue for the three months ended September 30, 2020 and 2019 and for the nine months ended September 30, 2020 and 2019, our gross rental income was \$998 million and \$606 million, respectively, which represents 6% and 4%, respectively, of our operating revenue for the nine months ended September 30, 2020 and 2019.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13"). The primary impact of ASU 2016-13 for us is a change in the model for the recognition of credit losses related to our financial instruments from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires us to estimate the total credit losses expected on the portfolio of financial instruments.

We adopted ASU 2016-13 on January 1, 2020, and recognized a cumulative adjustment to our accumulated deficit as of the date of adoption of \$9 million, net of tax effect. Please refer to Note 4—Credit Losses on Financial Instruments for more information.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, "*Simplifying the Accounting for Income Taxes (Topic 740)*" ("ASU 2019-12"). ASU 2019-12 removes certain exceptions for investments, intra-period allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. ASU 2019-12 will become effective for us in the first quarter of fiscal 2021 and early adoption is permitted. We do not believe the adoption will have a significant impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"), designed to ease the burden of accounting for contract modifications related to the global market-wide reference rate transition period. Subject to certain criteria, ASU 2020-04 provides qualifying entities the option to apply expedients and exceptions to contract modifications and hedging accounting relationships made until December 31, 2022. We are evaluating ASU 2020-04's applicability to relevant transactions referencing the London Inter-bank Offering Rate ("LIBOR") or another reference rate expected to be discontinued and the resulting impact on our consolidated financial statements.

(2) Goodwill, Customer Relationships and Other Intangible Assets

Goodwill, customer relationships and other intangible assets consisted of the following:

	September 30, 2020	December 31, 2019
	(Dollars in millions)	
Goodwill	\$ 21,476	21,534
Indefinite-life intangible assets	\$ 278	269
Other intangible assets subject to amortization:		
Customer relationships, less accumulated amortization of \$10,742 and \$9,809	6,633	7,596
Capitalized software, less accumulated amortization of \$3,232 and \$2,957	1,567	1,599
Trade names and patents, less accumulated amortization of \$113 and \$91	85	103
Total other intangible assets, net	\$ 8,563	9,567

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We assess our goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the carrying value of equity of any of our reporting units exceeds its fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assess our reporting units. Our annual impairment assessment date for indefinite-lived intangible assets other than goodwill is December 31.

Our reporting units are not discrete legal entities with discrete full financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. For each reporting unit, we compare its estimated fair value of equity to its carrying value of equity that we assign to the reporting unit. If the estimated fair value of the reporting unit is greater than the carrying value, we conclude that no impairment exists. If the estimated fair value of the reporting unit is less than the carrying value, we record an impairment equal to the excess amount. Depending on the facts and circumstances, we typically estimate the fair value of our reporting units by considering either or both of (i) a market approach, which includes the use of multiples of publicly-traded companies whose services are comparable to ours, and (ii) a discounted cash flow method, which is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows of the reporting units beyond the cash flows from the discrete projection period.

Both our January 2019 internal reorganization and the decline in our stock price triggered impairment testing in the first quarter of 2019. Because our low stock price was a key trigger for impairment testing during the first quarter of 2019, we estimated the fair value of our operations in such quarter using only the market approach. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry which have historically supported a range of fair values derived from annualized revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) multiples between 2.1x and 4.9x and 4.9x and 9.8x, respectively. We selected a revenue and EBITDA multiple for each of our reporting units within this range. We reconciled the estimated fair values of the reporting units to our market capitalization as of the date of each of our triggering events during the first quarter of 2019 and concluded that the indicated control premium of approximately

4.5% and 4.1% was reasonable based on recent market transactions. In the quarter ended March 31, 2019, based on our assessments performed with respect to the reporting units as described above, we concluded that the estimated fair value of certain of our reporting units was less than our carrying value of equity as of the date of each of our triggering events during the first quarter. As a result, we recorded non-cash, non-tax-deductible goodwill impairment charges aggregating to \$6.5 billion in the quarter ended March 31, 2019.

The market multiples approach that we used in the quarter ended March 31, 2019 incorporated significant estimates and assumptions related to the forecasted results for the remainder of the year, including revenues, expenses, and the achievement of certain cost synergies. In developing the market multiple, we also considered observed trends of our industry participants. Our assessment included many qualitative factors that required significant judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the size of our impairments.

During 2020, we observed a decline in our stock price as a result of events occurring after the end of 2019, including the COVID-19 pandemic. We evaluated whether such events would indicate the fair value of our reporting units were below their carrying values. We believe these events have impacted the global economy more directly than us and, when considered with other factors, we have concluded it is not more likely than not that the fair values of our reporting units were less than their carrying values as of the period ended September 30, 2020. In light of the negative impacts of COVID-19 on the global economy, we will continue to evaluate the general economic trends which could have an impact on our assessment of whether it is more likely than not that the fair value of one or more reporting units is less than its carrying amount. Future changes could cause one or more of our reporting unit fair values to be less than its carrying value, resulting in potential impairments of our goodwill, which could have a material effect on our results of operations and financial condition. The extent of the impact, if any, will depend on future developments, including the length and severity of the pandemic and its long-term impacts on the overall economy.

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2019 through September 30, 2020:

	International and Global Accounts	Enterprise	Small and Medium Business	Wholesale	Consumer	Total
	(Dollars in millions)					
As of December 31, 2019	\$ 2,670	4,738	3,259	3,813	7,054	21,534
Effect of foreign currency exchange rate change and other	(51)	—	(7)	—	—	(58)
As of September 30, 2020	\$ 2,619	4,738	3,252	3,813	7,054	21,476

Total amortization expense for intangible assets for the three months ended September 30, 2020 and 2019 totaled \$443 million and \$438 million, respectively, and for both the nine months ended September 30, 2020 and 2019 totaled \$1.3 billion. As of September 30, 2020, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$44.1 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2020 through 2024 will be as follows:

	(Dollars in millions)
2020 (remaining three months)	\$ 418
2021	1,252
2022	1,019
2023	934
2024	867

(3) Revenue Recognition

Reconciliation of Total Revenue to Revenue from Contracts with Customers

The following table provides the amount of revenue that is not subject to ASC 606, "Revenue from Contracts with Customers" ("ASC 606"), but is instead governed by other accounting standards:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Total revenue	\$ 5,167	5,350	15,587	16,152
Adjustments for non-ASC 606 revenue ⁽¹⁾	(481)	(355)	(1,443)	(1,069)
Total revenue from contracts with customers	<u>\$ 4,686</u>	<u>4,995</u>	<u>14,144</u>	<u>15,083</u>

⁽¹⁾ Includes regulatory revenue and lease revenue not within the scope of ASC 606.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 2,070	2,194
Contract assets	104	130
Contract liabilities	918	1,028

⁽¹⁾ Reflects gross customer receivables of \$2.2 billion and \$2.3 billion, net of allowance for doubtful accounts of \$140 million and \$94 million, at September 30, 2020 and December 31, 2019, respectively.

Contract liabilities are consideration we have received from our customers or billed in advance of providing goods or services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which typically ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheets. During the three and nine months ended September 30, 2020, we recognized \$58 million and \$612 million, respectively, of revenue that was included in contract liabilities as of January 1, 2020. During the three and nine months ended September 30, 2019, we recognized \$47 million and \$581 million, respectively, of revenue that was included in contract liabilities as of January 1, 2019.

Performance Obligations

As of September 30, 2020, our estimated revenue expected to be recognized in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied is approximately \$5.4 billion. We expect to recognize approximately 85% of this revenue through 2022, with the balance recognized thereafter.

These amounts exclude (i) the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), and (ii) contracts that are classified as leasing arrangements that are not subject to ASC 606.

Contract Costs

The following table provides changes in our contract acquisition costs and fulfillment costs:

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 300	219	321	207
Costs incurred	45	35	48	41
Amortization	(53)	(37)	(50)	(32)
End of period balance	\$ 292	217	319	216

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 326	221	322	187
Costs incurred	130	105	148	119
Amortization	(164)	(109)	(151)	(90)
End of period balance	\$ 292	217	319	216

Acquisition costs include commission fees paid to employees as a result of obtaining contracts. Fulfillment costs include third party and internal costs associated with the provision, installation and activation of telecommunications services to customers, including labor and materials consumed for these activities.

Deferred acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months for consumer customers and 12 to 60 months for business customers. Amortized fulfillment costs are included in cost of services and products, and amortized acquisition costs are included in selling, general and administrative expenses in our consolidated statements of operations. The amount of these deferred costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. The amount of deferred costs expected to be amortized beyond the next 12 months is included in other non-current assets on our consolidated balance sheets. Deferred acquisition and fulfillment costs are assessed for impairment on an annual basis.

(4) Credit Losses on Financial Instruments

In accordance with ASC 326, "*Financial Instruments - Credit Losses*" we aggregate financial assets with similar risk characteristics to align our expected credit losses with the credit quality or deterioration over the life of such assets. We monitor certain risk characteristics within our aggregated financial assets and revise their composition accordingly, to the extent internal and external risk factors change each reporting period. Financial assets that do not share risk characteristics with other financial assets are evaluated separately. Our financial assets measured at amortized cost primarily consist of accounts receivable.

In developing our accounts receivable portfolio, we pooled certain assets with similar credit risk characteristics based on the nature of our customers, their industry, policies used to grant credit terms and their historical and expected credit loss patterns. We grouped assets from our International and Global Accounts, Enterprise, Small and Medium Business and Wholesale segments into the Business portfolio in the below table.

Prior to the adoption of the new credit loss standard, the allowance for doubtful accounts receivable reflected our best estimate of probable losses inherent in our receivable portfolio determined based on historical experience, specific allowances for known troubled accounts, and other currently available evidence.

We implemented the new standard effective January 1, 2020, using a loss rate method to estimate our allowance for credit losses. Our determination of the current expected credit loss rate begins with our use of historical loss experience as a percentage of accounts receivable. We measure our historical loss period based on the average days to recognize accounts receivable as credit losses. When asset specific characteristics and current conditions change from those in the historical period, due to changes in our credit and collections strategy, certain classes of aged balances, or credit loss and recovery policies, we perform a qualitative and quantitative assessment to update our current loss rate. We use regression analysis to develop an expected loss rate using historical experience and economic data over a forecast period. We measure our forecast period based on the average days to collect payment on billed accounts receivable. The historical, current, and expected credit loss rates are combined and applied to period end accounts receivable, which results in our allowance for credit losses.

If there is a deterioration of a customer's financial condition or if future default rates in general differ from currently anticipated default rates (including changes caused by COVID-19), we may need to adjust the allowance for credit losses, which would affect earnings in the period that adjustments are made.

The assessment of the correlation between historical observed default rates, current conditions and forecasted economic conditions requires judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the allowance for credit losses. The amount of credit loss is sensitive to changes in circumstances and forecasted economic conditions. Our historical credit loss experience, current conditions and forecast of economic conditions may also not be representative of the customers' actual default experience in the future.

The following table presents the activity of our allowance for credit losses by accounts receivable portfolio:

(Dollars in millions)	Business	Consumer	Total
Beginning balance at January 1, 2020 ⁽¹⁾	\$ 58	37	95
Provision for expected losses	82	55	137
Write-offs charged against the allowance	(53)	(52)	(105)
Recoveries collected	18	13	31
Foreign currency exchange rate changes adjustment	(2)	—	(2)
Ending balance at September 30, 2020	<u>\$ 103</u>	<u>53</u>	<u>156</u>

⁽¹⁾ The beginning balance includes the cumulative effect of the adoption of new credit loss standard.

For the nine months ended September 30, 2020, we increased our allowance for credit losses for our business and consumer accounts receivable portfolios due to an increase in historical and expected loss experience in certain classes of aged balances, which we believe were predominantly attributable to the COVID-19 induced economic slowdown. We believe that decreased write-offs (net of recoveries) driven by COVID-19 regulations and programs have further contributed to an increase in our allowance for credit losses.

(5) Long-Term Debt and Credit Facilities

The following chart reflects the consolidated long-term debt of Lumen Technologies and its subsidiaries, including unamortized discounts and premiums and unamortized debt issuance costs, but excluding intercompany debt:

	Interest Rates ⁽¹⁾	Maturities ⁽¹⁾	September 30, 2020	December 31, 2019
(Dollars in millions)				
Senior Secured Debt: ⁽²⁾				
<i>CenturyLink, Inc.</i>				
Revolving Credit Facility ⁽³⁾	LIBOR + 2.00%	2025	\$ 1,075	250
Term Loan A ⁽³⁾⁽⁴⁾	LIBOR + 2.00%	2025	1,123	1,536
Term Loan A-1 ⁽³⁾⁽⁴⁾	LIBOR + 2.00%	2025	321	333
Term Loan B ⁽³⁾⁽⁵⁾	LIBOR + 2.25%	2027	4,963	5,880
Senior notes	4.000%	2027	1,250	—
<i>Subsidiaries:</i>				
<i>Level 3 Financing, Inc.</i>				
Tranche B 2027 Term Loan ⁽⁶⁾	LIBOR + 1.75%	2027	3,111	3,111
Senior notes	3.400% - 3.875%	2027 - 2029	1,500	1,500
<i>Embarq Corporation subsidiaries</i>				
First mortgage bonds	7.125% - 8.375%	2023 - 2025	138	138
Senior Notes and Other Debt:				
<i>CenturyLink, Inc.</i>				
Senior notes	5.125% - 7.650%	2021 - 2042	7,645	8,696
<i>Subsidiaries:</i>				
<i>Level 3 Financing, Inc.</i>				
Senior notes	3.625% - 5.375%	2024 - 2029	5,515	5,515
<i>Qwest Corporation</i>				
Senior notes	6.125% - 7.750%	2021 - 2057	4,105	5,956
Term Loan ⁽⁷⁾	LIBOR + 2.00%	2025	100	100
<i>Qwest Capital Funding, Inc.</i>				
Senior notes	6.875% - 7.750%	2021 - 2031	352	352
<i>Embarq Corporation and subsidiary</i>				
Senior note	7.995%	2036	1,437	1,450
Finance lease and other obligations	Various	Various	292	222
Unamortized discounts, net			(77)	(52)
Unamortized debt issuance costs			(258)	(293)
Total long-term debt			32,592	34,694
Less current maturities			(1,487)	(2,300)
Long-term debt, excluding current maturities			\$ 31,105	32,394

(1) As of September 30, 2020.

(2) See Note 7—Long-Term Debt and Credit Facilities in our Annual Report on Form 10-K for the year ended December 31, 2019 for a description of certain parent or subsidiary guarantees and liens securing this debt.

(3) CenturyLink, Inc.'s credit agreement was amended as noted below, extending the maturity date of its (a) Term Loan A, Term Loan A-1 and Revolving Credit Facilities from 2022 to 2025 and (b) Term Loan B from 2025 to 2027.

- (4) Term Loans A and A-1 had interest rates of 2.147% and 4.549% as of September 30, 2020 and December 31, 2019, respectively.
- (5) Term Loan B had interest rates of 2.397% and 4.549% as of September 30, 2020 and December 31, 2019, respectively.
- (6) The Tranche B 2027 Term Loan had an interest rate of 1.897% as of September 30, 2020 and 3.549% as of December 31, 2019, respectively.
- (7) Qwest Corporation Term Loan had an interest rate of 2.150% as of September 30, 2020 and 3.800% as of December 31, 2019, respectively.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of September 30, 2020 (excluding unamortized discounts, net, and unamortized debt issuance costs), maturing during the following years:

	(Dollars in millions)
2020 (remaining three months)	\$ 54
2021	2,423
2022	1,541
2023	965
2024	2,041
2025 and thereafter	25,903
Total long-term debt	\$ 32,927

Amended and Restated Credit Agreement

On January 31, 2020, we amended and restated our credit agreement dated June 19, 2017 (as so amended and restated, the “Amended Credit Agreement”). Coupled with CenturyLink, Inc.’s prepayment on January 24, 2020 of \$1.25 billion of indebtedness outstanding under its Term Loan B facility (using principally the net proceeds from its below-described sale of \$1.25 billion of its 4.000% Senior Secured Notes due 2027), the Amended Credit Agreement then provided for approximately \$8.699 billion in senior secured credit facilities, consisting of: (i) an approximately \$1.166 billion Term Loan A credit facility, (ii) a \$333 million Term Loan A-1 credit facility, (iii) a \$5.0 billion Term Loan B credit facility and (iv) a \$2.2 billion revolving credit facility (collectively, the “Amended Senior Secured Credit Facilities”).

The Amended Credit Agreement, among other things, (i) extended the maturity date of (a) the Term Loan A, Term Loan A-1 and revolving credit facilities from November 1, 2022 to January 31, 2025 and (b) the Term Loan B facility from January 31, 2025 to March 15, 2027, and (ii) lowered the interest rate applicable to loans made under each of the Amended Senior Secured Credit Facilities. As so amended, (i) loans under the Term Loan A, Term Loan A-1 and revolving credit facilities will bear interest at a rate equal to, at CenturyLink, Inc.’s option, the Eurodollar rate or the alternative base rate (each as defined in the Amended Credit Agreement) plus an applicable margin between 1.50% to 2.25% per annum for Eurodollar loans and 0.50% to 1.25% per annum for alternative base rate loans, depending on CenturyLink, Inc.’s then current total leverage ratio, and (ii) loans under the Term Loan B facility will bear interest at the rate equal to, at CenturyLink, Inc.’s option, the Eurodollar rate plus 2.25% per annum or the alternative base rate plus 1.25% per annum. The subsidiary guarantor and collateral provisions and the financial covenants contained in the Amended Credit Agreement are unchanged from the credit agreement dated June 19, 2017.

These January 2020 transactions resulted in an aggregate net loss of \$67 million from modification and extinguishment of the debt.

Repayments

During the nine months ended September 30, 2020, CenturyLink, Inc. and its affiliates repurchased approximately \$5.2 billion of their respective debt securities, which primarily included \$1.25 billion of CenturyLink, Inc. credit agreement debt, \$1.9 billion of Qwest Corporation senior notes, \$78 million of CenturyLink, Inc. senior notes and \$2.0 billion of Level 3 Financing, Inc. senior notes, which resulted in a loss of \$82 million, including the \$67 million loss resulting from the modification of the Amended Credit Agreement discussed above.

In addition, during the nine months ended September 30, 2020, CenturyLink, Inc. (i) paid at maturity \$973 million aggregate principal amount of its outstanding senior notes and (ii) made \$94 million of scheduled amortization payments under its term loans.

New Issuances

On August 12, 2020, Level 3 Financing, Inc., issued \$840 million aggregate principal amount of its 3.625% Senior Notes due 2029 (the "2029 Notes"). Level 3 Financing, Inc. used the net proceeds from this offering to redeem certain of its outstanding senior note indebtedness. See "—Repayments" above. The 2029 Notes are (i) unconditionally guaranteed by Level 3 Parent, LLC, and (ii) expected to be unconditionally guaranteed by Level 3 Communications, LLC upon receipt of all requisite material governmental authorizations.

On June 15, 2020, Level 3 Financing, Inc., issued \$1.2 billion aggregate principal amount of its 4.250% Senior Notes due 2028 (the "2028 Notes"). Level 3 Financing, Inc. used the net proceeds from this offering to redeem certain of its outstanding senior note indebtedness. See "—Repayments" above. The 2028 Notes are (i) unconditionally guaranteed by Level 3 Parent, LLC and (ii) expected to be unconditionally guaranteed by Level 3 Communications, LLC, upon receipt of all requisite material governmental authorizations.

On January 24, 2020, CenturyLink, Inc. issued \$1.25 billion aggregate principal amount of its 4.000% Senior Secured Notes due 2027 (the "2027 Notes"). As noted above, CenturyLink, Inc. used the net proceeds from this offering to repay a portion of the outstanding indebtedness under its Term Loan B facility. The 2027 Notes are unconditionally guaranteed by each of CenturyLink, Inc.'s domestic subsidiaries that guarantee CenturyLink, Inc.'s Amended Credit Agreement. While the 2027 Notes are not secured by any of the assets of CenturyLink, Inc., certain of the note guarantees are secured by a first priority security interest in substantially all of the assets of such guarantors (including the stock of certain of their respective subsidiaries), which assets also secure obligations under the Amended Credit Agreement on a pari passu basis.

Covenants

Certain of our debt instruments contain affirmative and negative covenants. Debt at CenturyLink, Inc. and Level 3 Financing, Inc. contain more extensive covenants including, among other things and subject to certain exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates, dispose of assets and merge or consolidate with any other person. Also, CenturyLink, Inc. and certain of its affiliates will be required to offer to purchase certain of their respective outstanding debt under certain circumstances in connection with certain specified "change of control" transactions.

Certain of our debt instruments contain cross-acceleration provisions.

Compliance

As of September 30, 2020, CenturyLink, Inc., believes it and its subsidiaries were in compliance with the provisions and financial covenants in their respective material debt agreements in all material respects.

Subsequent Events

On October 23, 2020, Qwest Corporation borrowed \$215 million under a variable-rate term loan with CoBank ACB and used the resulting net proceeds to pay off its previous \$100 million term loan with CoBank ACB. Additionally, on October 26, 2020, Qwest Corporation used the remaining net proceeds to partially facilitate the redemption of the remaining \$160 million aggregate principal amount of its outstanding 6.625% Notes due 2055 (the "6.625% Notes"), as described below. The new term loan will mature on October 23, 2027, and has terms substantially similar to those contained in the prior term loan with CoBank ACB.

On October 26, 2020, Qwest Corporation redeemed the remaining \$160 million aggregate principal amount of its outstanding 6.625% Notes. Following this redemption there were no bonds outstanding for the 6.625% Notes.

(6) Severance

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the progression or completion of our post-acquisition integration plans, increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

Changes in our accrued liabilities for severance expenses were as follows:

	Severance (Dollars in millions)
Balance at December 31, 2019	\$ 89
Accrued to expense	62
Payments, net	(121)
Balance at September 30, 2020	<u>\$ 30</u>

(7) Employee Benefits

Net periodic benefit (income) expense for our combined pension plan includes the following components:

	Combined Pension Plan			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Service cost	\$ 15	14	44	42
Interest cost	81	109	243	326
Expected return on plan assets	(147)	(155)	(445)	(464)
Recognition of prior service credit	(3)	(2)	(7)	(6)
Recognition of actuarial loss	50	54	152	167
Net periodic pension benefit (income) expense	<u>\$ (4)</u>	<u>20</u>	<u>(13)</u>	<u>65</u>

Net periodic benefit expense for our post-retirement benefit plans includes the following components:

	Post-Retirement Benefit Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Service cost	\$ 4	3	11	11
Interest cost	17	27	57	82
Recognition of prior service cost	4	5	12	13
Curtailment loss	7	—	7	—
Net periodic post-retirement benefit expense	<u>\$ 32</u>	<u>35</u>	<u>87</u>	<u>106</u>

Service costs are included in the cost of services and products and selling, general and administrative line items on the consolidated statements of operations and all other costs listed above are included in the other income (loss), net line item on the consolidated statements of operations. Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during 2020. The amount of required contributions to our qualified pension plan in 2021 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions. Based on current circumstances, we do not anticipate making a voluntary contribution to the trust for our qualified pension plan in 2020. As a result of ongoing efforts to reduce our workforce in 2020, we recognized a one-time curtailment accounting charge of \$7 million upon remeasurement of our medical obligations under our post-retirement benefit plans for the three and nine months ended September 30, 2020.

(8) Earnings (Loss) Per Common Share

Basic and diluted earnings (loss) per common share were calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in millions, except per share amounts, shares in thousands)				
Income (Loss) (Numerator):				
Net income (loss)	\$ 366	302	1,057	(5,492)
Net income (loss) applicable to common stock for computing basic earnings per common share	366	302	1,057	(5,492)
Net income (loss) as adjusted for purposes of computing diluted earnings per common share	\$ 366	302	1,057	(5,492)
Shares (Denominator):				
Weighted-average number of shares:				
Outstanding during period	1,097,496	1,090,755	1,096,017	1,088,229
Non-vested restricted stock	(16,991)	(18,212)	(17,345)	(17,308)
Weighted-average shares outstanding for computing basic earnings per common share	1,080,505	1,072,543	1,078,672	1,070,921
Incremental common shares attributable to dilutive securities:				
Shares issuable under convertible securities	10	10	10	—
Shares issuable under incentive compensation plans	5,151	2,237	4,686	—
Number of shares as adjusted for purposes of computing diluted earnings (loss) per common share	1,085,666	1,074,790	1,083,368	1,070,921
Basic earnings (loss) per common share	\$ 0.34	0.28	0.98	(5.13)
Diluted earnings (loss) per common share ⁽¹⁾	\$ 0.34	0.28	0.98	(5.13)

⁽¹⁾ For the nine months ended September 30, 2019, we excluded from the calculation of diluted loss per share 2.3 million shares, potentially issuable under incentive compensation plans or convertible securities, as their effect, if included, would have been anti-dilutive.

Our calculation of diluted earnings (loss) per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are antidilutive as a result of unrecognized compensation cost. Such shares averaged 0.4 million and 5.2 million for the three months ended September 30, 2020 and 2019, respectively, and 4.0 million and 8.3 million for the nine months ended September 30, 2020 and 2019, respectively.

(9) Fair Value of Financial Instruments

Our financial instruments consist of cash, cash equivalents and restricted cash, accounts receivable, accounts payable, long-term debt, excluding finance lease and other obligations, and interest rate swap contracts. Due to their short-term nature, the carrying amounts of our cash, cash equivalents and restricted cash, accounts receivable and accounts payable approximate their fair values.

The three input levels in the hierarchy of fair value measurements defined by the Fair Value Measurement and Disclosure framework are generally as follows:

Input Level	Description of Input
Level 1	Observable inputs such as quoted market prices in active markets.
Level 2	Inputs other than quoted prices in active markets that are either directly or indirectly observable.
Level 3	Unobservable inputs in which little or no market data exists.

The following table presents the carrying amounts and estimated fair values of our financial liabilities as of September 30, 2020 and December 31, 2019:

		September 30, 2020		December 31, 2019	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Long-term debt, excluding finance lease and other obligations	2	\$ 32,300	33,298	34,472	35,737
Interest rate swap contracts (see Note 10)	2	\$ 127	127	51	51

(10) Derivative Financial Instruments

From time to time, we use derivative financial instruments, primarily interest rate swaps, to manage our exposure to fluctuations in interest rates. Our primary objective in managing interest rate risk is to decrease the volatility of our earnings and cash flows affected by changes in the underlying rates. We have floating rate long-term debt (see Note 5—Long-Term Debt and Credit Facilities above). These obligations expose us to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases. We have designated our currently outstanding interest rate swap agreements as cash flow hedges. As described further below, under these hedges, we receive variable-rate amounts from a counterparty in exchange for us making fixed-rate payments over the lives of the agreements without exchange of the underlying notional amount. The change in the fair value of the interest rate swap agreements is reflected in accumulated other comprehensive income ("AOCI") and, as described below, is subsequently reclassified into earnings in the period that the hedged transaction affects earnings. We do not use derivative financial instruments for speculative purposes.

In February 2019, we entered into five variable-to-fixed interest rate swap agreements to hedge the interest payments on \$2.5 billion notional amount of floating rate debt. The five interest rate swap agreements are with different counterparties; one for \$700 million and the other four for \$450 million each. The transactions were effective beginning March 31, 2019 and mature March 31, 2022. Under the terms of these interest rate swap transactions, we receive interest payments based on one-month floating LIBOR terms and pay interest at the fixed rate of 2.48%.

In June 2019, we entered into six variable-to-fixed interest rate swap agreements to hedge the interest payments on \$1.5 billion notional amount of floating rate debt. The six interest rate swap agreements are with different counterparties for \$250 million each. The transactions were effective beginning June 30, 2019 and mature June 30, 2022. Under the terms of these interest rate swap transactions, we receive interest payments based on one-month floating LIBOR terms and pay interest at the fixed rate of 1.58%.

As of September 30, 2020 and December 31, 2019, we evaluated the effectiveness of our hedges qualitatively and any hedges we had entered into at the time qualified as effective hedge relationships.

We are exposed to credit-related losses in the event of non-performance by counterparties. The counterparties to any of the financial derivatives we enter into are major institutions with investment grade credit ratings. We evaluate counterparty credit risk before entering into any hedge transaction and continue to closely monitor financial markets and the risk that our counterparties will default on their obligations as part of our quarterly qualitative effectiveness evaluation.

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Amounts accumulated in AOCI related to derivatives are indirectly recognized in earnings as periodic settlement payments are made throughout the term of the swaps.

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheet at September 30, 2020 and December 31, 2019, as follows (in millions):

Derivatives designated as	Balance Sheet Location	September 30, 2020	December 31, 2019
		Fair Value	
Cash flow hedging contracts	Other current and noncurrent liabilities	\$ 127	51

The amount of unrealized (gains) losses recognized in AOCI consists of the following (in millions):

Derivatives designated as hedging instruments	2020	2019
Cash flow hedging contracts		
Three Months Ended September 30,	\$ (1)	14
Nine Months Ended September 30,	\$ 115	71

The amount of realized losses reclassified from AOCI to the statement of operations consists of the following (in millions):

Derivatives designated as hedging instruments	2020	2019
Cash flow hedging contracts		
Three Months Ended September 30,	\$ 20	—
Nine Months Ended September 30,	\$ 41	—

Amounts currently included in AOCI will be reclassified into earnings prior to the ongoing settlements of these cash flow hedging contracts until 2022. We estimate that \$81 million of net losses on the interest rate swaps (based on the estimated LIBOR curve as of September 30, 2020) will be reflected in our statements of operations within the next 12 months.

(11) Segment Information

As described in more detail below, our segments are managed based on the direct costs of providing services to their customers and the associated selling, general and administrative costs (primarily salaries and commissions). Shared costs are managed separately and included in "Operations and Other" in the tables below. We reclassified certain prior period amounts to conform to the current period presentation, See Note 1—Background for further detail on these changes.

At September 30, 2020, we had the following five reportable segments:

- *International and Global Accounts Management ("IGAM") Segment.* Under our IGAM segment, we provide our products and services to approximately 200 global enterprise customers and to enterprises and carriers in three operating regions: Europe Middle East and Africa, Latin America and Asia Pacific;
- *Enterprise Segment.* Under our enterprise segment, we provide our products and services to large and regional domestic and global enterprises, as well as public sector, which includes the U.S. federal government, state and local governments and research and education institutions;
- *Small and Medium Business ("SMB") Segment.* Under our SMB segment, we provide our products and services to small and medium businesses directly and through our indirect channel partners;
- *Wholesale Segment.* Under our wholesale segment, we provide our products and services to a wide range of other communication providers across the wireline, wireless, cable, voice and data center sectors. Our wholesale customers range from large global telecom providers to small regional providers; and

- *Consumer Segment.* Under our consumer segment, we provide our products and services to residential customers. Additionally, Connect America Fund ("CAF") federal support revenue and other revenue from leasing and subleasing are reported in our consumer segment as regulatory revenue.

Product and Service Categories

We categorize our products and services revenue among the following four categories for the IGAM, Enterprise, SMB and Wholesale segments:

- *IP and Data Services*, which includes primarily VPN data networks, Ethernet, IP, content delivery and other ancillary services;
- *Transport and Infrastructure*, which includes wavelengths, dark fiber, private line, colocation and data center services, including cloud, hosting and application management solutions, professional services and other ancillary services;
- *Voice and Collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary services, as well as VoIP services; and
- *IT and Managed Services*, which includes information technology services and managed services, which may be purchased in conjunction with our other network services.

We categorize our products and services revenue among the following four categories for the Consumer segment:

- *Broadband*, which includes high-speed fiber based and lower speed DSL broadband services;
- *Voice*, which includes local and long-distance services;
- *Regulatory Revenue*, which consists of (i) CAF and other support payments designed to reimburse us for various costs related to certain telecommunications services and (ii) other operating revenue from the leasing and subleasing of space; and
- *Other*, which includes retail video services (including our linear and TV services), professional services and other ancillary services.

The following tables summarize our segment results for the three months ended September 30, 2020 and 2019, based on the segment categorization we were operating under at September 30, 2020.

Three Months Ended September 30, 2020								
	International and Global Accounts	Enterprise	Small and Medium Business	Wholesale	Consumer	Total Segments	Operations and Other	Total
(Dollars in millions)								
Revenue:								
IP and Data Services	\$ 381	611	266	318	—	1,576	—	1,576
Transport and Infrastructure	315	420	85	447	—	1,267	—	1,267
Voice and Collaboration	87	357	271	183	—	898	—	898
IT and Managed Services	52	51	13	1	—	117	—	117
Broadband	—	—	—	—	730	730	—	730
Voice	—	—	—	—	401	401	—	401
Regulatory	—	—	—	—	153	153	—	153
Other	—	—	—	—	25	25	—	25
Total revenue	835	1,439	635	949	1,309	5,167	—	5,167
Expenses:								
Cost of services and products	229	478	94	120	47	968	1,268	2,236
Selling, general and administrative	58	124	97	16	118	413	437	850
Less: share-based compensation	—	—	—	—	—	—	(31)	(31)
Total expense	287	602	191	136	165	1,381	1,674	3,055
Total adjusted EBITDA	\$ 548	837	444	813	1,144	3,786	(1,674)	2,112

Three Months Ended September 30, 2019								
	International and Global Accounts	Enterprise	Small and Medium Business	Wholesale	Consumer	Total Segments	Operations and Other	Total
(Dollars in millions)								
Revenue:								
IP and Data Services	\$ 404	631	270	353	—	1,658	—	1,658
Transport and Infrastructure	317	384	93	464	—	1,258	—	1,258
Voice and Collaboration	89	354	300	198	—	941	—	941
IT and Managed Services	56	59	11	2	—	128	—	128
Broadband	—	—	—	—	718	718	—	718
Voice	—	—	—	—	453	453	—	453
Regulatory	—	—	—	—	157	157	—	157
Other	—	—	—	—	37	37	—	37
Total revenue	866	1,428	674	1,017	1,365	5,350	—	5,350
Expenses:								
Cost of services and products	235	451	99	134	50	969	1,365	2,334
Selling, general and administrative	64	132	108	15	122	441	390	831
Less: share-based compensation	—	—	—	—	—	—	(38)	(38)
Total expense	299	583	207	149	172	1,410	1,717	3,127
Total adjusted EBITDA	\$ 567	845	467	868	1,193	3,940	(1,717)	2,223

The following tables summarize our segment results for the nine months ended September 30, 2020 and 2019 based on the segment categorization we were operating under at September 30, 2020.

Nine Months Ended September 30, 2020								
	International and Global Accounts	Enterprise	Small and Medium Business	Wholesale	Consumer	Total Segments	Operations and Other	Total
(Dollars in millions)								
Revenue:								
IP and Data Services	\$ 1,167	1,862	798	965	—	4,792	—	4,792
Transport and Infrastructure	942	1,181	265	1,327	—	3,715	—	3,715
Voice and Collaboration	275	1,084	843	561	—	2,763	—	2,763
IT and Managed Services	165	165	33	2	—	365	—	365
Broadband	—	—	—	—	2,178	2,178	—	2,178
Voice	—	—	—	—	1,231	1,231	—	1,231
Regulatory	—	—	—	—	463	463	—	463
Other	—	—	—	—	80	80	—	80
Total revenue	2,549	4,292	1,939	2,855	3,952	15,587	—	15,587
Expenses:								
Cost of services and products	694	1,388	297	383	131	2,893	3,810	6,703
Selling, general and administrative	184	395	316	49	352	1,296	1,302	2,598
Less: share-based compensation	—	—	—	—	—	—	(120)	(120)
Total expense	878	1,783	613	432	483	4,189	4,992	9,181
Total adjusted EBITDA	\$ 1,671	2,509	1,326	2,423	3,469	11,398	(4,992)	6,406

Nine Months Ended September 30, 2019								
	International and Global Accounts	Enterprise	Small and Medium Business	Wholesale	Consumer	Total Segments	Operations and Other	Total
(Dollars in millions)								
Revenue:								
IP and Data Services	\$ 1,221	1,901	817	1,028	—	4,967	—	4,967
Transport and Infrastructure	949	1,085	282	1,441	—	3,757	—	3,757
Voice and Collaboration	267	1,078	929	584	—	2,858	—	2,858
IT and Managed Services	169	198	34	6	—	407	—	407
Broadband	—	—	—	—	2,158	2,158	—	2,158
Voice	—	—	—	—	1,397	1,397	—	1,397
Regulatory	—	—	—	—	471	471	—	471
Other	—	—	—	—	137	137	—	137
Total revenue	2,606	4,262	2,062	3,059	4,163	16,152	—	16,152
Expenses:								
Cost of services and products	698	1,313	306	408	159	2,884	3,993	6,877
Selling, general and administrative	198	421	347	44	403	1,413	1,310	2,723
Less: share-based compensation	—	—	—	—	—	—	(114)	(114)
Total expense	896	1,734	653	452	562	4,297	5,189	9,486
Total adjusted EBITDA	\$ 1,710	2,528	1,409	2,607	3,601	11,855	(5,189)	6,666

Revenue and Expenses

Our segment revenue includes all revenue from our five segments as described in more detail above. Our segment revenue is based upon each customer's classification. We report our segment revenue based upon all services provided to that segment's customers. Our segment expenses include specific cost of service expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities.

The following items are excluded from our segment results, because they are centrally managed and not monitored by or reported to our chief operating decision maker by segment:

- network expenses not incurred as a direct result of providing services and products to segment customers;
- centrally managed expenses such as Operations, Finance, Human Resources, Legal, Marketing, Product Management and IT, which are reported as "Operations and Other";
- depreciation and amortization expense or impairments;
- interest expense, because we manage our financing on a consolidated basis and have not allocated assets or debt to specific segments;
- stock-based compensation; and
- other income and expense items are not monitored as a part of our segment operations.

The following table reconciles total segment adjusted EBITDA to net income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(Dollars in millions)			
Total segment adjusted EBITDA	\$ 3,786	3,940	11,398	11,855
Depreciation and amortization	(1,193)	(1,235)	(3,515)	(3,619)
Impairment of goodwill	—	—	—	(6,506)
Other operating expenses	(1,674)	(1,717)	(4,992)	(5,189)
Stock-based compensation	(31)	(38)	(120)	(114)
Operating income (loss)	888	950	2,771	(3,573)
Total other expense, net	(408)	(540)	(1,345)	(1,542)
Income (loss) before income taxes	480	410	1,426	(5,115)
Income tax expense	114	108	369	377
Net income (loss)	\$ 366	302	1,057	(5,492)

(12) Commitments, Contingencies and Other Items

We are subject to various claims, legal proceedings and other contingent liabilities, including the matters described below, which individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. As a matter of course, we are prepared to both litigate these matters to judgment as needed, as well as to evaluate and consider reasonable settlement opportunities.

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at September 30, 2020, aggregated to approximately \$129 million and are included in other current liabilities and other liabilities in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter.

Principal Proceedings

Shareholder Class Action Suit

Lumen and certain Lumen Board of Directors members and officers were named as defendants in a putative shareholder class action lawsuit filed on June 12, 2018 in the Boulder County District Court of the state of Colorado, captioned Houser et al. v. CenturyLink, et al. The complaint asserts claims on behalf of a putative class of former Level 3 shareholders who became CenturyLink, Inc. shareholders as a result of our acquisition of Level 3. It alleges that the proxy statement provided to the Level 3 shareholders failed to disclose various material information of several kinds, including information about strategic revenue, customer loss rates, and customer account issues, among other items. The complaint seeks damages, costs and fees, rescission, rescissory damages, and other equitable relief. In May 2020, the court dismissed the complaint. Plaintiffs appealed that decision, and the appeal is pending.

State Tax Suits

Since 2012, a number of Missouri municipalities have asserted claims in the Circuit Court of St. Louis County, Missouri, alleging that we and several of our subsidiaries have underpaid taxes. These municipalities are seeking, among other things, declaratory relief regarding the application of business license and gross receipts taxes and back taxes from 2007 to the present, plus penalties and interest. In a February 2017 ruling in connection with one of these pending cases, the court entered an order awarding plaintiffs \$4 million and broadening the tax base on a going-forward basis. We appealed that decision to the Missouri Supreme Court. In December 2019, it affirmed the circuit court's order in some respects and reversed it in others, remanding the case to the circuit court for further proceedings. The Missouri Supreme Court's decision reduced our exposure in the case. In a June 2017 ruling in connection with another one of these pending cases, the circuit court made findings in a non-final ruling which, if not overturned or modified in light of the Missouri Supreme Court's decision, will result in a tax liability to us well in excess of the contingent liability we have established. The circuit court has indicated it does not intend to alter its 2017 ruling when it issues its final decision. Once a final decision is issued, we will have the right to pursue an appeal. We continue to vigorously defend against these claims.

Billing Practices Suits

In June 2017, a former employee filed an employment lawsuit against us claiming that she was wrongfully terminated for alleging that we charged some of our retail customers for products and services they did not authorize. Starting shortly thereafter and continuing since then and based in part on the allegations made by the former employee, several legal proceedings have been filed.

In June 2017, *McLeod v. CenturyLink*, a consumer class action, was filed against us in the U.S. District Court for the Central District of California alleging that we charged some of our retail customers for products and services they did not authorize. Other complaints asserting similar claims were filed in other federal and state courts. The lawsuits assert claims including fraud, unfair competition and unjust enrichment. Also in June 2017, *Craig v. CenturyLink, Inc., et al.*, a securities investor class action, was filed in U.S. District Court for the Southern District of New York, alleging that we failed to disclose material information regarding improper sales practices, and asserting federal securities law claims. A number of other cases asserting similar claims have also been filed.

Beginning June 2017, we also received several shareholder derivative demands addressing related topics. In August 2017, the Board of Directors formed a special litigation committee of outside directors to address the allegations of impropriety contained in the shareholder derivative demands. In April 2018, the special litigation committee concluded its review of the derivative demands and declined to take further action. Since then, derivative cases were filed in Louisiana state court in the Fourth Judicial District Court for the Parish of Ouachita and in federal court in Louisiana and Minnesota. These cases have been brought on behalf of CenturyLink, Inc. against certain current and former officers and directors of the Company and seek damages for alleged breaches of fiduciary duties.

The consumer class actions, the securities investor class actions, and the federal derivative actions have been transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings as *In Re: CenturyLink Sales Practices and Securities Litigation*. Subject to confirmatory discovery and court approval, we have agreed to settle the consumer class actions for payments of \$15.5 million to compensate class members and of up to \$3.5 million for administrative costs. In the second quarter of 2019, we accrued for these obligations, and a portion of the administrative costs has been expended in 2020. Certain class members may elect to opt out of the class settlement and pursue the resolution of their individual claims against us on these issues through various dispute resolution processes, including individual arbitration. One law firm asserts it has opt out requests from approximately 12,000 class members. To the extent that a substantial number of class members meet the contractual requirements to arbitrate, elect to opt out of the settlement (or otherwise successfully exclude their individual claims), and actually pursue arbitrations, the Company could incur a material amount of filing and other arbitrations fees in relation to the administration of those claims.

In July 2017, the Minnesota state attorney general filed *State of Minnesota v. CenturyTel Broadband Services LLC, et al.* in the Anoka County Minnesota District Court, alleging claims of fraud and deceptive trade practices relating to improper consumer sales practices.

We have engaged in discussions regarding potential resolutions of these claims with a number of state attorneys general, and have entered into agreements settling the Minnesota suit and certain of the consumer practices claims asserted by state attorneys general. While we do not agree with allegations raised in these matters, we have been willing to consider reasonable settlements where appropriate.

As previously disclosed, in the fourth quarter of 2019, we recorded an accrual with respect to the above-described settlements and other consumer litigation related matters.

Peruvian Tax Litigation

In 2005, the Peruvian tax authorities ("SUNAT") issued tax assessments against one of our Peruvian subsidiaries asserting \$26 million, of additional income tax withholding and value-added taxes ("VAT"), penalties and interest for calendar years 2001 and 2002 on the basis that the Peruvian subsidiary incorrectly documented its importations. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, we believe the total amount of our exposure was \$3 million as of September 30, 2020.

We challenged the assessments via administrative and then judicial review processes. In October 2011, the highest administrative review tribunal (the Tribunal) decided the central issue underlying the 2002 assessments in SUNAT's favor. We appealed the Tribunal's decision to the first judicial level, which decided the central issue in favor of Level 3. SUNAT and we filed cross-appeals with the court of appeal. In May 2017, the court of appeal issued a decision reversing the first judicial level. In June 2017, we filed an appeal of the decision to the Supreme Court of Justice, the final judicial level. Oral argument was held before the Supreme Court of Justice in October 2018. A decision on this case is pending.

In October 2013, the Tribunal decided the central issue underlying the 2001 assessments in SUNAT's favor. We appealed that decision to the first judicial level in Peru, which decided the central issue in favor of SUNAT. In June 2017, we filed an appeal with the court of appeal. In November 2017, the court of appeals issued a decision affirming the first judicial level and we filed an appeal of the decision to the Supreme Court of Justice. Oral argument was held before the Supreme Court of Justice in June 2019. A decision on this case is pending.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authority issued tax assessments against one of our Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS") with respect to revenue from leasing certain assets (in the case of the December 2004, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authority issued tax assessments to the same Brazilian subsidiary on similar issues. We filed objections to these assessments in both states, arguing, among other things, that neither the lease of assets nor the provision of Internet access qualify as "communication services" subject to ICMS. The objections to the September 2002, December 2004 and March 2009 assessments were rejected by the respective state administrative courts, and we have appealed those decisions to the respective state judicial courts.

In October 2012 and June 2014, the São Paulo state lower court ruled partially in our favor finding that the lease assets are not subject to ICMS in connection with the December 2004 and March 2009 assessments. The state of São Paulo appealed those rulings. Our objection to the April 2009 assessment is pending final administrative action in São Paulo. The July 2014 assessment was affirmed at the first administrative level and our appeal to the second administrative level is pending.

Regarding the September 2002 assessment, in July 2020, the Rio de Janeiro state court ruling in our favor became final once the appeals process had been exhausted. Accordingly, we released the related reserve. Our objections to the July 2009 and May 2012 assessments are still pending state judicial decisions.

We are vigorously contesting all such assessments in both states and view the assessment of ICMS on revenue from equipment leasing and Internet access to be without merit. These assessments, if upheld, could result in a loss of \$16 million to as high as \$44 million as of September 30, 2020 in excess of the accruals established for these matters.

Qui Tam Action

Level 3 was notified in late 2017 of a qui tam action pending against Level 3 Communications, Inc. and others in the U.S. District Court for the Eastern District of Virginia, captioned United States of America ex rel., Stephen Bishop v. Level 3 Communications, Inc. et al. The original qui tam complaint and an amended complaint were filed under seal on November 26, 2013 and June 16, 2014, respectively. The court unsealed the complaints on October 26, 2017.

The amended complaint alleges that Level 3, principally through two former employees, submitted false claims and made false statements to the government in connection with two government contracts. The relator seeks damages in this lawsuit of approximately \$50 million, subject to trebling, plus statutory penalties, pre-and-post judgment interest, and attorney's fees. The case is currently stayed.

Level 3 is evaluating its defenses to the claims. At this time, Level 3 does not believe it is probable Level 3 will incur a material loss. If, contrary to its expectations, the plaintiff prevails in this matter and proves damages at or near \$50 million, and is successful in having those damages trebled, the outcome could have a material adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

Several people, including two former Level 3 employees, were indicted in the U.S. District Court for the Eastern District of Virginia on October 3, 2017, and charged with, among other things, accepting kickbacks from a subcontractor, who was also indicted, for work to be performed under a prime government contract. Of the two former employees, one entered into a plea agreement, and the other is deceased. Level 3 is fully cooperating in the government's investigations in this matter.

Other Proceedings, Disputes and Contingencies

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings of state public utility commissions relating primarily to our rates or services, actions relating to employee claims, various tax issues, environmental law issues, grievance hearings before labor regulatory agencies and miscellaneous third party tort actions.

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities, many of which are seeking substantial recoveries. These cases have progressed to various stages and one or more may go to trial during 2020 if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are subject to various foreign, federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none is reasonably expected to exceed \$100,000 in fines and penalties.

The outcome of these other proceedings described under this heading is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on us.

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 19 - Commitments, Contingencies and Other Items - to the financial statements included in Item 8 of part II of our Annual Report on Form 10-K for the year ended December 31, 2019. The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us.

(13) Other Financial Information

Other Current Assets

The following table presents details of other current assets reflected in our consolidated balance sheets:

	September 30, 2020	December 31, 2019
	(Dollars in millions)	
Prepaid expenses	\$ 312	274
Income tax receivable	6	35
Materials, supplies and inventory	112	105
Contract assets	35	42
Contract acquisition costs	172	178
Contract fulfillment costs	117	115
Other	81	70
Total other current assets	<u>\$ 835</u>	<u>819</u>

(14) Accumulated Other Comprehensive Loss

Information Relating to 2020

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the nine months ended September 30, 2020:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Interest Rate Swap	Total
	(Dollars in millions)				
Balance at December 31, 2019	\$ (2,229)	(184)	(228)	(39)	(2,680)
Other comprehensive loss before reclassifications	—	—	(181)	(87)	(268)
Amounts reclassified from accumulated other comprehensive loss	110	12	—	31	153
Net current-period other comprehensive income (loss)	110	12	(181)	(56)	(115)
Balance at September 30, 2020	<u>\$ (2,119)</u>	<u>(172)</u>	<u>(409)</u>	<u>(95)</u>	<u>(2,795)</u>

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The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended September 30, 2020:

Three Months Ended September 30, 2020	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Interest rate swaps	\$ 20	Interest expense
Income tax expense	(5)	Income tax expense
Net of tax	<u>\$ 15</u>	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 50	Other income (loss), net
Prior service cost	1	Other income (loss), net
Curtailment loss	4	Other income (loss), net
Total before tax	55	
Income tax expense	(13)	Income tax expense
Net of tax	<u>\$ 42</u>	
Nine Months Ended September 30, 2020	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Interest rate swaps	\$ 41	Interest expense
Income tax expense	(10)	Income tax expense
Net of tax	<u>\$ 31</u>	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 152	Other income (loss), net
Prior service cost	5	Other income (loss), net
Curtailment loss	4	Other income (loss), net
Total before tax	161	
Income tax expense	(39)	Income tax expense
Net of tax	<u>\$ 122</u>	

⁽¹⁾ See Note 7—Employee Benefits for additional information on our net periodic benefit (income) expense related to our pension and post-retirement plans.

Information Relating to 2019

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the nine months ended September 30, 2019:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Interest Rate Swap	Total
	(Dollars in millions)				
Balance at December 31, 2018	\$ (2,173)	(58)	(230)	—	(2,461)
Other comprehensive loss before reclassifications	—	—	(115)	(54)	(169)
Amounts reclassified from accumulated other comprehensive loss	122	9	—	—	131
Net current-period other comprehensive income (loss)	122	9	(115)	(54)	(38)
Balance at September 30, 2019	\$ (2,051)	(49)	(345)	(54)	(2,499)

The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended September 30, 2019

Three Months Ended September 30, 2019	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 54	Other income, net
Prior service cost	3	Other income, net
Total before tax	57	
Income tax benefit	(14)	Income tax expense
Net of tax	\$ 43	

Nine Months Ended September 30, 2019	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 167	Other income, net
Prior service cost	7	Other income, net
Total before tax	174	
Income tax benefit	(43)	Income tax expense
Net of tax	\$ 131	

⁽¹⁾ See Note 7—Employee Benefits for additional information on our net periodic benefit (income) expense related to our pension and post-retirement plans.

(15) Labor Union Contracts

As of September 30, 2020, approximately, 24% of our employees were represented by the Communication Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). Approximately 2% of our union-represented employees were subject to collective bargaining agreements that expired as of September 30, 2020 and are currently being renegotiated. Approximately 13% of our represented employees are subject to collective bargaining agreements that are scheduled to expire over the 12 month period ending September 30, 2021.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, (i) references in this report to "Lumen Technologies" or "Lumen," "we," "us" and "our" refer to CenturyLink, Inc. (doing business as Lumen Technologies) and its consolidated subsidiaries and (ii) references in this report to "Level 3" refer to Level 3 Parent, LLC and its predecessor Level 3 Communications, Inc., which we acquired on November 1, 2017.

All references to "Notes" in this Item 2 of Part I refer to the Notes to Consolidated Financial Statements included in Item 1 of Part I of this report.

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" set forth or referenced in Item 1A of Part II of this report or other of our filings with the SEC for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2019 and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first nine months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

We are an international facilities-based communications company engaged primarily in providing a broad array of integrated services to our business and residential customers. We believe we are among the largest providers of communications services to domestic and global enterprise customers and the second largest enterprise wireline telecommunications company in the United States, based on revenues. We provide services in over 60 countries, with most of our revenue being derived in the United States. As of September 30, 2020, we had approximately 39,000 employees.

Impact of COVID-19 Pandemic

In response to the safety and economic challenges arising out of the COVID-19 pandemic and in an attempt to mitigate the negative impact on our stakeholders, we have taken over the past several months a variety of steps to ensure the availability of our network infrastructure, to promote the safety of our employees and customers, to enable us to continue to adapt and provide our products and services worldwide to our customers, and to strengthen our communities. These steps have included:

- taking the FCC's "Keep Americans Connected Pledge," under which we waived certain late fees and suspended the application of data caps and service terminations for non-payment by certain consumer and small business customers through the end of the second quarter of 2020;
- establishing new protocols for the safety of our on-site technicians and customers, including our "Safe Connections" program;
- adopting a rigorous employee work-from-home policy and substantially restricting non-essential business travel;
- continuously monitoring our network to enhance its ability to respond to changes in usage patterns;
- donating products or services in several of our communities to enhance their abilities to provide necessary support services; and
- taking steps to maintain our internal controls and the security of our systems and data in a remote work environment.

As the pandemic continues, we may revise our responses or take additional steps to adjust to changed circumstances.

Social distancing, business and school closures, travel restrictions, and other actions taken in response to the pandemic have impacted us, our customers and our business since March 2020. In particular, as discussed further elsewhere herein, we are tracking pandemic impacts such as: (i) increases in certain revenue streams and decreases in others (including late fee revenue), (ii) increases in allowances for credit losses and overtime expenses and (iii) any delays in our cost transformation initiatives. Thus far, these changes have not materially impacted our financial performance or financial position. This could change, however, if the pandemic intensifies or economic conditions deteriorate. The impact of the pandemic after the third quarter of 2020 will materially depend on additional steps that we may take in response to the pandemic and various events outside of our control, including the length and severity of the health crisis and economic slowdown, actions taken by governmental agencies or legislative bodies, and the impact of those events on our employees, suppliers and customers. For additional information, see the risk factor disclosures set forth or referenced in Item 1A of Part II of this report.

For additional information on the impacts of the pandemic, see the remainder of this item, including "—Liquidity and Capital Resources — Overview of Sources and Uses of Cash," and "— Pension and Post-retirement Benefit Obligations."

Reporting Segments

Our reporting segments are organized by customer focus:

- *International and Global Accounts Management ("IGAM") Segment.* Under our IGAM segment, we provide our products and services to approximately 200 global enterprise customers and to enterprises and carriers in three operating regions: Europe Middle East and Africa, Latin America and Asia Pacific. IGAM works with large multinational organizations in support of their business and IT transformation strategies. With our extensive fiber network, and our ability to provide global networking solutions and a differentiated customer experience spanning the globe, we believe we are well-positioned to serve customers within this segment. This segment contains some of our largest customers, which could result in revenue fluctuations driven by contract renegotiations or churn. We remain focused on investing globally to expand our reach, scale and technology to grow services that we can offer to our global and international customers;
- *Enterprise Segment.* Under our enterprise segment, we provide our products and services to large and regional domestic and global enterprises, as well as the public sector, which includes the U.S. Federal government, state and local governments and research and education institutions. We believe we have the ability to meet our enterprise customers' increasing needs for integrated data, broadband and voice services with our extensive product portfolio and our local approach to the market. We seek revenue growth within our Enterprise segment by leveraging our extensive enterprise-focused fiber network to deliver dynamic solutions our customers require to meet their growing and evolving needs;
- *Small and Medium Business ("SMB") Segment.* Under our SMB segment, we provide our products and services to small and medium businesses directly and through our indirect channel partners. We generally designate businesses as small or medium if they have fewer than 500 employees. With traditional voice services representing a significant portion of SMB segment revenues, we currently do not anticipate revenue growth for this segment. We believe by bringing products tailored to the needs of this segment, penetrating fiber-fed on-net buildings and collaborating with our indirect channel partners, we will be better positioned to meet our SMB customers' needs; and
- *Wholesale Segment.* Under our wholesale segment, we provide our products and services to a wide range of other communication providers across the wireline, wireless, cable, voice and data center sectors. Our wholesale segment contributes scale that we leverage in connection with serving our other customers. We plan to continue to partner with 5G wireless providers to support their growing needs for transmission capacity, which in turn will place our network closer to our customers. Nonetheless, we expect the relative contributions of our wholesale segment will decline over the longer term due to competitive pressures. In the meantime, we expect our wholesale segment will remain volatile from quarter to quarter given the relatively large size of wholesale customer contracts.

- *Consumer Segment.* Under our consumer segment, we provide our products and services to residential customers. For this segment, we expect continued declines in revenues from our traditional voice services, as consumers continue their long-term migration towards alternative products and services, and from our video business, which we are no longer actively marketing to consumers. We are aggressively investing in fiber to drive higher average revenue per broadband customer to partially offset legacy voice and video declines. Additionally, we continue to invest in our own digital transformation to improve our service delivery and reduce our costs. At September 30, 2020, we served approximately 4.6 million consumer broadband subscribers. Our methodology for counting consumer broadband subscribers may not be comparable to those of other companies.

See Note 11—Segment Information to our consolidated financial statements in Item 1 of Part I of this report for additional information.

We categorize our revenue among the following four product and services categories that we sell to business customers:

- *IP and Data Services*, which include primarily VPN data networks, Ethernet, IP, content delivery and other ancillary services;
- *Transport and Infrastructure*, which includes wavelengths, dark fiber, private line, colocation and data center services, including cloud, hosting and application management solutions, professional services and other ancillary services;
- *Voice and Collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary services, as well as VoIP services; and
- *IT and Managed Services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services.

We categorize revenue among the following four categories that we sell to residential customers:

- *Broadband*, which includes high speed, fiber-based and lower speed DSL broadband services;
- *Voice*, which include local and long-distance services;
- *Regulatory Revenue*, which consist of (i) CAF and other support payments designed to reimburse us for various costs related to certain telecommunications services and (ii) other operating revenue from the leasing and subleasing of space; and
- *Other*, which include retail video services (including our linear TV services), professional services and other ancillary services.

Trends Impacting Our Operations

In addition to the above-described impact of the pandemic, our consolidated operations have been, and are expected to continue to be, impacted by the following company-wide trends:

- Customers' demand for automated products and services and competitive pressures will require that we continue to invest in new technologies and automated processes to improve the customer experience and reduce our operating expenses.
- The increasingly digital environment and the growth in online video require robust, scalable network services. We are continuing to enhance our product capabilities and simplify our product portfolio based on demand and profitability to enable customers to have access to greater bandwidth.
- Businesses continue to adopt distributed, global operating models. We are expanding and enhancing our fiber network, connecting more buildings to our network to generate revenue opportunities and reducing our reliance upon other carriers.
- Industry consolidation, coupled with changes in regulation, technology and customer preferences, are significantly reducing demand for our traditional voice services and are pressuring some other revenue streams, while other advances, such as the need for lower latency provided by Edge computing or the implementation of 5G networks, are expected to create opportunities.

- The operating margins of several of our newer, more technologically advanced services, some of which may connect to customers through other carriers, are lower than the operating margins on our traditional, on-net wireline services.
- Declines in our traditional wireline services have necessitated right-sizing our cost structures to remain competitive.

Additional trends impacting our segments are discussed elsewhere in this Item 2.

Results of Operations

In this section, we discuss our overall results of operations and highlight special items that are not included in our segment results. In "Segment Results of Operations" we review the performance of our five reporting segments in more detail.

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2020 and September 30, 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in millions, except per share amounts)				
Operating revenue	\$ 5,167	5,350	15,587	16,152
Operating expenses	4,279	4,400	12,816	19,725
Operating income (loss)	888	950	2,771	(3,573)
Total other expense, net	(408)	(540)	(1,345)	(1,542)
Income (loss) before income taxes	480	410	1,426	(5,115)
Income tax expense	114	108	369	377
Net income (loss)	\$ 366	302	1,057	(5,492)
Basic earnings (loss) per common share	\$ 0.34	0.28	0.98	(5.13)
Diluted earnings (loss) per common share	\$ 0.34	0.28	0.98	(5.13)

For years, we have experienced revenue declines, excluding the impact of acquisitions, primarily due to declines in voice and private line customers, switched access rates and minutes of use. More recently, we have experienced declines in revenue derived from the sale of certain of our other products and services. To partially mitigate these revenue declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- increase the size, capacity, speed and usage of our networks;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable; and
- market our products and services to new customers.

Consolidated Revenue

The following table summarizes our consolidated operating revenue recorded under each of our eight above described revenue categories:

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
IP and Data Services	\$ 1,576	1,658	(5) %
Transport and Infrastructure	1,267	1,258	1 %
Voice and Collaboration	898	941	(5) %
IT and Managed Services	117	128	(9) %
Broadband	730	718	2 %
Voice	401	453	(11) %
Regulatory	153	157	(3) %
Other	25	37	(32) %
Total operating revenue	\$ 5,167	5,350	(3) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
IP and Data Services	\$ 4,792	4,967	(4) %
Transport and Infrastructure	3,715	3,757	(1) %
Voice and Collaboration	2,763	2,858	(3) %
IT and Managed Services	365	407	(10) %
Broadband	2,178	2,158	1 %
Voice	1,231	1,397	(12) %
Regulatory	463	471	(2) %
Other	80	137	(42) %
Total operating revenue	\$ 15,587	16,152	(3) %

Our total operating revenue decreased by \$183 million, or 3%, and \$565 million, or 3%, for the three and nine months ended September 30, 2020 as compared to the three and nine months ended September 30, 2019 primarily due to revenue declines in most of our revenue categories. See our segment results below for additional information.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,236	2,334	(4) %
Selling, general and administrative	850	831	2 %
Depreciation and amortization	1,193	1,235	(3) %
Total operating expenses	<u>\$ 4,279</u>	<u>4,400</u>	(3) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 6,703	6,877	(3) %
Selling, general and administrative	2,598	2,723	(5) %
Depreciation and amortization	3,515	3,619	(3) %
Goodwill impairment	—	6,506	nm
Total operating expenses	<u>\$ 12,816</u>	<u>19,725</u>	(35) %

nm Percentages greater than 200% and comparisons between positive and negative values or to/from zero values are considered not meaningful.

Cost of Services and Products (exclusive of depreciation and amortization)

Cost of services and products (exclusive of depreciation and amortization) decreased by \$98 million, or 4%, and \$174 million, or 3%, respectively, for the three and nine months ended September 30, 2020 as compared to the three and nine months ended September 30, 2019. The decrease in costs of services and products (exclusive of depreciation and amortization) for both periods was primarily due to reductions in salaries and wages and employee-related expense from lower headcount and lower facility costs partially offset by accelerated real estate expense from an increase in exited properties, power costs and network expenses.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$19 million, or 2%, for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. This increase was primarily due to higher taxes and increases in the allowance for credit losses related to the impact of the COVID-19 pandemic. These increases were partially offset by reductions in professional fees and lower internal commission costs. Selling, general and administrative expenses decreased by \$125 million, or 5%, for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019. This decrease was primarily due to reductions in salaries and wages and employee-related expenses from lower headcount and from lower dedicated labor associated with customer premises equipment sales. These decreases were partially offset by increases in the allowance for credit losses related to the impact of the COVID-19 pandemic and higher taxes.

Depreciation and Amortization

The following tables provide detail of our depreciation and amortization expense:

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Depreciation	\$ 750	797	(6) %
Amortization	443	438	1 %
Total depreciation and amortization	\$ 1,193	1,235	(3) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Depreciation	\$ 2,201	2,312	(5) %
Amortization	1,314	1,307	1 %
Total depreciation and amortization	\$ 3,515	3,619	(3) %

Depreciation expense decreased by \$47 million, or 6%, and \$111 million, or 5%, for the three and nine months ended September 30, 2020, as compared to the three and nine months ended September 30, 2019 primarily due to the impact of annual rate depreciable life changes of \$60 million and \$179 million, respectively, which was partially offset by \$53 million and \$108 million, respectively, of higher depreciation expense associated with net growth in depreciable assets.

Amortization expense increased by \$5 million, or 1%, and \$7 million, or 1%, for the three and nine months ended September 30, 2020 as compared to the three and nine months ended September 30, 2019, primarily due to increases associated with the net growth in amortizable assets of \$13 million and \$45 million, respectively, and the accelerated amortization for a decommissioned application of \$12 million and \$24 million, respectively, which was partially offset by decreases of \$17 million and \$54 million, respectively, from the use of accelerated amortization methods for a portion of the customer intangibles.

Further analysis of our segment operating expenses by segment is provided below in "Segment Results."

Goodwill Impairments

We are required to perform impairment tests related to our goodwill annually, which we perform as of October 31, or sooner if an indicator of impairment occurs. Both our January 2019 internal reorganization and the decline in our stock price triggered impairment testing in the first quarter of 2019. Consequently, we evaluated our goodwill in January 2019 and again as of March 31, 2019.

When we performed our impairment tests during the first quarter of 2019, we concluded that the estimated fair value of certain of our reporting units was less than our carrying value of equity as of the date of each of our triggering events during the first quarter of 2019. As a result, we recorded non-cash, non-tax-deductible goodwill impairment charges aggregating to \$6.5 billion in the quarter ended March 31, 2019.

During 2020, we observed a decline in our stock price as a result of events occurring after the end of 2019, including the COVID-19 pandemic. We evaluated whether such events would indicate the fair value of our reporting units were below their carrying values. We believe these events have impacted the global economy more directly than us and, when considered with other factors, we have concluded it is not more likely than not that the fair values of our reporting units were less than their carrying values as of the period ended September 30, 2020. In light of the negative impacts of COVID-19 on the global economy, we will continue to evaluate the general economic trends which could have an impact on our assessment of whether it is more likely than not that the fair value of one or more reporting units is less than its carrying amount. Future changes could cause one or more of our reporting unit fair values to be less than its carrying value, resulting in potential impairments of our goodwill, which could have a material effect on our results of operations and financial condition. The extent of the impact, if any, will depend on future developments including the length and severity of the pandemic and its long-term impacts on the overall economy.

See Note 2—Goodwill, Customer Relationships and Other Intangible Assets for further details on these tests and impairment charges.

Other Consolidated Results

The following tables summarize our total other expense, net and income tax expense:

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Interest expense	\$ (409)	(496)	(18) %
Other income (loss), net	1	(44)	nm
Total other expense, net	\$ (408)	(540)	(24) %
Income tax expense	\$ 114	108	6 %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Interest expense	\$ (1,272)	(1,537)	(17) %
Other loss, net	(73)	(5)	nm
Total other expense, net	\$ (1,345)	(1,542)	(13) %
Income tax expense	\$ 369	377	(2) %

nm Percentages greater than 200% and comparisons between positive and negative values or to/from zero values are considered not meaningful.

Interest Expense

Interest expense decreased by \$87 million, or 18%, and \$265 million, or 17%, for the three and nine months ended September 30, 2020 as compared to the three and nine months ended September 30, 2019. These decreases were primarily due to (i) the decrease in average long-term debt from \$35.0 billion to \$33.5 billion and the decrease in the average interest rate of 5.79% to 4.93% for the three months ended September 30, 2019 compared to September 30, 2020, and (ii) the decrease in average long-term debt from \$35.6 billion to \$33.6 billion and the decrease in our average interest rate from 5.83% to 5.22% for the nine months ended September 30, 2019 compared to September 30, 2020.

Other Income (Loss), Net

Other income (loss), net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from debt modifications or extinguishments or non-operating asset dispositions, foreign currency gains and losses and components of net periodic pension and postretirement benefit costs. Other income (loss), net changed by \$45 million for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019. This change was primarily due to foreign currency gains and a decrease in pension expenses. Other loss, net increased by \$68 million for nine months ended September 30, 2020 compared to September 30, 2019. This change was primarily due to a loss on modification and extinguishment of debt in 2020 compared to a gain on extinguishment of debt in 2019, partially offset by a decrease in pension expense.

Income Tax Expense

For the three and nine months ended September 30, 2020, our effective income tax rate was 23.8% and 25.9%, respectively, and for the three and nine months ended September 30, 2019, our effective income tax rate was 26.3% and (7.4)%, respectively. The effective tax rate for the nine months ended September 30, 2019 was primarily impacted by the March 2019 goodwill impairment, which is not deductible for tax purposes. Without the goodwill impairment, the rate would have been 27.1%.

Segment Results

General

Reconciliation of segment revenue to total operating revenue is below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in millions)				
Operating revenue				
International and Global Accounts	\$ 835	866	2,549	2,606
Enterprise	1,439	1,428	4,292	4,262
Small and Medium Business	635	674	1,939	2,062
Wholesale	949	1,017	2,855	3,059
Consumer	1,309	1,365	3,952	4,163
Total operating revenue	\$ 5,167	5,350	15,587	16,152

Reconciliation of segment EBITDA to total adjusted EBITDA is below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Dollars in millions)				
Adjusted EBITDA				
International and Global Accounts	\$ 548	567	1,671	1,710
Enterprise	837	845	2,509	2,528
Small and Medium Business	444	467	1,326	1,409
Wholesale	813	868	2,423	2,607
Consumer	1,144	1,193	3,469	3,601
Total segment EBITDA	3,786	3,940	11,398	11,855
Operations and Other EBITDA	(1,674)	(1,717)	(4,992)	(5,189)
Total adjusted EBITDA	\$ 2,112	2,223	6,406	6,666

For additional information on our reportable segments and product and services categories, see Note 11—Segment Information to our consolidated financial statements in Item 1 of Part I of this report.

International and Global Accounts Management Segment

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 381	404	(6) %
Transport and Infrastructure	315	317	(1) %
Voice and Collaboration	87	89	(2) %
IT and Managed Services	52	56	(7) %
Total revenue	835	866	(4) %
Expenses:			
Total expense	287	299	(4) %
Total adjusted EBITDA	\$ 548	567	(3) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 1,167	1,221	(4) %
Transport and Infrastructure	942	949	(1) %
Voice and Collaboration	275	267	3 %
IT and Managed Services	165	169	(2) %
Total revenue	2,549	2,606	(2) %
Expenses:			
Total expense	878	896	(2) %
Total adjusted EBITDA	\$ 1,671	1,710	(2) %

Three and Nine Months Ended September 30, 2020 Compared to the same periods Ended September 30, 2019

Segment revenue decreased \$31 million, or 4%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 and \$57 million, or 2%, for the nine months ended September 30, 2020 compared to the same period ended September 30, 2019. Excluding the impact of foreign currency fluctuations, segment revenue decreased \$23 million, or 3%, for the three months ended September 30, 2020 compared to September 30, 2019, and decreased \$17 million, or less than 1%, for the nine months ended September 30, 2020, compared to September 30, 2019, primarily due to the following factors:

- For both periods, IP and Data Services declined primarily due to reduced rates and lower Vyvx traffic due to less live events during the pandemic;
- for both periods, Transport and Infrastructure increased primarily driven by increased demand for dark fiber and wavelengths from our large customers, partially offset by declines in private line and professional services;
- for the three-month period, Voice and Collaboration declined as usage and call volumes returned to pre COVID-19 levels;

- for the nine-month period, Voice and Collaboration increased due to higher usage primarily attributable to higher call volumes due to pandemic-induced social distancing and business closures concentrated in the second quarter 2020; and
- for both periods, the IT and Managed Services decline is driven by lower volumes of legacy managed hosting services.

Segment expenses decreased by \$12 million, or 4%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$18 million, or 2%, for the nine months ended September 30, 2020 compared to the same period in 2019, primarily due to lower cost of sales in line with revenue declines and lower headcount related costs.

Segment adjusted EBITDA as a percentage of revenue was 66% for both the three and nine months ended September 30, 2020 and 65% and 66% for the three and nine months ended September 30, 2019, respectively.

Enterprise Segment

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 611	631	(3) %
Transport and Infrastructure	420	384	9 %
Voice and Collaboration	357	354	1 %
IT and Managed Services	51	59	(14) %
Total revenue	1,439	1,428	1 %
Expenses:			
Total expense	602	583	3 %
Total adjusted EBITDA	\$ 837	845	(1) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 1,862	1,901	(2) %
Transport and Infrastructure	1,181	1,085	9 %
Voice and Collaboration	1,084	1,078	1 %
IT and Managed Services	165	198	(17) %
Total revenue	4,292	4,262	1 %
Expenses:			
Total expense	1,783	1,734	3 %
Total adjusted EBITDA	\$ 2,509	2,528	(1) %

Three and Nine Months Ended September 30, 2020 Compared to the same periods Ended September 30, 2019

Segment revenue increased \$11 million, or 1%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$30 million, or 1%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 due to the following factors:

- For both periods, IP and Data Services declined primarily driven by customers migrating from traditional wireline services to more technologically advanced lower rate services;
- for both periods, Transport and Infrastructure grew due to higher demand for managed security services and strength in equipment sales within our Federal business;
- for both periods, Voice and Collaboration growth was primarily driven by increased call volumes due to COVID-19; and
- for both periods, IT and Managed Services declined due to churn in legacy managed services.

Segment expenses increased by \$19 million, or 3%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$49 million, or 3%, for the nine months ended September 30, 2020 compared to the same period in 2019, primarily due to higher cost of sales in line with revenue increases, partially offset by lower headcount related costs.

Segment adjusted EBITDA as a percentage of revenue was 58% for both the three and nine months ended September 30, 2020 and 59% for both the three and nine months ended September 30, 2019.

Small and Medium Business Segment

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 266	270	(1) %
Transport and Infrastructure	85	93	(9) %
Voice and Collaboration	271	300	(10) %
IT and Managed Services	13	11	18 %
Total revenue	635	674	(6) %
Expenses:			
Total expense	191	207	(8) %
Total adjusted EBITDA	\$ 444	467	(5) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 798	817	(2) %
Transport and Infrastructure	265	282	(6) %
Voice and Collaboration	843	929	(9) %
IT and Managed Services	33	34	(3) %
Total revenue	1,939	2,062	(6) %
Expenses:			
Total expense	613	653	(6) %
Total adjusted EBITDA	\$ 1,326	1,409	(6) %

Three and Nine Months Ended September 30, 2020 Compared to the same periods Ended September 30, 2019

Segment revenue decreased \$39 million, or 6%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$123 million, or 6%, for the nine months ended September 30, 2020 compared to nine months ended September 30, 2019, primarily due to the following factors:

- For both periods, IP and Data Services declined due to lower rates and customer transitions from Ethernet solutions to lower-rate IP services;
- for both periods, Voice and Collaboration decreased due to continued declines in traditional voice TDM services;
- for both periods, Transport and Infrastructure declined due to continued reductions in demand for our low speed broadband;
- for the three-month period, IT and Managed Services increased primarily driven by a non-recurring benefit in the quarter; and
- for the nine-month period, IT and Managed Services declined mainly due to customer churn.

Segment expenses decreased by \$16 million, or 8%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$40 million, or 6%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to lower cost of sales in line with lower revenue and lower headcount related costs.

Segment adjusted EBITDA as a percentage of revenue was 70% and 68% for the three and nine months ended September 30, 2020, respectively, and 69% and 68% for the three and nine months ended September 30, 2019, respectively.

Wholesale Segment

	Three Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 318	353	(10) %
Transport and Infrastructure	447	464	(4) %
Voice and Collaboration	183	198	(8) %
IT and Managed Services	1	2	nm
Total revenue	949	1,017	(7) %
Expenses:			
Total expense	136	149	(9) %
Total adjusted EBITDA	\$ 813	868	(6) %

	Nine Months Ended September 30,		% Change
	2020	2019	
	(Dollars in millions)		
Revenue:			
IP and Data Services	\$ 965	1,028	(6) %
Transport and Infrastructure	1,327	1,441	(8) %
Voice and Collaboration	561	584	(4) %
IT and Managed Services	2	6	(67) %
Total revenue	2,855	3,059	(7) %
Expenses:			
Total expense	432	452	(4) %
Total adjusted EBITDA	\$ 2,423	2,607	(7) %

Three and Nine Months Ended September 30, 2020 Compared to the same periods Ended September 30, 2019

Segment revenue decreased \$68 million, or 7%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$204 million, or 7%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to the following factors:

- For both periods, IP and Data Services declined driven by customer churn and lower rates;
- for both periods, Transport and Infrastructure declined due to continued declines in traditional private line services and customer network consolidation and grooming efforts;
- for both periods, Voice and Collaboration declined due to market rate compression and lower customer volumes; and
- for both periods, IT and Managed Services declined due to customer churn.

Segment expenses decreased by \$13 million, or 9%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$20 million, or 4%, for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to lower cost of sales and continued network grooming efforts, which was partially offset by higher employee-related costs.

Segment adjusted EBITDA as a percentage of revenue was 86% and 85% for both the three and nine months ended September 30, 2020, respectively, and 85% for both the three and nine months ended September 30, 2019.

Consumer Segment

	Three Months Ended September 30,		
	2020	2019	% Change
	(Dollars in millions)		
Revenue:			
Broadband	\$ 730	718	2 %
Voice	401	453	(11) %
Regulatory	153	157	(3) %
Other	25	37	(32) %
Total revenue	1,309	1,365	(4) %
Expenses:			
Total expense	165	172	(4) %
Total adjusted EBITDA	\$ 1,144	1,193	(4) %

	Nine Months Ended September 30,		
	2020	2019	% Change
	(Dollars in millions)		
Revenue:			
Broadband	\$ 2,178	2,158	1 %
Voice	1,231	1,397	(12) %
Regulatory	463	471	(2) %
Other	80	137	(42) %
Total revenue	3,952	4,163	(5) %
Expenses:			
Total expense	483	562	(14) %
Total adjusted EBITDA	\$ 3,469	3,601	(4) %

Three and Nine Months Ended September 30, 2020 Compared to the same periods Ended September 30, 2019

Segment revenue decreased \$56 million, or 4%, for the three months ended September 30, 2020, compared to the three months ended September 30, 2019, and \$211 million, or 5%, for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, primarily due to the following factors:

- For both periods, Broadband increases were driven by an increase in the number of customer orders for higher-speed services and higher rates;
- for both periods, Voice declined due to continued legacy voice customer losses; and
- for both periods, Regulatory and Other decreased due to the de-emphasis of our Prism video product and lower state support revenue.

Segment expenses decreased by \$7 million, or 4%, for the three months ended September 30, 2020 compared to the three months ended September 30, 2019, and \$79 million, or reduced 14%, for the nine months ended September 30, 2020 compared to the same period in 2019, primarily due to lower Prism content costs, employee-related costs and marketing expenses.

Segment adjusted EBITDA as a percentage of revenue was 87% and 88% for both the three and nine months ended September 30, 2020, respectively, and 87% for both the three and nine months ended September 30, 2019.

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

We are a holding company that is dependent on the capital resources of our subsidiaries to satisfy our parent company liquidity requirements. Several of our significant operating subsidiaries have borrowed funds either on a standalone basis or as part of a separate restricted group with certain of its subsidiaries or affiliates. The terms of the instruments governing the indebtedness of these borrowers or borrowing groups may restrict our ability to access their accumulated cash. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax, legal and other considerations.

At September 30, 2020, we held cash and cash equivalents of \$526 million, and we had \$1.1 billion of borrowing capacity available under our Revolving Credit Facility. We had approximately \$105 million of cash and cash equivalents outside the United States at September 30, 2020. We currently believe that there are no material restrictions on our ability to repatriate cash and cash equivalents into the United States, and that we may do so without paying or accruing U.S. taxes. We do not currently intend to repatriate to the United States any of our foreign cash and cash equivalents from operating entities outside of Latin America.

In response to COVID-19, the U.S. Congress passed the CARES Act on March 27, 2020. The CARES Act favorably increased our liquidity by \$41 million as a result of allowing us to receive a full refund of the alternative minimum tax credit carryforward in 2020, as compared to receiving the refund in phases over the next few years in accordance with the Tax Cuts and Jobs Act. Under the CARES Act, we have also been deferring our 2020 payroll tax payments, which we estimate will aggregate to \$135 million of deferred payments for the full year of 2020.

Generally speaking, our principal funding source is cash from operating activities, and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic securities repurchases, periodic pension contributions and other benefits payments.

For the 12 month period ending September 30, 2021, our projected fixed commitments include (i) \$125 million of scheduled term loan amortization payments, (ii) \$34 million of finance lease and other fixed payments and (iii) \$1.3 billion of debt maturities. We do not anticipate that the COVID-19 pandemic will interfere with our ability to discharge these obligations over the next year.

In light of the economic uncertainties associated with the COVID-19 pandemic, our executive officers and Board of Directors have continued to carefully monitor our liquidity and cash requirements. Based on current circumstances, we plan to continue our current dividend policy. Given uncertainties regarding the duration of the pandemic and timing for full economic recovery, we will continue to monitor our capital spending. As we do each year, we will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our Revolving Credit Facility as a source of liquidity for operating activities and our other cash requirements.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A of Part II of this report.

Capital Expenditures

We incur capital expenditures on an ongoing basis to expand and improve our service offerings, enhance and modernize our networks and compete effectively in our markets. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, current and projected demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase II infrastructure buildout requirements).

Our capital expenditures continue to be focused on enhancing network operating efficiencies and supporting new service developments. For more information on our capital spending, see (i) "—Overview of Sources and Uses of Cash" above, (ii) "Historical Information—Investing Activities" below and (iii) Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019.

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future primarily to refinance a substantial portion of our maturing debt, including issuing debt securities of certain of our subsidiaries to refinance their maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned by credit rating agencies, among other factors.

As of September 30, 2020, the credit ratings for the senior secured and unsecured debt of CenturyLink, Inc., Level 3 Financing, Inc. and Qwest Corporation were as follows:

Borrower	Moody's Investors Service, Inc.	Standard & Poor's	Fitch Ratings
CenturyLink, Inc.:			
Unsecured	B2	B+	BB
Secured	Ba3	BBB-	BB+
Level 3 Financing, Inc.			
Unsecured	Ba3	BB	BB
Secured	Ba1	BBB-	BBB-
Qwest Corporation:			
Unsecured	Ba2	BBB-	BB+

Our credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future downgrades of the senior unsecured or secured debt ratings of us or our subsidiaries could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A of Part II of this report.

Net Operating Loss Carryforwards

As of December 31, 2019, Lumen Technologies had approximately \$6.2 billion of federal net operating loss carryforwards ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income. These NOLs are primarily related to federal NOLs we acquired through the Level 3 acquisition on November 1, 2017 and are subject to limitations under Section 382 of the Internal Revenue Code and related U.S. Treasury Department regulations. In the first half of 2019, we entered into and subsequently restated a Section 382 rights agreement designed to safeguard through late 2020 our ability to use those NOLs. Assuming that we can continue using these NOLs in the amounts projected, we expect to significantly reduce our federal cash taxes for the next several years. The amounts of our near-term future tax payments will depend upon many factors, including our

future earnings and tax circumstances and results of any corporate tax reform. Based on current laws and our current assumptions and projections, we estimate our cash income tax liability related to 2020 will be approximately \$100 million.

We cannot assure you that we will be able to use our NOL carryforwards fully. See "Risk Factors—Risks Affecting Our Liquidity and Capital Resources—We cannot assure you, whether, when or in what amounts we will be able to use our net operating loss carryforwards, or when they will be depleted" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019, and Item 1A of Part II of this report.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.25 per share, as approved by our Board of Directors, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing our business, investing in the business, de-leveraging our balance sheet and returning a substantial portion of our cash to our shareholders. Assuming continued payment during 2020 at this rate of \$0.25 per share, our average total dividend paid each quarter would be approximately \$270 million based on the number of our current outstanding shares (which figure (i) assumes no increases or decrease in the number of shares, except in connection with the anticipated vesting of currently outstanding equity awards and (ii) excludes dividend costs we periodically incur in connection with releasing dividend payments upon the vesting of equity incentive awards, which was \$28 million during nine months ended September 30, 2020). See Risk Factors—"Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A of Part II of this report.

Revolving Facility and Other Debt Instruments

On January 31, 2020, we amended and restated our credit agreement dated June 19, 2017 to, among other things, extend the debt maturities of the revolving credit and term loan facilities established thereunder, to lower interest rates payable thereunder, and to amend the amounts owed under each of the facilities. For additional information, see (i) "—Overview of Sources and Uses of Cash," (ii) Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report and (iii) Note 7—Long-Term Debt and Credit Facilities in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2019.

At September 30, 2020, we had \$95 million of letters of credit outstanding under our \$225 million uncommitted letter of credit facility.

Additionally, as of September 30, 2020, we had outstanding letters of credit, or other similar obligations, of approximately \$17 million of which \$12 million is collateralized by cash that is reflected on our consolidated balance sheets as restricted cash.

In addition to its indebtedness under the Amended Credit Agreement, Lumen Technologies is indebted under its outstanding senior notes, and several of its subsidiaries are indebted under separate credit facilities or senior notes. For information on the terms and conditions of other debt instruments of ours and our subsidiaries, including financial and operating covenants, see (i) Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report and (ii) "—Other Matters" below.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2019, the accounting unfunded status of our qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$1.8 billion and \$3.0 billion, respectively. For additional information about our pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates - Pensions and Post-Retirement Benefits" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019 and see Note 11—Employee Benefits to our consolidated financial statements in Item 8 of Part II of the same report.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during 2020. The amount of required contributions to our qualified pension plan in 2021 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions. We last made a voluntary contribution to the trust for our qualified pension plan during 2018. Based on current circumstances, we do not anticipate making a voluntary contribution to the trust for our qualified pension plan in 2020.

Substantially all of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2019, assets in the post-retirement trusts had been substantially depleted and had a fair value of only \$13 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited our ability to continue paying benefits from the trusts. Benefits not paid from the trusts are expected to be paid directly by us with available cash. As described further in Note 11—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our most recent Annual Report on Form 10-K, aggregate benefits paid by us under these plans (net of participant contributions and direct subsidy receipts) were \$241 million, \$249 million and \$237 million for the years ended December 31, 2019, 2018 and 2017, respectively, while the amounts paid from the trust were \$4 million, \$4 million and \$31 million, respectively. For additional information on our expected future benefits payments for our post-retirement benefit plans, please see Note 11—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our Annual Report Form 10-K for the year ended December 31, 2019.

The capital markets have been volatile during 2020, primarily as a result of uncertainties related to the COVID-19 outbreak. U.S. federal governmental actions to stimulate the economy have significantly impacted interest rates. These events could ultimately affect the funding levels of our pension plans and calculations of our liabilities under our pension and other post-employment benefit plans.

For 2020, our expected annual long-term rates of return on the pension plan and post-retirement health care and life insurance benefit plan assets are 6% and 4%, respectively. However, actual returns could be substantially different.

Our pension plan contains provisions that allow us, from time to time, to offer lump sum payment options to certain former employees in settlement of their future retirement benefits. We record an accounting settlement charge, consisting of the recognition of certain deferred costs of the pension plan, associated with these lump sum payments only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit cost, which represents the settlement accounting threshold. As of September 30, 2020, the settlement threshold was not reached. As a result of reductions in our workforce in 2020, we expect the annual lump sum payments to be very close to the settlement accounting threshold. To the extent the settlement threshold is met, we estimate additional pension expense of approximately \$110 million would be incurred for the year ending December 31, 2020, but the amount of any additional pension expense will vary depending on the amount of the lump sum payments in 2020.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2019.

Connect America Fund

As a result of accepting CAF Phase II support payments, we are receiving substantial support payments under a program that will soon lapse. Moreover, we must meet certain specified infrastructure buildout requirements in 33 states which will obligate us to continue making substantial capital expenditures. We cannot provide any assurances that we will be able to timely meet our mandated buildout requirements.

On January 30, 2020, the FCC created the Rural Digital Opportunity Fund (the "RDOF"), which is a new federal support program designed to replace the CAF Phase II program. Through Phase I of the RDOF, the FCC plans to award up to \$16.0 billion in support payments over 10 years to bring broadband service to certain specified high-cost under-served U.S. markets. The FCC plans to select Phase I support recipients through a multi-round

reverse auction. We are a qualified bidder in that auction, which began on October 29, 2020. Any RDOF Phase I support for any areas awarded to us will begin January 1, 2022. In accordance with the FCC's January order, we elected to receive an additional year of CAF Phase II funding in 2021.

For additional information on these programs, see (i) "Business—Regulation" in Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019, (ii) "Risk Factors—Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of the same Annual Report and (iii) Item 1A of Part II of this report.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		Change
	2020	2019	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 4,842	4,771	71
Net cash used in investing activities	\$ (2,840)	(2,671)	169
Net cash used in financing activities	\$ (3,172)	(1,187)	1,985

Operating Activities

Net cash provided by operating activities increased by \$71 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019, primarily due to higher net income, increased collections from income tax receivables and decreases in payments of employee payroll taxes partially offset by decreased collections on accounts receivable, increased payments on accounts payable and increases in cash payments for retirement benefits and other taxes. Cash provided by operating activities is subject to variability period over period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable and bonuses.

Investing Activities

Net cash used in our investing activities increased by \$169 million for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019 substantially due to an increase in capital expenditures partially offset by an increase in proceeds from the sale of property, plant and equipment and other assets.

Financing Activities

Net cash used in financing activities increased by \$2.0 billion for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019, primarily due to an increase in payments of long-term debt partially offset by increases in net proceeds from issuance of long-term debt and net proceeds from our revolving line of credit.

See Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report for additional information on our outstanding debt securities.

Other Matters

We have cash management and loan arrangements with a majority of our income-generating subsidiaries, in which a substantial portion of the aggregate cash of those subsidiaries' is periodically advanced or loaned to us or our service company affiliate. Although we periodically repay these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time we may owe a substantial sum to our subsidiaries under these arrangements. In accordance with generally accepted accounting principles, these arrangements are reflected in the balance sheets of our subsidiaries, but are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

We also are involved in various legal proceedings that could substantially impact our financial position. See Note 12—Commitments, Contingencies and Other Items for additional information.

Market Risk

As of September 30, 2020, we are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) swap our exposure to changing or variable interest rates for fixed interest rates or (ii) swap obligations to pay fixed interest rates for variable interest rates. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. As of September 30, 2020, we did not hold or issue derivative financial instruments for trading or speculative purposes.

In February 2019, we executed swap transactions that reduced our exposure to floating rates with respect to \$2.5 billion principal amount of floating rate debt. In June 2019, we executed swap transactions that reduced our exposure to floating rates with respect to \$1.5 billion principal amount of floating rate debt. See Note 10—Derivative Financial Instruments to our consolidated financial statements in Item 1 of Part I of this report for additional disclosure regarding our hedging arrangements.

As of September 30, 2020, we had approximately \$10.7 billion floating rate debt potentially subject to LIBOR, \$4.0 billion of which was subject to the above-described hedging arrangements. A hypothetical increase of 100 basis points in LIBOR relating to our \$6.7 billion of unhedged floating rate debt would, among other things, decrease our annual pre-tax earnings by approximately \$67 million.

We conduct a portion of our business in currencies other than the U.S. dollar, the currency in which our consolidated financial statements are reported. Our European subsidiaries and certain Latin American subsidiaries use the local currency as their functional currency, as the majority of their revenue and purchases are transacted in their local currencies. Certain Latin American countries previously designated as highly inflationary economies use the U.S. dollar as their functional currency. Although we continue to evaluate strategies to mitigate risks related to the effect of fluctuations in currency exchange rates, we will likely recognize gains or losses from international transactions. Accordingly, changes in foreign currency rates relative to the U.S. dollar could adversely impact our operating results.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at September 30, 2020.

Off-Balance Sheet Arrangements

As of September 30, 2020, we had no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we did not engage in hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 19—Commitments and Contingencies and Other Items to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2019, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

Our website is www.lumen.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.lumen.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed by us or our affiliates Level 3 Parent, LLC and Qwest Corporation, and all amendments to those reports in the "Investor Relations" section of our website (ir.lumen.com) under the headings "FINANCIALS" and "SEC Filings." These reports are available on our website as soon as reasonably practicable after they are electronically filed with the SEC. From time to time, we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Liquidity and Capital Resources—Market Risk" in Item 2 of Part I above.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or furnish under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure this information is accumulated and communicated to our senior management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Indraneel Dev, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2020. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of September 30, 2020, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 12—Commitments, Contingencies and Other Items included in Item 1 of Part I of this quarterly report on Form 10-Q is incorporated herein by reference. The ultimate outcome of the matters described in Note 12 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Risks Relating to Legal and Regulatory Matters—Our pending legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2019 and Item 1A of Part II of this report.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. We urge you to carefully consider (i) the other information set forth in this report, (ii) the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, (iii) the risk factors discussed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020, and (iv) the risk factors discussed in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020, which are amended and restated in their entirety below.

An outbreak of disease or similar public health threat, such as the recent COVID-19 pandemic, could have a material adverse impact on our operating results and financial condition.

An outbreak of disease or similar public health threat, such as the recent COVID-19 pandemic and its detrimental impact on the worldwide economy, could have a material adverse impact on our operating results and financial condition.

We are vulnerable to the general economic effects of disease outbreaks and similar public health threats. Since the latter half of the first quarter of 2020, the COVID-19 pandemic has caused a sudden and substantial reduction in worldwide economic activity. COVID-19 poses the risk that we or our employees, contractors, suppliers, customers and other business partners may be prevented from conducting business activities at expected levels through established processes for a prolonged period of time, including due to the continuing effects of governmental regulation of permissible social and business activity. Future events regarding the pandemic, which are unpredictable and beyond our control, will ultimately impact our operations and results, including its impact on demand for our products and services and related impacts upon network usage, the ability of our customers to continue to pay us in a timely manner, the impact on other third parties upon which we are materially reliant, impacts on our workforce, impacts upon performance risk under our contracts, and impacts on our supply chains or distribution channels for our products and services. Such future uncertain and unpredictable developments include:

- ***The duration, extent and severity of the pandemic.*** The ultimate impact of the pandemic will depend on various medical factors that are currently unknown, including (i) whether, when or to what extent additional outbreaks may arise or return, (ii) the effectiveness of current or future mitigation steps, and (iii) whether or when treatments or vaccines will be widely available to improve or stem the pandemic.
- ***The response of governmental and nongovernmental authorities.*** Actions taken by governmental and nongovernmental bodies in response to the pandemic have continued to depress economic activity. In the United States and most other countries, these mandates have been issued by state or local officials, which significantly increases the unpredictability and variability of when and how these mandates will be amended, rescinded or reimposed. The pandemic has also led to changes in laws governing the rights of workers and has caused, and may continue to cause, various parties to propose additional changes to laws or regulations, including those governing communications companies.

- *Impacts to economic and market conditions.* Continuing uncertainties related to the duration and intensity of the pandemic will likely continue to create substantial disruptions and volatility in global, national, regional and local economies and markets. These disruptions could (i) limit or restrict our ability to conduct normal business activities with customers, vendors, lenders or others with whom we do business, (ii) continue to result in changes in spending patterns or reduced demand for certain of our products and services, (iii) continue to cause us to incur higher credit losses and overtime expenses, (iv) cause us to delay, change or fail to attain our operating, capital spending or transformational plans, (v) result in future changes in tax rates, (vi) increase the risk of litigation and (vii) otherwise render it more difficult or impossible to implement our operational or strategic plans.
- *Impacts on stock prices.* Since the outbreak of the pandemic in the U.S., our stock has traded at prices lower than pre-pandemic levels. Continuing uncertainty regarding the impact of the pandemic on our business could constrain the future trading price of our stock.
- *Impacts to capital markets.* Shortly after COVID-19 began its worldwide spread, domestic and worldwide capital markets experienced periods of instability or unpredictability, particularly for non-investment grade issuers. Legislative bodies and reserve banks have taken various actions in response to the pandemic that have impacted the capital markets, and we expect that these efforts could continue. We are materially reliant upon the capital markets to access funding necessary to refinance our outstanding indebtedness. If the economic disruptions caused by COVID-19 continue to interfere with the operations of the capital markets, our access to cash to refinance our debt or to fund our other cash requirements could be materially adversely affected.

In addition, responding to the continuing pandemic could divert management's attention from our key strategic priorities, increase costs as we prioritize health and safety matters for our employees and customers, cause us to reduce, delay, alter or abandon initiatives that may otherwise increase our long-term value, increase vulnerability to information technology or cybersecurity related risks as more of our employees work remotely and otherwise continue to disrupt our business operations. Moreover, if the pandemic ultimately materially reduces our cash flows, we may need to re-evaluate our capital allocation plans, especially if increased broadband usage increases our need to invest in our network to remain competitive.

If the pandemic intensifies or economic conditions deteriorate, the adverse impact the pandemic has on us could become more pronounced in the future and could have a material adverse impact on our operating results and financial condition.

Moreover, to the extent any of these risks and uncertainties adversely impact us in the ways described above or otherwise, they may also have the effect of heightening many of the other risks described under the section entitled "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019. In particular, persistent depressed trading prices for our stock or deterioration of global economic conditions could increase the possibility that we will incur a future goodwill impairment, as discussed in greater detail in Footnote 2 and Item 2 of Part I of this report.

We have taken certain precautions due to the uncertain and evolving situation relating to the spread of COVID-19 that could have a material adverse impact on our operating results and financial condition.

The precautionary measures described in this report that we have taken to safeguard our employees and customers could make it more difficult to (i) timely and efficiently furnish products and services to our customers, (ii) devote sufficient resources to our ongoing network, product simplification and cost reduction projects, (iii) efficiently monitor and maintain our network, (iv) maintain effective internal controls, (v) mitigate information technology or cybersecurity related risks and (vi) otherwise operate and administer our affairs. As such, these measures ultimately could have a material adverse impact on our operating results and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the third quarter of 2020 to satisfy the related tax withholding obligations:

Period	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
July 2020	193,474	\$ 9.87
August 2020	66,360	\$ 11.03
September 2020	92,307	\$ 10.84
Total	352,141	

ITEM 6. EXHIBITS

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.

Exhibit Number	Description
4.1	<u>Indenture, dated August 12, 2020, among Level 3 Parent, LLC, as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 3.625% Senior Notes due 2029 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on August 12, 2020).</u>
10.1*	<u>Amended and Restated CenturyLink, Inc. 2018 Equity Incentive Plan.</u>
31.1*	<u>Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	Financial statements from the Quarterly Report on Form 10-Q of CenturyLink, Inc. (doing business as Lumen Technologies) for the period ended September 30, 2020, formatted in Inline XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 5, 2020.

CENTURYLINK, INC.

By: /s/ Eric J. Mortensen
Eric J. Mortensen
Senior Vice President - Controller
(Principal Accounting Officer)

CenturyLink

2018 Equity INCENTIVE PLAN

as amended on August 19, 2020

1. Purpose. The purpose of the CenturyLink 2018 Equity Incentive Plan (the “Plan”) is to increase shareholder value and to advance the interests of CenturyLink, Inc. (“CenturyLink”) and its subsidiaries (collectively, the “Company”) by furnishing stock-based economic incentives (the “Incentives”) designed to attract, retain, reward, and motivate the Company’s key employees, officers, directors, consultants, and advisors and to strengthen the mutuality of interests between such persons and CenturyLink’s shareholders. Incentives consist of opportunities to purchase or receive shares of common stock, \$1.00 par value per share, of CenturyLink (the “Common Stock”) or cash valued in relation to Common Stock, on terms determined under this Plan. As used in this Plan, the term “subsidiary” means any corporation, limited liability company, or other entity of which CenturyLink owns (directly or indirectly) within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended (the “Code”), 50% or more of the total combined voting power of all classes of stock, membership interests, or other equity interests issued thereby.

2. Administration.

a. Composition. This Plan shall generally be administered by the compensation committee of the Board of Directors of CenturyLink (the “Board”) or by a subcommittee thereof (such administrator, as used in this Plan, the “Committee”). The Committee shall consist of not fewer than two members of the Board, each of whom shall qualify as a “non-employee director” under Rule 16b-3 under the Securities Exchange Act of 1934 (the “1934 Act”) or any successor rule.

b. Authority. The Committee shall have plenary authority to award Incentives under this Plan and to enter into agreements with or provide notices to participants as to the terms of the Incentives (collectively, the “Incentive Agreements”). The Committee shall have the general authority to interpret this Plan, to establish any rules or regulations relating to this Plan that it determines to be appropriate, and to make any other determination that it believes necessary or advisable for the proper administration of this Plan. Committee decisions regarding matters relating to this Plan shall be final, conclusive, and binding on the Company, participants, and all other interested persons. The Committee may delegate its authority hereunder to the extent provided in Section 3.2.

3. Eligible Participants.

a. Eligibility. Key employees, officers, and directors of the Company and persons providing services as consultants or advisors to the Company shall become eligible to receive Incentives under the Plan when designated by the Committee.

b. Delegation of Authority. With respect to participants not subject to Section 16 of the 1934 Act, the Committee may delegate to the chief executive officer and/or the

chief human resources officer (the “Executive Officers”), its authority to designate participants, to determine the size and type of Incentives to be received by those participants, to determine any performance objectives for these participants, and to approve or authorize the form of Incentive Agreement governing such Incentives. Following any grants of Incentives pursuant to such delegated authority, the Executive Officer or any officer of the Company designated by such Executive Officer may exercise any powers of the Committee under this Plan to accelerate vesting or exercise periods, to terminate restricted periods, to waive compliance with specified provisions, or to otherwise make determinations contemplated hereunder with respect to those participants; *provided, however*, that (a) the Executive Officer may only grant options at a per share exercise price equal to or greater than the Fair Market Value (as defined in Section 12.10) of a share of Common Stock on the later of the date the officer approves such grant or the date the participant commences employment and (b) the Committee retains sole authority to make any of the determinations set forth in Section 5.4, 12.10 or Section 11 of this Plan.

4. Types of Incentives. Incentives may be granted under this Plan to eligible participants in the forms of (a) incentive stock options, (b) non-qualified stock options, (c) stock appreciation rights (“SARs”), (d) restricted stock, (e) restricted stock units (“RSUs”), and (f) Other Stock-Based Awards (as defined in Section 10).

5. Shares Subject to the Plan.

a. Number of Shares. Subject to the counting provisions of Section 5.2 and adjustment as provided in Section 5.4, the maximum number of shares of Common Stock that may be delivered to participants and their permitted transferees under this Plan shall be 75,600,000.

b. Share Counting. Subject to adjustment as provided in Section 5.4:

(i) The maximum number of shares of Common Stock that may be issued upon exercise of stock options intended to qualify as incentive stock options under Section 422 of the Code shall be 34,600,000.

(ii) Any shares of Common Stock subject to an Incentive granted under this Plan that is subsequently canceled, forfeited, or expires prior to exercise or realization, whether in full or in part, shall be available again for issuance or delivery under the Plan. Any shares of Common Stock subject to an Incentive granted under the Amended and Restated CenturyLink, Inc. 2011 Equity Incentive Plan that, after the date this Plan is first approved by shareholders, is cancelled, forfeited, or expires prior to exercise or realization, whether in full or in part, shall be available for issuance or delivery under this Plan. Notwithstanding the foregoing, shares subject to an Incentive shall not be available again for issuance or delivery under this Plan if such shares were (a) tendered in payment of the exercise or base price of a stock option or stock-settled SAR; (b) covered by, but not issued upon settlement of, stock-settled SARs; or (c) delivered or withheld by the Company to satisfy any tax withholding obligation related to a stock option or stock-settled SAR.

(iii) If an Incentive, by its terms, may be settled only in cash, then the grant, vesting, payout, settlement, or forfeiture of such Incentive shall have no impact on the number of shares available for grant under the Plan.

c. Participant Limits. Subject to adjustment as provided in Section 5.4, the following additional limitations are imposed under the Plan:

(i) The maximum number of shares of Common Stock that may be covered by Incentives granted under the Plan to any one individual during any calendar year shall be 1,500,000.

(ii) The maximum value of Incentives that may be granted under the Plan to each non-employee director of CenturyLink during any single calendar year shall be \$500,000, with any shares granted under such Incentives valued at Fair Market Value on the date of grant.

d. Adjustment.

(i) In the event of any recapitalization, reclassification, stock dividend, stock split, combination of shares or other comparable change in the Common Stock, all limitations on numbers of shares of Common Stock provided in this Section 5 and the number of shares of Common Stock subject to outstanding Incentives shall be equitably adjusted in proportion to the change in outstanding shares of Common Stock. In addition, in the event of any such change in the Common Stock, the Committee shall make any other adjustment that it determines to be equitable, including adjustments to the exercise price of any option or the Base Price (defined in Section 7.5) of any SAR and any per share performance objectives of any Incentive in order to provide participants with the same relative rights before and after such adjustment.

(ii) If the Company merges, consolidates, sells substantially all of its assets, or dissolves, and such transaction is not a Change of Control as defined in Section 11 (each of the foregoing, a “Fundamental Change”), then thereafter, upon any exercise or payout of an Incentive granted prior to the Fundamental Change, the participant shall be entitled to receive (i) in lieu of shares of Common Stock previously issuable thereunder, the number and class of shares of stock or securities to which the participant would have been entitled pursuant to the terms of the Fundamental Change if, immediately prior to such Fundamental Change, the participant had been the holder of record of the number of shares of Common Stock subject to such Incentive or (ii) in lieu of payments based on the Common Stock previously payable thereunder, payments based on any formula that the Committee determines to be equitable in order to provide participants with substantially equivalent rights before and after the Fundamental Change. In the event any such Fundamental Change causes a change in the outstanding Common Stock, the aggregate number of shares available under the Plan may be appropriately adjusted by the Committee in its sole discretion, whose determination shall be conclusive.

e. Type of Common Stock. Common Stock issued under the Plan may be authorized and unissued shares or issued shares held as treasury shares.

f. Minimum Vesting Requirements. Except for any Incentives that are issued in payment of cash amounts earned under the Company's short-term incentive program, all Incentives must be granted with a minimum vesting period of at least one year without providing for incremental vesting during such one-year period.

g. Dividends and Dividend Equivalent Rights. Incentives granted under this Plan in the form of stock options and SARs may not be granted with dividend or dividend equivalent rights. Subject to the terms and conditions of this Plan and the applicable Incentive Agreement, as well as any procedures established by the Committee, the Committee may determine to pay dividends or dividend equivalents, as applicable, on Incentives granted under this Plan in the form of restricted stock, RSUs, or Other Stock Based Awards. In the event that the Committee grants dividend equivalent rights, the Company shall establish an account for the participant and reflect in that account any securities, cash, or other property comprising any dividend or property distribution with respect to each share of Common Stock underlying each Incentive. For any Incentives granted under this Plan with dividend or dividend equivalent rights, such dividends or dividend equivalent rights shall vest and pay out or be forfeited in tandem with underlying Incentives rather than during the vesting period.

6. Stock Options. A stock option is a right to purchase shares of Common Stock from CenturyLink. Stock options granted under the Plan may be incentive stock options (as such term is defined in Section 422 of the Code) or non-qualified stock options. Any option that is designated as a non-qualified stock option shall not be treated as an incentive stock option. Each stock option granted by the Committee under this Plan shall be subject to the following terms and conditions:

a. Price. The exercise price per share shall be determined by the Committee, subject to adjustment under Section 5.4; provided that in no event shall the exercise price be less than the Fair Market Value (as defined in Section 12.10) of a share of Common Stock as of the date of grant, except in the case of a stock option granted in assumption of or substitution for an outstanding award of a company acquired by the Company or with which the Company combines. In the event that an option grant is approved by the Committee, but is to take effect on a later date, such as when employment or service commences, such later date shall be the date of grant.

b. Number. The number of shares of Common Stock subject to the option shall be determined by the Committee, subject to Section 5, including, but not limited to, any adjustment as provided in Section 5.4.

c. Duration and Time for Exercise. The term of each stock option shall be determined by the Committee, but shall not exceed a maximum term of ten years. Subject to Section 5.6, each stock option shall become exercisable at such time or times during its term as determined by the Committee and provided for in the Incentive Agreement. Notwithstanding the foregoing, the Committee may accelerate the exercisability of any stock option at any time.

d. Manner of Exercise. A stock option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of shares of Common Stock to

be purchased. The exercise notice shall be accompanied by the full purchase price for such shares. The option price shall be payable in United States dollars and may be paid (a) in cash; (b) by check; (c) by delivery to the Company of currently-owned shares of Common Stock (including through any attestation of ownership that effectively transfers title), which shares shall be valued for this purpose at the Fair Market Value on the business day immediately preceding the date such option is exercised; (d) by delivery of irrevocable written instructions to a broker approved by the Company (with a copy to the Company) to immediately sell a portion of the shares issuable under the option and to deliver promptly to the Company the amount of sale proceeds (or loan proceeds if the broker lends funds to the participant for delivery to the Company) to pay the exercise price; (e) if approved by the Committee, through a net exercise procedure whereby the optionee surrenders the option in exchange for that number of shares of Common Stock with an aggregate Fair Market Value equal to the difference between the aggregate exercise price of the options being surrendered and the aggregate Fair Market Value of the shares of Common Stock subject to the option; (f) in such other manner as may be authorized from time to time by the Committee; or (g) through any combination of the foregoing methods.

e. Limitations on Repricing. Except for adjustments pursuant to Section 5.4 or actions permitted to be taken by the Committee under Section 11 in the event of a Change of Control, unless approved by the shareholders of the Company, (a) the exercise price for any outstanding option granted under this Plan may not be decreased after the date of grant; and (b) an outstanding option that has been granted under this Plan may not, as of any date that such option has a per share exercise price that is greater than the then-current Fair Market Value of a share of Common Stock, be surrendered to the Company as consideration for the grant of a new option or SAR with a lower exercise price, shares of restricted stock, restricted stock units, an Other Stock-Based Award, a cash payment, or Common Stock.

f. Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options that are intended to qualify as incentive stock options (as such term is defined in Section 422 of the Code):

(i) Any incentive stock option agreement authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain or be deemed to contain all provisions required in order to qualify the options as incentive stock options.

(ii) All incentive stock options must be granted within ten years from the date on which this Plan is adopted by the Board.

(iii) No incentive stock options shall be granted to any non-employee or to any participant who, at the time such option is granted, would own (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of CenturyLink.

(iv) The aggregate Fair Market Value (determined with respect to each incentive stock option as of the time such incentive stock option is granted) of the Common

Stock with respect to which incentive stock options are exercisable for the first time by a participant during any calendar year (under the Plan or any other plan of CenturyLink or any of its subsidiaries) shall not exceed \$100,000. To the extent that such limitation is exceeded, the excess options shall be treated as non-qualified stock options for federal income tax purposes.

7. Stock Appreciation Rights.

a. Grant of Stock Appreciation Rights. A stock appreciation right, or SAR, is a right to receive, without payment to the Company, a number of shares of Common Stock, cash, or any combination thereof, the number or amount of which is determined pursuant to the formula set forth in Section 7.5. Each SAR granted by the Committee under the Plan shall be subject to the terms and conditions of the Plan and the applicable Incentive Agreement.

b. Number. Each SAR granted to any participant shall relate to such number of shares of Common Stock as shall be determined by the Committee, subject to adjustment as provided in Section 5.4.

c. Duration and Time for Exercise. The term of each SAR shall be determined by the Committee, but shall not exceed a maximum term of ten years. Subject to Section 5.6, each SAR shall become exercisable at such time or times during its term as shall be determined by the Committee and provided for in the Incentive Agreement. Notwithstanding the foregoing, the Committee may accelerate the exercisability of any SAR at any time in its discretion.

d. Exercise. A SAR may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of SARs that the holder wishes to exercise. The date that the Company receives such written notice shall be referred to herein as the “Exercise Date.” The Company shall, within 30 days of an Exercise Date, deliver to the exercising holder certificates for the shares of Common Stock to which the holder is entitled pursuant to Section 7.5 or cash or both, as provided in the Incentive Agreement.

e. Payment.

(i) The number of shares of Common Stock which shall be issuable upon the exercise of a SAR payable in Common Stock shall be determined by dividing:

(1) the number of shares of Common Stock as to which the SAR is exercised, multiplied by the amount of the appreciation in each such share (for this purpose, the “appreciation” shall be the amount by which the Fair Market Value (as defined in Section 12.10) of a share of Common Stock subject to the SAR on the trading day prior to the Exercise Date exceeds the “Base Price,” which is an amount, not less than the Fair Market Value of a share of Common Stock on the date of grant, which shall be determined by the Committee at the time of grant, subject to adjustment under Section 5.4); by

(2) the Fair Market Value of a share of Common Stock on the Exercise Date.

(ii) No fractional shares of Common Stock shall be issued upon the exercise of a SAR; instead, the holder of a SAR shall be entitled to purchase the portion necessary to make a whole share at its Fair Market Value on the Exercise Date.

(iii) If so provided in the Incentive Agreement, a SAR may be exercised for cash equal to the Fair Market Value of the shares of Common Stock that would be issuable under Section 7.5(a), if the exercise had been for Common Stock.

f. Limitations on Repricing. Except for adjustments pursuant to Section 5.4 or actions permitted to be taken by the Committee under Section 11 in the event of a Change of Control, unless approved by the shareholders of the Company, (a) the Base Price for any outstanding SAR granted under this Plan may not be decreased after the date of grant; and (b) an outstanding SAR that has been granted under this Plan may not, as of any date that such SAR has a Base Price that is greater than the then-current Fair Market Value of a share of Common Stock, be surrendered to the Company as consideration for the grant of a new option or SAR with a lower exercise price, shares of restricted stock, restricted stock units, an Other Stock-Based Award, a cash payment, or Common Stock.

8. Restricted Stock.

a. Grant of Restricted Stock. The Committee may award shares of restricted stock to such eligible participants as determined pursuant to the terms of Section 3. An award of restricted stock shall be subject to such restrictions on transfer and forfeitability provisions and such other terms and conditions, including the attainment of specified performance goals, as the Committee may determine, subject to the provisions of the Plan.

b. The Restricted Period. Subject to Section 5.6, at the time an award of restricted stock is made, the Committee shall establish a period of time during which the transfer of the shares of restricted stock shall be restricted and after which the shares of restricted stock shall be vested (the "Restricted Period"). Each award of restricted stock may have a different Restricted Period.

c. Escrow. The participant receiving restricted stock shall enter into an Incentive Agreement with the Company setting forth the conditions of the grant. Any certificates representing shares of restricted stock shall be registered in the name of the participant and deposited with the Company, together with a stock power endorsed in blank by the participant. Each such certificate shall bear a legend in substantially the following form:

The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the CenturyLink 2018 Equity Incentive Plan (the "Plan"), and an agreement entered into between the registered owner and CenturyLink, Inc. (the

“Company”) thereunder. Copies of the Plan and the agreement are on file at the principal office of the Company.

Alternatively, in the discretion of the Company, ownership of the shares of restricted stock and the appropriate restrictions shall be reflected in the records of the Company’s transfer agent and no physical certificates shall be issued.

d. Forfeiture. In the event of the forfeiture of any shares of restricted stock under the terms provided in the Incentive Agreement (including any additional shares of restricted stock that may result from the reinvestment of cash and stock dividends, if so provided in the Incentive Agreement), such forfeited shares shall be surrendered, any certificates shall be cancelled, and any related accrued but unpaid cash dividends will be forfeited. The participants shall have the same rights and privileges, and be subject to the same forfeiture provisions, with respect to any additional shares received pursuant to Section 5.4 due to a recapitalization or other change in capitalization.

e. Expiration of Restricted Period. Upon the expiration or termination of the Restricted Period and the satisfaction of any other conditions prescribed by the Committee, the restrictions applicable to the restricted stock shall lapse, and the Company shall cause to be delivered to the participant or the participant’s estate, as the case may be, the number of shares of restricted stock with respect to which the restrictions have lapsed, free of all such restrictions and legends, except any that may be imposed by law. The Company, in its discretion, may elect to deliver such shares through issuance of a stock certificate or by book entry.

f. Rights as a Shareholder. Subject to the terms and conditions of the Plan (including, but not limited to, Section 5.7) and the applicable Incentive Agreement, each participant receiving restricted stock shall have all the rights of a shareholder with respect to shares of stock during the Restricted Period, including without limitation, the right to vote any shares of Common Stock.

9. Restricted Stock Units.

a. Grant of Restricted Stock Units. A restricted stock unit, or RSU, represents the right to receive from the Company on the respective scheduled vesting or payment date for such RSU, one share of Common Stock. An award of RSUs may be subject to the attainment of specified performance goals or targets, forfeitability provisions and such other terms and conditions as the Committee may determine, subject to the provisions of the Plan

b. Vesting Period. Subject to Section 5.6, at the time an award of RSUs is made, the Committee shall establish a period of time during which the restricted stock units shall vest (the “Vesting Period”). Each award of RSUs may have a different Vesting Period.

c. Rights as a Shareholder. Subject to the restrictions imposed under the terms and conditions of this Plan and subject to any other restrictions that may be imposed in the Incentive Agreement, each participant receiving restricted stock units shall have no rights as a

shareholder with respect to such restricted stock units until such time as shares of Common Stock are issued to the participant.

10. Other Stock-Based Awards. The Committee may grant to eligible participants “Other Stock-Based Awards,” which shall consist of awards (other than options, SARs, restricted stock, or RSUs, described in Sections 6 through 9 hereof) paid out in shares of Common Stock or the value of which is based in whole or in part on the value of shares of Common Stock. Other Stock-Based Awards may be awards of shares of Common Stock, awards of phantom stock, or may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of, or appreciation in the value of, Common Stock (including, without limitation, securities convertible or exchangeable into or exercisable for shares of Common Stock), as deemed by the Committee consistent with the purposes of this Plan. Subject to Section 5.6, the Committee shall determine the terms and conditions of any Other Stock-Based Award (including which rights of a shareholder, if any, the recipient shall have with respect to Common Stock associated with any such award) and may provide that such award is payable in whole or in part in cash. An Other Stock-Based Award may be subject to the attainment of such specified performance goals or targets as the Committee may determine, subject to the provisions of this Plan.

11. Change of Control.

(i) A Change of Control shall mean:

(1) the acquisition by any person of beneficial ownership of 30% or more of the outstanding shares of the Common Stock or 30% or more of the combined voting power of CenturyLink’s then outstanding securities entitled to vote generally in the election of directors; *provided, however*, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control:

(A) any acquisition (other than a Business Combination (as defined below) which constitutes a Change of Control under Section 11(a)(iii) hereof) of Common Stock directly from the Company,

(B) any acquisition of Common Stock by the Company,

(C) any acquisition of Common Stock by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or

(D) any acquisition of Common Stock by any corporation pursuant to a Business Combination that does not constitute a Change of Control under Section 11(a)(iii) hereof; or

(2) individuals who, as of May 23, 2018, constituted the Board of Directors of CenturyLink (the “Incumbent Board”) cease for any reason to

constitute at least a majority of the Board of Directors; *provided, however*, that any individual becoming a director subsequent to such date whose election, or nomination for election by CenturyLink's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered a member of the Incumbent Board, unless such individual's initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Incumbent Board; or

(3) consummation of a reorganization, share exchange, merger or consolidation (including any such transaction involving any direct or indirect subsidiary of CenturyLink) or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"); *provided, however*, that in no such case shall any such transaction constitute a Change of Control if immediately following such Business Combination:

(A) the individuals and entities who were the beneficial owners of CenturyLink's outstanding Common Stock and CenturyLink's voting securities entitled to vote generally in the election of directors immediately prior to such Business Combination have direct or indirect beneficial ownership, respectively, of more than 50% of the then outstanding shares of common stock, and more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the surviving or successor corporation, or, if applicable, the ultimate parent company thereof (the "Post-Transaction Corporation"), and

(B) except to the extent that such ownership existed prior to the Business Combination, no person (excluding the Post-Transaction Corporation and any employee benefit plan or related trust of either CenturyLink, the Post-Transaction Corporation or any subsidiary of either corporation) beneficially owns, directly or indirectly, 20% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or 20% or more of the combined voting power of the then outstanding voting securities of such corporation, and

(C) at least a majority of the members of the board of directors of the Post-Transaction Corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination; or

(4) approval by the shareholders of CenturyLink of a complete liquidation or dissolution of CenturyLink.

For purposes of this Section 11, the term “person” shall mean a natural person or entity, and shall also mean the group or syndicate created when two or more persons act as a syndicate or other group (including a partnership or limited partnership) for the purpose of acquiring, holding, or disposing of a security, except that “person” shall not include an underwriter temporarily holding a security pursuant to an offering of the security.

(ii) No Incentive Agreement shall provide for (1) the acceleration of the vesting of time-based Incentives upon the occurrence of a Change of Control without a contemporaneous or subsequent termination of the participant’s employment or service relationship or (2) the payout of any performance-based Incentives upon a Change of Control in an amount exceeds the greater of (i) the payout of a pro-rata portion of such Incentive, based on the portion of the performance period that has elapsed and assuming target performance and (ii) payout of such Incentive based on actual performance. Notwithstanding the foregoing, no later than 30 days after a Change of Control of the type described in subsections (a)(i) or (a)(ii) of this Section 11 and no later than 30 days after the approval by the Board of a Change of Control of the type described in subsections (a)(iii) or (a)(iv) of this Section 11, the Committee, acting in its sole discretion without the consent or approval of any participant (and notwithstanding any removal or attempted removal of some or all of the members thereof as directors or Committee members), may act to effect one or more of the alternatives listed below, which may vary among individual participants and which may vary among Incentives held by any individual participant; *provided, however*, that no such action may be taken if it would result in the imposition of a penalty on the participant under Section 409A of the Code as a result thereof:

(1) require that all outstanding options, SARs or Other Stock-Based Awards be exercised on or before a specified date (before or after such Change of Control) fixed by the Committee, after which specified date all unexercised options, SARs and Other Stock-Based Awards and all rights of participants thereunder would terminate,

(2) make such equitable adjustments to Incentives then outstanding as the Committee deems appropriate to reflect such Change of Control and provide participants with substantially equivalent rights before and after such Change of Control (*provided, however*, that the Committee may determine in its sole discretion that no adjustment is necessary),

(3) provide for mandatory conversion or exchange of some or all of the outstanding options, SARs, restricted stock units or Other Stock-Based Awards held by some or all participants as of a date, before or after such Change of Control, specified by the Committee, in which event such Incentives would be deemed automatically cancelled and the Company would pay, or cause to be paid, to each such participant an amount of cash per share equal to the excess, if any, of the Change of Control Value of the shares subject to such option, SAR, restricted stock unit or Other Stock-Based Award, as defined and calculated below, over the per share exercise price or Base Price of such Incentive or, in lieu of such cash

payment, the issuance of Common Stock or securities of an acquiring entity having a Fair Market Value equal to such excess, or

(4) provide that thereafter, upon any exercise or payment of an Incentive that entitles the holder to receive Common Stock, the holder shall be entitled to purchase or receive under such Incentive, in lieu of the number of shares of Common Stock then covered by such Incentive, the number and class of shares of stock or other securities or property (including cash) to which the holder would have been entitled pursuant to the terms of the agreement providing for the reorganization, share exchange, merger, consolidation or asset sale, if, immediately prior to such Change of Control, the holder had been the record owner of the number of shares of Common Stock then covered by such Incentive.

(iii) For the purposes of conversions or exchanges under paragraph (iii) of Section 11(c), the “Change of Control Value” shall equal the amount determined by whichever of the following items is applicable:

(1) the per share price to be paid to holders of Common Stock in any such merger, consolidation or other reorganization,

(2) the price per share offered to holders of Common Stock in any tender offer or exchange offer whereby a Change of Control takes place, or

(3) in all other events, the fair market value of a share of Common Stock, as determined by the Committee as of the time determined by the Committee to be immediately prior to the effective time of the conversion or exchange.

(iv) In the event that the consideration offered to shareholders of CenturyLink in any transaction described in this Section 11 consists of anything other than cash, the Committee shall determine the fair cash equivalent of the portion of the consideration offered that is other than cash.

12. General.

a. Duration. No Incentives may be granted under the Plan after May 23, 2028; *provided, however*, that subject to Section 12.8, the Plan shall remain in effect after such date with respect to Incentives granted prior to that date, until all such Incentives have either been satisfied by the issuance of shares of Common Stock or otherwise been terminated under the terms of the Plan and all restrictions imposed on shares of Common Stock in connection with their issuance under the Plan have lapsed.

b. Transferability.

(i) No Incentives granted hereunder may be transferred, pledged, assigned, or otherwise encumbered by a participant except:

- (1) by will;
- (2) by the laws of descent and distribution;
- (3) if permitted by the Committee and so provided in the Incentive Agreement or an amendment thereto, pursuant to a domestic relations order, as defined in the Code; or
- (4) as to options only, if permitted by the Committee and so provided in the Incentive Agreement or an amendment thereto, (i) to Immediate Family Members (as defined in Section 12.2(b)); (ii) to a partnership in which the participant and/or Immediate Family Members, or entities in which the participant and/or Immediate Family Members are the sole owners, members, or beneficiaries, as appropriate, are the sole partners; (iii) to a limited liability company in which the participant and/or Immediate Family Members, or entities in which the participant and/or Immediate Family Members are the sole owners, members, or beneficiaries, as appropriate, are the sole members; or (iv) to a trust for the sole benefit of the participant and/or Immediate Family Members.

(ii) “Immediate Family Members” shall be defined as the spouse and natural or adopted children or grandchildren of the participant and their spouses. To the extent that an incentive stock option is permitted to be transferred during the lifetime of the participant, it shall be treated thereafter as a nonqualified stock option. Any attempted assignment, transfer, pledge, hypothecation, or other disposition of Incentives, or levy of attachment or similar process upon Incentives not specifically permitted herein, shall be null and void and without effect.

c. Effect of Termination of Employment or Death. In the event that a participant ceases to be an employee of the Company or to provide services to the Company for any reason, including death, disability, early retirement or normal retirement, any Incentives may be exercised, shall vest or shall expire at such times as may be determined by the Committee or as provided in the Incentive Agreement.

d. Additional Conditions. Anything in this Plan to the contrary notwithstanding: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of award of any Incentive or the issuance of any shares of Common Stock pursuant to any Incentive, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Common Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Common Stock issued pursuant thereto for his own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Common Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the award of any Incentive, the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be awarded or such

shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

e. Withholding.

(i)The Company shall have the right to withhold from any payments made or stock issued under the Plan or to collect as a condition of payment, issuance or vesting, any taxes required by law to be withheld (up to the maximum permissible withholding rate). At any time that a participant is required to pay to the Company an amount required to be withheld under applicable income tax laws in connection with an Incentive (each such date, a “Tax Date”), the participant may, subject to Section 12.5(b) below, satisfy this obligation in whole or in part by electing (the “Election”) to deliver currently owned shares of Common Stock or to have the Company withhold shares of Common Stock, in each case having a value equal to the maximum statutory amount required to be withheld under federal, state and local law. The value of the shares to be delivered or withheld shall be based on the Fair Market Value of the Common Stock on the Tax Date.

(ii)Each Election must be made prior to the Tax Date. For participants who are not subject to Section 16 of the 1934 Act, the Committee may disapprove of any Election, may suspend or terminate the right to make Elections, or may provide with respect to any Incentive that the right to make Elections shall not apply to such Incentive. If a participant makes an election under Section 83(b) of the Code with respect to shares of restricted stock, an Election to have shares withheld to satisfy withholding taxes is not permitted to be made.

f. No Continued Employment. No participant under the Plan shall have any right, solely based on his or her participation in the Plan, to continue to serve as an employee, officer, director, consultant, or advisor of the Company for any period of time or to any right to continue his or her present or any other rate of compensation.

g. Deferral Permitted. Payment of an Incentive may be deferred at the option of the participant if permitted in the Incentive Agreement. Any deferral arrangements shall comply with Section 409A of the Code.

h. Amendments to or Termination of the Plan. The Board may amend or discontinue this Plan at any time; *provided, however,* that no such amendment may:

(i)amend Section 6.5 or Section 7.6 to permit repricing of options or SARs without the approval of shareholders;

(ii)materially impair, without the consent of the recipient, an Incentive previously granted, except that the Company retains all of its rights under Section 11; or

(iii)materially revise the Plan without the approval of the shareholders. A material revision of the Plan includes (i) except for adjustments permitted herein, a material increase to the maximum number of shares of Common Stock that may be issued through the

Plan, (ii) a material increase to the benefits accruing to participants under the Plan, (iii) a material expansion of the classes of persons eligible to participate in the Plan, (iv) an expansion of the types of awards available for grant under the Plan, (v) a material extension of the term of the Plan and (vi) a material change that reduces the price at which shares of Common Stock may be offered through the Plan.

i. Repurchase. Upon approval of the Committee, the Company may repurchase all or a portion of a previously granted Incentive from a participant by mutual agreement by payment to the participant of cash or Common Stock or a combination thereof with a value equal to the value of the Incentive determined in good faith by the Committee; *provided, however*, that in no event will this section be construed to grant the Committee the power to take any action in violation of Section 6.5, 7.6, or 12.13.

j. Definition of Fair Market Value. Whenever “Fair Market Value” of Common Stock shall be determined for purposes of this Plan, except as provided below in connection with a cashless exercise through a broker, it shall be determined as follows: (a) if the Common Stock is listed on an established stock exchange or any automated quotation system that provides sale quotations, the closing sale price for a share of the Common Stock on such exchange or quotation system on the date as of which fair market value is to be determined, (b) if the Common Stock is not listed on any exchange or quotation system, but bid and asked prices are quoted and published, the mean between the quoted bid and asked prices on the date as of which fair market value is to be determined, and if bid and asked prices are not available on such day, on the next preceding day on which such prices were available; and (c) if the Common Stock is not regularly quoted, the fair market value of a share of Common Stock on the date as of which fair market value is to be determined, as established by the Committee in good faith. In the context of a cashless exercise through a broker, the “Fair Market Value” shall be the price at which the Common Stock subject to the stock option is actually sold in the market to pay the option exercise price. Notwithstanding the foregoing, if so determined by the Committee, “Fair Market Value” may be determined as an average selling price during a period specified by the Committee that is within 30 days before or 30 days after the date of grant, provided that the commitment to grant the stock right based on such valuation method must be irrevocable before the beginning of the specified period, and such valuation method must be used consistently for grants of stock rights under the same and substantially similar programs during any particular calendar year.

k. Liability.

1. Neither CenturyLink, its affiliates or any of their respective directors or officers shall be liable to any participant relating to the participant’s failure to (i) realize any anticipated benefit under an Incentive due to the failure to satisfy any applicable conditions to vesting, payment or settlement, or (ii) realize any anticipated tax benefit or consequence due to changes in applicable law, the particular circumstances of the participant, or any other reason.

2. No member of the Committee (or officer of the Company exercising delegated authority of the Committee under Section 3 thereof) will be liable for any action or determination made in good faith with respect to this Plan or any Incentive.

1. Interpretation.

3. Unless the context otherwise requires, (i) all references to Sections are to Sections of this Plan, (ii) the term “including” means including without limitation, (iii) all references to any particular Incentive Agreement shall be deemed to include any amendments thereto or restatements thereof, and (iv) all references to any particular statute shall be deemed to include any amendment, restatement or re-enactment thereof or any statute or regulation substituted therefore.

4. The titles and subtitles used in this Plan or any Incentive Agreement are used for convenience only and are not to be considered in construing or interpreting this Plan or the Incentive Agreement.

5. All pronouns contained in this Plan or any Incentive Agreement, and any variations thereof, shall be deemed to refer to the masculine, feminine or neutral, singular or plural, as the identities of the parties may require.

6. Whenever any provision of this Plan authorizes the Committee to take action or make determinations with respect to outstanding Incentives that have been granted or awarded by the chief executive officer of CenturyLink under Section 3.2 hereof, each such reference to “Committee” shall be deemed to include a reference to any officer of the Company that has delegated administrative authority under Section 3.2 of this Plan (subject to the limitations of such section).

m. Compliance with Section 409A. It is the intent of the Company that this Plan comply with the requirements of Section 409A of the Code with respect to any Incentives that constitute non-qualified deferred compensation under Section 409A, and the Company intends to operate the Plan in compliance with Section 409A and the Department of Treasury’s guidance or regulations promulgated thereunder. If the Committee grants any Incentives or takes any other action that would, either immediately or upon vesting or payment of the Incentive, inadvertently result in the imposition of a penalty on a participant under Section 409A of the Code, then the Company, in its discretion, may, to the maximum extent permitted by law, unilaterally rescind *ab initio*, sever, amend or otherwise modify the grant or action (or any provision of the Incentive) in such manner necessary for the penalty to be inapplicable or reduced.

n. Data Privacy. As a condition of receipt of any Incentive, each participant explicitly and unambiguously consents to the collection, use, and transfer, in electronic or other form, of personal data as described in this Section by and among, as applicable, the Company and its affiliates for the exclusive purpose of implementing, administering, and managing the Plan and Incentives and such participant’s participation in the Plan. In furtherance of such implementation, administration, and management, the Company and its affiliates may hold

certain personal information about a participant, including, but not limited to, the participant's name, home address, telephone number, date of birth, social security or insurance number or other identification number, salary, nationality, job title(s), information regarding any securities of the Company or any of its affiliates, and details of all Incentives (the "Data"). In addition to transferring the Data amongst themselves as necessary for the purpose of implementation, administration, and management of the Plan and Incentives and the participant's participation in the Plan, the Company and its affiliates may each transfer the Data to any third parties assisting the Company in the implementation, administration, and management of the Plan and Incentives and such participant's participation in the Plan. Recipients of the Data may be located in the participant's country or elsewhere, and the participant's country and any given recipient's country may have different data privacy laws and protections. By accepting an Incentive, each participant authorizes such recipients to receive, possess, use, retain, and transfer the Data, in electronic or other form, for the purposes of assisting the Company in the implementation, administration, and management of the Plan and Incentives and such participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the participant may elect to deposit any shares of Common Stock. The Data related to a participant will be held only as long as is necessary to implement, administer, and manage the Plan and Incentives and the participant's participation in the Plan. A participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such participant, recommend any necessary corrections to the Data with respect to the participant, or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. However, if a participant refuses or withdraws the consents described herein, the Company may cancel the participant's eligibility to participate in the Plan, and in the Committee's discretion, the participant may forfeit any outstanding Incentive. For more information on the consequences of refusal to consent or withdrawal of consent, participants may contact their local human resources representative.

o. Participants Outside of the United States. The Committee may modify the terms of any Incentive under the Plan made to or held by a participant who is then a resident, or is primarily employed or providing services, outside of the United States in any manner deemed by the Committee to be necessary or appropriate in order that such Incentive shall conform to laws, regulations, and customs of the country in which the Participant is then a resident or primarily employed or providing services, or so that the value and other benefits of the Incentive to such participant, as affected by non-United States tax laws and other restrictions applicable as a result of the participant's residence, employment, or providing services abroad, shall be comparable to the value of such Incentive to a Participant who is a resident, or is primarily employed or providing services, in the United States. An Incentive may be modified under this Section 12.15 in a manner that is inconsistent with the express terms of the Plan, so long as such modifications will not contravene any applicable law or regulation or result in actual liability under Section 16(b) of the 1934 Act for the participant whose Incentive is modified. Additionally, the Committee may adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Eligible Persons who are non-United States nationals or are primarily employed or providing services outside the United States.

* * * * *

CERTIFICATION

The undersigned Secretary of CenturyLink, Inc. (the “Company”) hereby certifies that the foregoing CenturyLink 2018 Equity Incentive Plan was (i) first adopted by the Board of Directors (the “Board”) at a meeting duly held on February 22, 2018 and approved by the requisite affirmative vote of the Company’s shareholders at their annual meeting held on May 23, 2018 (ii) amended to increase the number of shares available for issuance from 34,600,000 to 81,100,000 effective May 20, 2020, with such amendment having been adopted by the Board at a meeting duly held on February 26, 2020 and approved by the requisite affirmative vote of the Company’s shareholders at their annual meeting held on May 20, 2020; and (iii) amended by the Board at a meeting held on August 19, 2020, to include a non-material change in delegation authority to include the Company’s chief human resources officer.



Stacey W. Goff

Executive Vice President, General Counsel, and Secretary

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeff K. Storey, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenturyLink, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Indraneel Dev, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenturyLink, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2020

/s/ Indraneel Dev

 Indraneel Dev
 Executive Vice President and Chief
 Financial Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Jeff K. Storey, Chief Executive Officer of CenturyLink, Inc. ("CenturyLink"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of CenturyLink fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CenturyLink as of the dates and for the periods covered by such report.

A signed original of this statement has been provided to CenturyLink and will be retained by CenturyLink and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 5, 2020

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

I, Indraneel Dev, Chief Financial Officer of CenturyLink, Inc. ("CenturyLink"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 of CenturyLink fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CenturyLink as of the dates and for the periods covered by such report.

A signed original of this statement has been provided to CenturyLink and will be retained by CenturyLink and furnished to the Securities and Exchange Commission or its staff upon request.

Date: November 5, 2020

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer