

**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, 2018
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 number 001-35134

LEVEL 3 PARENT, LLC
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

80021-8869
(Zip Code)

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

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF CENTURYLINK, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS H(1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE PURSUANT TO GENERAL INSTRUCTION H(2).

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒
Non-accelerated filer ☐

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 ☒

All of the limited liability company interest in the registrant is held by an affiliate of the registrant. None of the interest is publicly traded.

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

Special Note Regarding Forward-Looking Statements

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are “forward-looking” statements, as defined by (and subject to the “safe harbor” protections under) the federal securities laws. When used herein, the words “anticipates,” “expects,” “believes,” “seeks,” “hopes,” “intends,” “plans,” “projects,” “will” and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. These forward-looking statements, and the assumptions on which they are based, (i) are not guarantees of future events, (ii) are inherently speculative and (iii) are subject to significant 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 certain important 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 cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline 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;
- 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, universal service, broadband deployment, data protection and net neutrality;
- the ability of our parent company, CenturyLink, Inc. (“CenturyLink”) to timely realize the anticipated benefits of its recently-completed combination with us, including its ability to attain anticipated cost savings, to use our net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions;
- 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;
- 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 our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers 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 and other benefits payments;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel;
- increases in the costs of CenturyLink's health or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn impact our business and liquidity;

- 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;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and our other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates (including CenturyLink);
- changes in tax, communications, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including changes that could potentially require future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, or in general market, labor, economic or geo-political conditions; and
- other risks identified in our "Risk Factors" disclosures included in our annual report on Form 10-K for the year ended December 31, 2017.

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

Effective November 1, 2017, Level 3 Communications, Inc. became a wholly owned subsidiary of CenturyLink, Inc. Upon completion of the acquisition, Level 3 Communications, Inc.'s name changed to Level 3 Parent, LLC. Unless the context requires otherwise, references in this report to "Level 3 Communications, Inc.," "Level 3," "we," "us," "its," the "Company" and "our" refer to Level 3 Parent, LLC and its consolidated subsidiaries. The Level 3 logo and Level 3 are registered service marks of our wholly owned subsidiary, Level 3 Communications, LLC, in the United States and other countries. All rights are reserved. This Form 10-Q refers to trade names and trademarks of other companies. The mention of these trade names and trademarks in this Form 10-Q is made with due recognition of the rights of these companies and without any intent to misappropriate those names or marks. All other trade names and trademarks appearing in this Form 10-Q are the property of their respective owners.

ITEM 1. FINANCIAL STATEMENTS

LEVEL 3 PARENT, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Successor		Predecessor	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
	September 30, 2018	September 30, 2018	September 30, 2017	September 30, 2017
(Dollars in millions)				
OPERATING REVENUES				
Operating revenues	\$ 1,984	6,071	2,059	6,169
Operating revenues - affiliates	26	78	—	—
Total operating revenues	2,010	6,149	2,059	6,169
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	976	2,954	1,046	3,132
Selling, general and administrative	311	1,043	354	1,085
Operating expenses - affiliates	65	173	—	—
Depreciation and amortization	431	1,295	310	913
Total operating expenses	1,783	5,465	1,710	5,130
OPERATING INCOME	227	684	349	1,039
OTHER INCOME (EXPENSE)				
Interest income	(1)	—	6	11
Interest income - affiliate	18	50	—	—
Interest expense	(137)	(381)	(134)	(399)
Loss on modification and extinguishment of debt	—	—	—	(44)
Other income, net	19	21	12	14
Total other expense, net	(101)	(310)	(116)	(418)
INCOME BEFORE INCOME TAX EXPENSE	126	374	233	621
Income tax expense	(38)	(184)	(76)	(215)
NET INCOME	\$ 88	190	157	406

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Successor		Predecessor	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in millions)				
NET INCOME	\$ 88	190	157	406
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments, net of (\$1), \$29, (\$18) and (\$55) tax	(1)	(164)	44	106
Other comprehensive (loss) income, net of tax	(1)	(164)	44	106
COMPREHENSIVE INCOME	\$ 87	26	201	512

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS

	Successor	Successor
	September 30, 2018	December 31, 2017
	(Unaudited)	
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 188	297
Restricted cash and securities	3	5
Assets held for sale	15	140
Accounts receivable, less allowance of \$10 and \$3	715	748
Accounts receivable - affiliate	—	13
Note receivable - affiliate	1,825	1,825
Other	290	117
Total current assets	3,036	3,145
Property, plant and equipment, net of accumulated depreciation of \$798 and \$143	9,274	9,412
Restricted cash and securities	25	29
GOODWILL AND OTHER ASSETS		
Goodwill	11,132	10,837
Customer relationships, net	7,801	8,845
Other intangibles, net	401	378
Deferred tax assets	463	426
Other, net	132	63
Total goodwill and other assets	19,929	20,549
TOTAL ASSETS	\$ 32,264	33,135
<u>LIABILITIES AND MEMBER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 6	8
Accounts payable	619	695
Accounts payable - affiliate	88	41
Accrued expenses and other liabilities		
Income and other taxes	114	100
Salaries and benefits	233	136
Interest	96	109
Current portion of deferred revenue	288	260
Other	72	57
Total current liabilities	1,516	1,406
LONG-TERM DEBT	10,848	10,882
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,181	1,099
Deferred income taxes	189	212
Other	358	264
Total deferred revenue and other liabilities	1,728	1,575
COMMITMENTS AND CONTINGENCIES (Note 9)		
MEMBER'S EQUITY		
Member's equity	18,312	19,254
Accumulated other comprehensive (loss) income	(140)	18
Total member's equity	18,172	19,272

TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	32,264	33,135
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See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Successor	Predecessor
	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
(Dollars in millions)		
OPERATING ACTIVITIES		
Net income	\$ 190	406
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,295	913
Deferred income taxes	175	189
Share-based compensation	82	120
Loss on modification and extinguishment of debt	—	44
Net long-term debt issuance costs and premium amortization	(23)	13
Accrued interest on long-term debt, net	(13)	(34)
Loss on sale of property, plant and equipment and other assets	1	6
Other, net	(41)	75
Changes in current assets and liabilities:		
Accounts receivable	51	(34)
Accounts payable	(64)	(10)
Deferred revenue	37	134
Other assets and liabilities, net	(118)	(31)
Other assets and liabilities, affiliate	55	—
Net cash provided by operating activities	1,627	1,791
INVESTING ACTIVITIES		
Capital expenditures	(726)	(1,018)
Proceeds from sale of property, plant and equipment and other assets	119	1
Purchase of marketable securities	—	(1,127)
Maturity of marketable securities	—	1,127
Net cash used in investing activities	(607)	(1,017)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	—	4,569
Payments of long-term debt	(5)	(4,917)
Distributions	(1,130)	—
Net cash used in financing activities	(1,135)	(348)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	—	3
Net (decrease) increase in cash, cash equivalents and restricted cash and securities	(115)	429
Cash, cash equivalents and restricted cash and securities at beginning of period	331	1,857
Cash, cash equivalents and restricted cash and securities at end of period	\$ 216	2,286
Supplemental cash flow information		
Interest paid	\$ 404	412
Income taxes paid, net	\$ 24	47

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED STATEMENTS OF MEMBER'S/STOCKHOLDERS' EQUITY
(UNAUDITED)

	Successor		Predecessor	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in millions)				
MEMBER'S EQUITY				
Balance at beginning of period	\$ 18,749	19,254	—	—
Net income	88	190	—	—
Cumulative net effect of adoption of ASU 2014-09, <i>Revenue from Contracts with Customers, net of \$-, \$3, \$-, \$- tax</i>	—	9	—	—
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	—	(6)	—	—
Purchase price accounting adjustments	—	(5)	—	—
Distributions to CenturyLink	(525)	(1,130)	—	—
Balance at end of period	18,312	18,312	—	—
COMMON STOCK				
Balance at beginning of period	—	—	4	4
Balance at end of period	—	—	4	4
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of period	—	—	19,887	19,800
Common stock issued under employee stock benefit plans and other	—	—	8	27
Share-based compensation	—	—	26	94
Balance at end of period	—	—	19,921	19,921
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME				
Balance at beginning of period	(139)	18	(325)	(387)
Other comprehensive (loss) income	(1)	(164)	44	106
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	—	6	—	—
Balance at end of period	(140)	(140)	(281)	(281)
ACCUMULATED DEFICIT				
Balance at beginning of period	—	—	(8,251)	(8,500)
Net income	—	—	157	406
Balance at end of period	—	—	(8,094)	(8,094)
TOTAL MEMBER'S/STOCKHOLDERS' EQUITY	\$ 18,172	18,172	11,550	11,550

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) Background

General

We are an international facilities-based communications company engaged in providing a broad array of integrated communication services to our business customers. We created our communications network by constructing our own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. We designed our network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

On October 31, 2016, we entered into an agreement and plan of merger (the "Merger Agreement") with CenturyLink, Inc., a Louisiana corporation ("CenturyLink"), Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 1"), and WWG Merger Sub LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of CenturyLink ("Merger Sub 2"), pursuant to which, effective November 1, 2017, we were acquired by CenturyLink in a cash and stock transaction, including the assumption of our debt (the "CenturyLink Merger"). See Note 2 - CenturyLink Merger .

Basis of Presentation

Our consolidated balance sheet as of December 31, 2017 , 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 Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made 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, 2017 .

On November 1, 2017, we became a wholly owned subsidiary of CenturyLink. On the date of the acquisition, our assets and liabilities were recognized at CenturyLink's preliminary estimates of fair value. This revaluation has been reflected in our financial statements and, therefore, has resulted in a new basis of accounting for the successor period beginning on November 1, 2017. This new basis of accounting means that our financial statements for the successor periods are not comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

The consolidated financial statements include our accounts and the accounts of our subsidiaries in which we have a controlling interest. All significant intercompany accounts and transactions have been eliminated. Transactions with our non-consolidated affiliates (CenturyLink and its other subsidiaries, referred to herein as affiliates) have not been eliminated. As part of our consolidation policy, we consider our controlled subsidiaries, investments in businesses in which we are not the primary beneficiary or do not have effective control but have the ability to significantly influence operating and financial policies, and variable interests resulting from economic arrangements that give us rights to economic risks or rewards of a legal entity. We do not have variable interests in a variable interest entity where we are required to consolidate the entity as the primary beneficiary. Due to exchange restrictions and other conditions, effective at the end of the third quarter of 2015, we deconsolidated our Venezuelan subsidiary. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the third quarter of 2018.

In conjunction with our acquisition on November 1, 2017, we changed the definitions we use to classify expenses as cost of services and products and selling, general and administrative, and as a result, we reclassified previously reported amounts to conform to the current period presentation. We revised our definitions so that our expense classifications are more consistent with the expense classifications used by our new ultimate parent company, CenturyLink. These revisions resulted in the reclassification of \$70 million from depreciation and amortization to cost of services and products for the predecessor nine months ended September 30, 2017. Although we continued as a surviving corporation and legal entity after the acquisition, the accompanying consolidated statements of operations, comprehensive income, member's/stockholders' equity and cash flows are presented for two periods: predecessor and successor, which relates to the period preceding the acquisition and the period succeeding the acquisition. Our current definitions are as follows:

- Cost of services and products (exclusive of depreciation and amortization) are expenses incurred in providing products and services to our customers. These expenses include: employee-related expenses directly attributable to operating and maintaining our network (such as salaries, wages, benefits and professional fees); facilities expenses (which are third-party telecommunications expenses we incur for using other carriers' networks to provide services to our customers); rents and utilities expenses; costs for universal service funds ("USF") (which are federal and state funds that are established to promote the availability of telecommunications services to all consumers at reasonable and affordable rates, among other things, and to which we are often required to contribute); taxes (such as property and other taxes); and other expenses directly related to our network.
- Selling, general and administrative expenses are expenses incurred in selling products and services to our customers, corporate overhead and other operating expenses. These expenses include: employee-related expenses (such as salaries, wages, internal commissions, benefits and professional fees) directly attributable to selling products or services and employee-related expenses for administrative functions; marketing and advertising; taxes (such as state and local franchise taxes and sales and use taxes) and fees; external commissions; bad debt expense; and other selling, general and administrative expenses.

Segments

Our operations are integrated into and reported as part of the consolidated segment data of CenturyLink. CenturyLink's chief operating decision maker ("CODM") is our CODM but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the Securities and Exchange Commission. Consequently, we do not provide our discrete financial information to the CODM on a regular basis. As such, we have one reportable segment.

Income Taxes

As of September 30, 2018, we had not completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act"), which was signed into law in late December 2017. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the Financial Accounting Standards Board ("FASB"), and other standard-setting and regulatory bodies. Guidance issued by these bodies to date does not allow us to definitively calculate the tax effects of the Act. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement due to purchase accounting adjustments and other matters and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the remeasurement of deferred tax assets and liabilities. The ultimate impact may differ from our current provisional estimate due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our fourth quarter 2018 statement of operations and could be material. We expect to complete the accounting in the fourth quarter of 2018.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, introduced further limitations on the deductibility of interest expense, made certain changes to capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Tax Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income and the Base-Erosion Anti-Abuse Tax. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax assets at December 31, 2017 and recognized a tax expense of \$195 million in our consolidated statement of operations for the year ended December 31, 2017. During the first nine months of 2018, we increased the tax expense from tax reform by \$83 million due to changes in certain purchase accounting adjustments related to CenturyLink's acquisition of us.

During the third quarter of 2018, we continued to evaluate and analyze the tax impacts of the Act. While we have not finalized our analysis, we do not expect the provisions of the Act, exclusive of the rate reduction, to materially impact us in 2018. However, we cannot provide any assurance that, upon completion of our analysis, the impact will not be material or that there will not be material tax impacts in future years. Accordingly, we have not made any additional adjustments related to the Act in our financial statements.

Based on current circumstances, we do not expect to experience a material near term reduction in the amount of cash income taxes paid by us from the Act due to utilization of net operating loss carryforwards. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Recently Adopted Accounting Pronouncements

In the first quarter of 2018, we adopted Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*", ASU 2016-16, "*Intra-Entity Transfers of Assets Other Than Inventory*" and ASU 2018-02, "*Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*".

Each of these is described further below.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09 which replaces virtually all existing generally accepted accounting principles on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs.

We adopted the new revenue recognition standard under the modified retrospective transition method. On January 1, 2018, we recorded a cumulative catch-up adjustment that increased our retained earnings by \$9 million, net of \$3 million of income taxes.

Under ASU 2014-09, we are now deferring (i.e. capitalizing) incremental contract acquisition and fulfillment costs and are recognizing (or amortizing) such costs over either the initial contract (plus and anticipated renewal contracts to which the costs relate) or the average customer life. Our deferred contract costs for our customers have average amortization periods of approximately 30 months. These deferred costs are monitored every period to reflect any significant change in assumptions.

See Note 4 - Revenue Recognition for additional information.

Comprehensive Income

ASU 2018-02 provides an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act (or portion thereof) is recorded. If an entity elects to reclassify the income tax effects of the Act, the amount of that reclassification shall include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Act related to items remaining in accumulated other comprehensive income. The effect of the change in the U.S. federal corporate income tax rate on gross valuation allowances that were originally charged to income from continuing operations shall not be included. ASU 2018-02 is effective January 1, 2019, but early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. We early adopted ASU 2018-02 in the first quarter of 2018 and applied it in the period of adoption. The adoption of ASU 2018-02 resulted in a \$6 million decrease to member's equity and increase to accumulated other comprehensive income. See Note 11 - Accumulated Other Comprehensive Loss for additional information.

Income Taxes

On October 24, 2016, FASB issued ASU 2016-16, "*Intra-Entity Transfers of Assets Other Than Inventory*" ("ASU 2016-16"). ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. After adoption of ASU 2016-16, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. We adopted ASU 2016-16 on January 1, 2018. The adoption of ASU 2016-16 did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

Goodwill Impairment

On January 26, 2017, the FASB issued ASU 2017-04, "*Simplifying the Test for Goodwill Impairment*" ("ASU 2017-04"). ASU 2017-04 simplifies the impairment testing for goodwill by changing the measurement for goodwill impairment. Under current rules, we are required to compute the implied fair value of goodwill to measure the impairment amount if the carrying value of a reporting unit exceeds its fair value. Under ASU 2017-04, the goodwill impairment charge will equal the excess of the reporting unit carrying value above its fair value, limited to the amount of goodwill assigned to the reporting unit.

We are required to adopt the provisions of ASU 2017-04 for any goodwill impairment tests, including our required annual test, occurring after January 1, 2020, but have the option to early adopt for any impairment test that we are required to perform. We have not determined if we will elect to early adopt the provisions of ASU 2017-04. The provisions of ASU 2017-04 would not have affected our last goodwill impairment assessment, but no assurance can be provided that the simplified testing methodology will not affect our goodwill impairment assessment in the future.

Financial Instruments

On June 16, 2016, the 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 our management team to estimate the total credit losses expected on the portfolio of financial instruments. We are currently reviewing the requirements of the standard and evaluating the impact on our consolidated financial statements.

We are required to adopt the provisions of ASU 2016-13 effective January 1, 2020 but could elect to early adopt the provisions as of January 1, 2019. We expect to recognize the impacts of adopting ASU 2016-13 through a cumulative adjustment to retained earnings as of the date of adoption. As of the date of this report, we have not yet determined the date we will adopt ASU 2016-13.

Leases

In February 2016, the FASB issued ASU 2016-02, “ *Leases* ” (“ASU 2016-02”). The core principle of ASU 2016-02 will require lessees to present right-of-use assets and lease liabilities on their balance sheets for operating leases, which are currently not reflected on their balance sheets.

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective transition approach includes a number of optional practical expedients that we may elect to apply.

In January 2018, the FASB issued ASU 2018-01, “ *Leases: Land Easement Practical Expedient for Transition to ASU 2016-02* ”. ASU 2018-01 permits the election of an optional transition practical expedient to not evaluate land easements that exist or expired before the entity’s adoption of ASU 2016-02 and that were not previously accounted for as leases. We plan to adopt ASU 2018-01 at the same time we adopt ASU 2016-02.

In July 2018, the FASB issued ASU 2018-11, “ *Leases: Targeted Improvements* ” (“ASU 2018-11”). ASU 2018-11 provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have not yet determined whether we will use ASU 2018-11’s newly permitted adoption method.

We are in the process of implementing a new lease administration and accounting system. We plan to adopt ASU 2016-02 and ASU 2018-01 effective January 1, 2019. The adoption of ASU 2016-02 and ASU 2018-01 will result in our recognition of right of use assets and lease liabilities that we have not previously recorded. Although we believe it is premature as of the date of this report to provide any estimate of the impact of adopting ASU 2016-02 and ASU 2018-01, we do expect that it will have a material impact on our consolidated financial statements.

(2) CenturyLink Merger

On November 1, 2017, CenturyLink acquired us through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as CenturyLink’s indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. Our results of operations have been included in the consolidated results of operations of CenturyLink since November 1, 2017.

As of September 30, 2018, the preliminary estimated amount of aggregate consideration was \$19.6 billion.

The U.S. Department of Justice approved the acquisition subject to conditions of a consent decree on October 2, 2017, which required the combined company to divest (i) certain Level 3 metro network assets in the markets located in Albuquerque, New Mexico; Boise, Idaho; and Tucson, Arizona and (ii) 24 strands of dark fiber connecting 30 specified city-pairs across the United States in the form of an indefeasible right of use agreement.

During the second quarter of 2018, we sold network assets in Boise, Idaho and Albuquerque, New Mexico that we were required to divest as a condition of the merger. The proceeds from these sales were included in the proceeds from sale of property, plant and equipment in our consolidated statements of cash flows. No gain or loss was recognized with these transactions. All of the metro network assets were classified as assets held for sale on our consolidated balance sheet as of December 31, 2017. The Tucson, Arizona assets continued to be classified as assets held for sale on our consolidated balance sheet as of September 30, 2018. In October 2018, we sold the Tucson, Arizona assets for its net book value.

CenturyLink recognized our assets and liabilities based on CenturyLink's preliminary estimates of the fair value of the acquired tangible and intangible assets and assumed liabilities of us as of November 1, 2017, the consummation date of the acquisition, with the excess aggregate consideration recorded as goodwill. The final determination of the allocation of the aggregate consideration paid by CenturyLink in the combination is based on the fair value of such assets and liabilities as of the acquisition date with any excess aggregate consideration to be recorded as goodwill. The estimation of such fair values and the estimation of lives of depreciable tangible assets and amortizable intangible assets require significant judgment. CenturyLink is reviewing its valuation analysis along with the related allocation to goodwill. CenturyLink expects to complete its final fair value determinations during the fourth quarter of 2018. CenturyLink is also reviewing its calculations of the estimates of the fair value of Level 3's deferred tax assets acquired and liabilities assumed and performing related final controls. CenturyLink's final fair value determinations may be different than those reflected in our consolidated financial statements at September 30, 2018, however we do not expect that any subsequent modifications to the preliminary purchase price allocation will be material. The recognition of assets and liabilities at fair value are reflected in our financial statements and result in a new basis of accounting for the "successor period" beginning on November 1, 2017. This new basis of accounting means that our financial statements for the successor periods will not be comparable to our previously reported financial statements, including the financial statements in this report.

Based solely on CenturyLink's preliminary estimates through September 30, 2018, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities by \$11.2 billion, which we have recognized as goodwill. The goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that CenturyLink expects to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

As of September 30, 2018 , the following is our updated assignment of the preliminary estimated aggregate consideration:

	Adjusted November 1, 2017 Balance as of December 31, 2017	Purchase Price Adjustments ⁽³⁾	Adjusted November 1, 2017 Balance as of September 30, 2018
(Dollars in millions)			
Cash, accounts receivable and other current assets ⁽¹⁾	\$ 3,317	(25)	3,292
Property, plant and equipment	9,311	86	9,397
Identifiable intangible assets ⁽²⁾			
Customer relationships	8,964	(476)	8,488
Other	391	(13)	378
Other noncurrent assets	782	203	985
Current liabilities, excluding current maturities of long-term debt	(1,461)	(31)	(1,492)
Current maturities of long-term debt	(7)	—	(7)
Long-term debt	(10,888)	—	(10,888)
Deferred revenue and other liabilities	(1,613)	(102)	(1,715)
Goodwill	10,837	353	11,190
Total estimated aggregate consideration	\$ 19,633	(5)	19,628

(1) Includes accounts receivable, which had a gross contractual value of \$884 million on November 1, 2017 and September 30, 2018.

(2) The preliminary estimate of the weighted-average amortization period for the acquired intangible assets is approximately 12.0 years .

(3) All purchase price adjustments occurred during the nine months ended September 30, 2018 .

Acquisition-Related Expenses

We have incurred acquisition-related expenses related to our activities surrounding the CenturyLink Merger. The table below summarizes our acquisition-related expenses, which consist of integration-related expenses, including severance and retention compensation expenses, and transaction-related expenses:

	Successor		Predecessor	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in millions)				
Transaction-related expenses	\$ —	—	7	12
Integration-related expenses	16	94	24	62
Total acquisition-related expenses	\$ 16	94	31	74

(3) Goodwill, Customer Relationships and Other Intangible Assets

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

	September 30, 2018	December 31, 2017
	(Dollars in millions)	
Goodwill	\$ 11,132	10,837
Customer relationships, less accumulated amortization of \$659 and \$126	\$ 7,801	8,845
Other intangible assets subject to amortization:		
Trade names, less accumulated amortization of \$24 and \$4	106	126
Developed technology, less accumulated amortization of \$51 and \$9	295	252
Total other intangible assets, net	\$ 401	378

Our goodwill balance at December 31, 2017 includes \$16 million of goodwill that was allocated to us from CenturyLink associated with differences in the deferred state income taxes that CenturyLink expects to realize due to its consolidation of our results of operations into its state tax returns.

Total amortization expense for intangible assets for the successor three and nine months ended September 30, 2018 was \$204 million and \$595 million, respectively, and the predecessor three and nine months ended September 30, 2017 was \$49 million and \$153 million, respectively. As of the successor date of September 30, 2018, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$20.1 billion.

We estimate that total amortization expense for intangible assets for the successor years ending December 31, 2018 through 2022 will be as follows:

	(Dollars in millions)
2018 (remaining three months)	\$ 202
2019	805
2020	805
2021	805
2022	794

The following table shows the rollforward of goodwill from December 31, 2017 through September 30, 2018:

	(Dollars in millions)
As of December 31, 2017	\$ 10,837
Purchase accounting and other adjustments	353
Effect of foreign currency rate change	(58)
As of September 30, 2018	\$ 11,132

(4) Revenue Recognition

We earn most of our consolidated revenue from contracts with customers, primarily through the provision of telecommunications and other services. Revenue from contracts with customers is accounted for under Accounting Standards Codification ("ASC") 606, which we adopted on January 1, 2018 using the modified retrospective approach. We also earn revenues from leasing arrangements (primarily fiber capacity agreements) and governmental subsidy payments, neither of which are accounted for under ASC 606.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. Revenue is recognized based on the following five-step model:

- Identification of the contract with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and,
- Recognition of revenue when, or as, we satisfy a performance obligation.

We provide an array of communications services, including local voice, VPN, Ethernet, data, broadband, private line (including special access), network access, Ethernet, transport, voice, information technology, video and other ancillary services. We provide these services to a wide range of businesses, including global/international, enterprise, wholesale, government, small and medium business customers. Certain contracts also include the sale of equipment, which is not significant to our business.

For access services, we generally bill fixed monthly charges one month in advance to customers and recognize revenue as service is provided over the contract term in alignment with the customer's receipt of service. For usage, installation and other ancillary services, we generally bill in arrears and recognize revenue as usage or delivery occurs. In most cases, the amount invoiced for our service offerings constitutes the price that would be billed on a standalone basis.

Under ASC 606, we recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include certain activation and certain installation charges. If the activation and installation charges are not separate performance obligations, we recognize them as revenue over the actual or expected contract term using historical experience, which ranges from one year to seven years depending on the service. A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer. We recognize revenue for services when we satisfy our performance obligation. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

A performance obligation is a promise in a contract with a customer to provide a good or service to the customer. We recognize revenue for services when we satisfy our performance obligation.

Promotional or performance-based incentive payments are estimated at contract inception (and updated on a periodic basis as needed) and accounted for as variable consideration. In certain cases, customers may be permitted to modify their contracts without incurring a penalty. We evaluate the change in scope or price to identify whether the modification should be treated as a separate contract, whether the modification is a termination of the existing contract and creation of a new contract, or if it is a change to the existing contract. The impact of contract modifications has not been significant to our results in 2018.

Customer contracts are evaluated to determine whether the performance obligations are separable. If the performance obligations are deemed separable and separate earnings processes exist, the total transaction price that we expect to receive with the customer is allocated to each performance obligation based on its relative standalone selling price. The standalone selling price is the price we sell to similar customers. The revenue associated with each performance obligation is then recognized as earned. The portion of any advance payment allocated to the service based upon its relative selling price is recognized ratably over the contract term.

We periodically sell optical capacity on our network. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 10 - 20 years. In most cases, we account for the cash consideration received on transfers of optical capacity as ASC 606 revenue which we recognize ratably over the term of the agreement. Cash consideration received on transfers of dark fiber is accounted for as non-ASC 606 lease revenue, which we also recognize ratably over the term of the agreement. We do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other non-owned optical capacity assets.

In connection with offering products and services provided to the end user by third-party vendors, we review the relationship between us, the vendor and the end user to assess whether revenue should be reported on a gross or net basis. In assessing whether revenue should be reported on a gross or net basis, we consider whether we act as a principal in the transaction and control the goods and services used to fulfill the performance obligations associated with the transaction.

We have service level commitments pursuant to contracts with certain of our customers. To the extent that such service levels are not achieved or are otherwise disputed due to performance or service issues or other service interruptions or conditions, we will estimate the amount of credits to be issued and record a corresponding reduction to revenues in the period that the service level commitment was not met.

Customer payments are made based on billing schedules included in our customer contracts, which is typically on a monthly basis. For certain products or services and customer types, payment is required before products or services are provided.

Comparative Results

The following tables present our reported results under ASC 606 and a reconciliation to results using the historical accounting method:

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	(Dollars in millions)					
	Reported Balances as of September 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances	Reported Balances as of September 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Operating revenues	\$ 2,010	(4)	2,006	6,149	(4)	6,145
Cost of services and products (exclusive of depreciation and amortization)	976	—	976	2,954	—	2,954
Selling, general and administrative	311	12	323	1,043	32	1,075
Interest expense	137	(7)	130	381	(7)	374
Income tax expense	38	(2)	36	184	(8)	176
Net income	88	(7)	81	190	(21)	169

The following table presents a reconciliation of certain consolidated balance sheet captions under ASC 606 to the balance sheet results using the historical accounting method:

	September 30, 2018		
	(Dollars in millions)		
	Reported Balances as of September 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Other current assets	\$ 290	(22)	268
Other long-term assets, net	132	(22)	110
Deferred revenue	1,469	(3)	1,466
Deferred income tax assets, net	274	10	284
Member's equity	18,312	(31)	18,281

Disaggregated Revenue by Service Offering

The following table provides disaggregation of revenue from contracts with customers based on service offering for the three and nine months ended September 30, 2018, respectively. It also shows the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards.

	Successor			Successor		
	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	(Dollars in millions)			(Dollars in millions)		
	Total Revenues	Adjustments ⁽⁷⁾	Total Revenue from Contracts with Customers	Total Revenues	Adjustments ⁽⁷⁾	Total Revenue from Contracts with Customers
IP & Data Services ⁽¹⁾	\$ 969	—	969	2,959	—	2,959
Transport & Infrastructure ⁽²⁾	664	(45)	619	2,012	(140)	1,872
Voice & Collaboration ⁽³⁾	349	—	349	1,093	—	1,093
IT and Managed Services ⁽⁴⁾	1	—	1	3	—	3
Other revenues ⁽⁵⁾	1	(1)	—	4	(3)	1
Affiliate revenues ⁽⁶⁾	26	(26)	—	78	(78)	—
Total revenues	\$ 2,010	(72)	1,938	6,149	(221)	5,928

Timing of revenue						
Goods transferred at a point in time	\$	—		\$	—	
Services performed over time		1,938			5,928	
Total revenue from contracts with customers	\$	1,938		\$	5,928	

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband and equipment sales and professional services revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes sublease rental income.

(6) Includes telecommunications and data services we bill to our affiliates.

(7) Includes sublease rental income and revenue from fiber capacity lease arrangements which are not within the scope of ASC 606.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables and contract liabilities as of September 30, 2018 and January 1, 2018:

	Successor	
	September 30, 2018	January 1, 2018
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 715	748
Contract liabilities	413	353

(1) Gross customer receivables of \$725 and \$751, net of allowance for doubtful accounts of \$10 and \$3, at September 30, 2018 and January 1, 2018, respectively.

Contract liabilities are consideration we have received from our customers in advance of providing the goods or services promised in the contract. We defer recognizing this consideration 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 ranges from one to seven years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheet.

The following table provides information about revenues recognized for the three and nine months ended September 30, 2018 :

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
	(Dollars in millions)	
Revenue recognized in the period from:		
Amounts included in contract liability at the beginning of the period (January 1, 2018)	\$ 22	135
Performance obligations satisfied in previous periods	—	—

Performance Obligations

As of September 30, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts (including affiliates) that are unsatisfied (or partially satisfied) is approximately \$6.3 billion. We expect to recognize approximately 67% of this revenue through 2020, with the balance recognized thereafter.

We do not disclose the amount of unsatisfied performance obligations for contracts under which we are contractually entitled to bill pre-determined amounts for future services (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), or 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 for the three and nine months ended September 30, 2018 :

	Successor			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	(Dollars in millions)			
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
Beginning of period balance	\$ 34	52	13	14
Costs incurred	16	22	42	70
Amortization	(5)	(8)	(10)	(18)
End of period balance	\$ 45	66	45	66

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. Acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis to which the assets relate and are included in cost of services and products and selling, general and administrative expenses in our consolidated statement of operations. A portion of these costs are amortized on a portfolio basis using an average expected contract term of 30 months. The amounts of these capitalized costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. We recognize incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is less than one year. Deferred acquisition and fulfillment costs are assessed for impairment on a quarterly basis.

(5) Long-Term Debt

The following table summarizes our long-term debt:

	Interest Rates	Maturities	September 30, 2018	December 31, 2017
(Dollars in millions)				
Level 3 Parent, LLC				
Senior notes ⁽¹⁾	5.750%	2022	\$ 600	600
Subsidiaries				
Level 3 Financing, Inc.				
Senior notes ⁽²⁾	5.125%-6.125%	2021 - 2026	5,315	5,315
Term loan ⁽³⁾	LIBOR + 2.25%	2024	4,611	4,611
Capital leases	Various	Various	165	179
Total long-term debt, excluding unamortized premiums			10,691	10,705
Unamortized premiums, net			163	185
Total long-term debt			10,854	10,890
Less current maturities			(6)	(8)
Long-term debt, excluding current maturities			\$ 10,848	10,882

(1) The notes are not guaranteed by any of Level 3 Parent, LLC's subsidiaries.

- (2) The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by Level 3 Parent, LLC and Level 3 Communications, LLC.
- (3) The Tranche B 2024 Term Loan is a secured obligation and is guaranteed by Level 3 Parent, LLC and certain other subsidiaries. The Tranche B 2024 Term Loan had an interest rate of 4.432% as of September 30, 2018 and 3.557% as of December 31, 2017. The interest rate on the Tranche B 2024 Term Loan is set with a minimum London Interbank Offered Rate ("LIBOR") of zero percent.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt and capital leases (excluding unamortized premiums) maturing during the following years:

	(Dollars in millions)
2018 (remaining three months)	\$ 2
2019	6
2020	6
2021	647
2022	1,609
2023 and thereafter	8,421
Total long-term debt	<u>\$ 10,691</u>

Covenants

The senior notes of Level 3 Parent, LLC and term loan and senior notes of Level 3 Financing, Inc. contain extensive affirmative and negative covenants. Such covenants include, among other things and subject to certain significant 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 including CenturyLink and its other subsidiaries, dispose of assets and merge or consolidate with any other person. Also, Level 3 Parent, LLC, as well as Level 3 Financing, Inc., will be required to offer to purchase certain of its long-term debt securities under certain circumstances in connection with a "change of control" of Level 3 Parent, LLC.

Certain of CenturyLink's and our debt instruments contain cross acceleration provisions.

Compliance

At September 30, 2018, we were in compliance with the provisions and financial covenants contained in our respective material debt agreements.

Other

For additional information on our long-term debt, see Note 4 - Long Term Debt 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, 2017.

(6) Severance and Restructuring Costs

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

	Successor	
	Severance	Restructuring
	(Dollars in millions)	
Balance at January 1, 2018	\$ 5	4
Accrued to expense	15	48
Payments, net	(18)	(5)
Balance at September 30, 2018	\$ 2	47

(7) Products and Services Revenues

We categorize our products, services and revenues among the following six categories:

- *IP and data services* , which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services, CDN services and Vyvx broadcast services) and other ancillary services;
- *Transport and infrastructure* , which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services, dark fiber services and other ancillary services;
- *Voice and collaboration* , which includes primarily local voice, including wholesale voice, and other ancillary services;
- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Other* , which includes sublease rental income; and
- *Affiliates services*, we provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

From time to time, we may change the categorization of our products and services.

Our operating revenues for our products and services consisted of the following categories:

	Successor		Predecessor	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in millions)				
IP and data services	\$ 969	2,959	988	2,947
Transport and infrastructure	664	2,012	677	2,042
Voice and collaboration	349	1,093	392	1,174
IT and managed services	1	3	—	—
Other	1	4	2	6
Affiliate	26	78	—	—
Total revenues	\$ 2,010	6,149	2,059	6,169

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated \$96 million and \$97 million for the successor three months ended September 30, 2018 and the predecessor three months ended September 30, 2017, respectively, and \$301 million and \$295 million for the successor nine months ended September 30, 2018 and the predecessor nine months ended September 30, 2017, respectively. These USF surcharges, where we record revenue and transaction taxes, are assigned to the products and services categories based on the underlying revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

(8) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of our long-term debt, excluding capital lease and other obligations, as well as the input level used to determine the fair values indicated below:

		September 30, 2018		December 31, 2017	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt, excluding capital lease and other obligations	2	\$ 10,689	10,538	10,711	10,528

(9) 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 contingencies at September 30, 2018 aggregated to approximately \$80 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.

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 exposure is \$13 million at September 30, 2018.

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. That appeal is pending.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against certain of our Latin American subsidiaries for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys' fees and statutorily mandated inflation adjustments) as a result of their separation from us or termination of service relationships. We are vigorously defending ourselves against the asserted claims, which aggregate to approximately \$30 million at September 30, 2018.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authorities 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 authorities issued tax assessments to the same Brazilian subsidiary on similar issues.

We have filed objections to these assessments, arguing that the lease of assets and the provision of Internet access are not communication services subject to ICMS. The 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 judicial courts. In October 2012 and June 2014, we received favorable rulings from the lower court on the December 2004 and March 2009 assessments regarding equipment leasing, but those rulings are subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the April and July 2009 and May 2012 assessments are still pending final administrative decisions. The July 2014 assessment was confirmed during the fourth quarter of 2014 at the first administrative level, and we appealed this decision to the second administrative level.

We are vigorously contesting all such assessments in both states and, in particular, view the assessment of ICMS on revenue from equipment leasing to be without merit. These assessments, if upheld, could result in a loss of up to \$34 million at September 30, 2018 in excess of the accruals established for these matters.

Qui Tam Action

We were notified in late 2017 of a qui tam action pending against Level 3 Communications, Inc. and others in the United States 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 was filed under seal on November 26, 2013, and an amended complaint was filed under seal on June 16, 2014. The court unsealed the complaints on October 26, 2017.

The amended complaint alleges that we, 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.

We are evaluating our defenses to the claims. At this time, we do not believe it is probable we will incur a material loss. If, contrary to our 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 United States 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 a plea agreement, and the other is deceased. We are fully cooperating in the government’s investigations in this matter.

Letters of Credit

It is customary for us to use various financial instruments in the normal course of business. These instruments include letters of credit which are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of both September 30, 2018 and December 31, 2017, we had outstanding letters of credit or other similar obligations of approximately \$31 million and \$36 million, respectively, of which \$26 million and \$30 million are collateralized by cash that is reflected on the consolidated balance sheets as restricted cash and securities.

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 or proceedings 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 in the coming 24 months 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 individually is reasonably expected to exceed \$100,000 in fines and penalties.

The outcome of these other proceedings 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 14 - 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, 2017. 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.

(10) Other Financial Information

Other Current Assets

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

	Successor	
	September 30, 2018	December 31, 2017
	(Dollars in millions)	
Prepaid expenses	\$ 146	68
Material, supplies and inventory	34	3
Deferred charges	24	17
Deferred commissions	22	—
Other	64	29
Total other current assets	\$ 290	117

(11) Accumulated Other Comprehensive Loss

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the successor nine months ended September 30, 2018 :

	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)	
Balance at December 31, 2017	\$ 18	18
Other comprehensive loss before reclassifications, net of tax	(164)	(164)
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	6	6
Net other comprehensive loss	(158)	(158)
Balance at September 30, 2018	\$ (140)	(140)

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the predecessor nine months ended September 30, 2017 :

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2016	\$ (34)	(353)	(387)
Other comprehensive income before reclassifications, net of tax	1	106	107
Amounts reclassified from accumulated other comprehensive loss	(1)	—	(1)
Net other comprehensive income	—	106	106
Balance at September 30, 2017	\$ (34)	(247)	(281)

(12) Condensed Consolidating Financial Information

Level 3 Financing, Inc., a wholly owned subsidiary, has issued Senior Notes that are unsecured obligations of Level 3 Financing, Inc.; however, they are also fully and unconditionally and jointly and severally guaranteed on an unsecured senior basis by Level 3 Parent, LLC and Level 3 Communications, LLC.

In conjunction with the registration of the Level 3 Financing, Inc. Senior Notes, the accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10 "Financial statements of guarantors and affiliates whose securities collateralize an issue registered or being registered."

The operating activities of the separate legal entities included in our consolidated financial statements are interdependent. The accompanying condensed consolidating financial information presents the statements of comprehensive income (loss), balance sheets and statements of cash flows of each legal entity and, on an aggregate basis, the other non-guarantor subsidiaries based on amounts incurred by such entities and is not intended to present the operating results of those legal entities on a stand-alone basis. Level 3 Communications, LLC leases equipment and certain facilities from other wholly owned subsidiaries of Level 3 Parent, LLC. These transactions are eliminated in our consolidated results.

Condensed Consolidating Statements of Comprehensive Income (Loss)
Three Months Ended September 30, 2018 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	951	1,033	—	1,984
Operating revenues - affiliate	—	—	50	47	(71)	26
Total operating revenues	—	—	1,001	1,080	(71)	2,010
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	538	438	—	976
Selling, general and administrative	—	—	333	49	(71)	311
Operating expenses - affiliates	—	—	50	15	—	65
Depreciation and amortization	—	—	176	255	—	431
Total operating expenses	—	—	1,097	757	(71)	1,783
OPERATING INCOME (LOSS)	—	—	(96)	323	—	227
OTHER INCOME (EXPENSE)						
Interest income	—	—	—	(2)	1	(1)
Interest income - affiliate	16	—	—	2	—	18
Interest expense	(8)	(118)	(2)	(8)	(1)	(137)
Interest income (expense) - intercompany, net	771	234	(997)	(8)	—	—
Equity in net earnings (losses) of subsidiaries	(690)	(834)	452	—	1,072	—
Other income, net	(3)	—	(1)	23	—	19
Total other income (expense)	86	(718)	(548)	7	1,072	(101)
INCOME (LOSS) BEFORE INCOME TAXES	86	(718)	(644)	330	1,072	126
Income tax benefit (expense)	2	28	18	(86)	—	(38)
NET INCOME (LOSS)	88	(690)	(626)	244	1,072	88
Other comprehensive income (loss), net of income taxes	(1)	—	—	(1)	1	(1)
COMPREHENSIVE INCOME (LOSS)	\$ 87	(690)	(626)	243	1,073	87

Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine Months Ended September 30, 2018 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	2,884	3,187	—	6,071
Operating revenues - affiliate	—	—	81	151	(154)	78
Total operating revenues	—	—	2,965	3,338	(154)	6,149
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	1,727	1,227	—	2,954
Selling, general and administrative	—	3	878	234	(72)	1,043
Operating expenses - affiliate	—	—	140	115	(82)	173
Depreciation and amortization	—	—	520	775	—	1,295
Total operating expenses	—	3	3,265	2,351	(154)	5,465
OPERATING INCOME (LOSS)	—	(3)	(300)	987	—	684
OTHER INCOME (EXPENSE)						
Interest income	—	—	1	(1)	—	—
Interest income - affiliate	48	—	—	2	—	50
Interest expense	(24)	(339)	(3)	(15)	—	(381)
Interest income (expense) - intercompany, net	1,474	1,446	(2,756)	(164)	—	—
Equity in net earnings (losses) of subsidiaries	(1,321)	(2,505)	451	—	3,375	—
Other income, net	(3)	—	2	22	—	21
Total other income (expense)	174	(1,398)	(2,305)	(156)	3,375	(310)
INCOME (LOSS) BEFORE INCOME TAXES	174	(1,401)	(2,605)	831	3,375	374
Income tax benefit (expense)	16	80	(16)	(264)	—	(184)
NET INCOME (LOSS)	190	(1,321)	(2,621)	567	3,375	190
Other comprehensive income (loss), net of income taxes	(164)	—	—	(164)	164	(164)
COMPREHENSIVE INCOME (LOSS)	\$ 26	(1,321)	(2,621)	403	3,539	26

Condensed Consolidating Statements of Comprehensive Income (Loss)
Three Months Ended September 30, 2017 (Predecessor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	932	1,168	(41)	2,059
Operating revenues - affiliate	—	—	—	—	—	—
Total operating revenues	—	—	932	1,168	(41)	2,059
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	600	487	(41)	1,046
Selling, general and administrative expenses	2	1	272	79	—	354
Operating expenses - affiliate	—	—	—	—	—	—
Depreciation and amortization	—	—	97	213	—	310
Total operating expenses	2	1	969	779	(41)	1,710
OPERATING INCOME (LOSS)	(2)	(1)	(37)	389	—	349
OTHER INCOME (EXPENSE)						
Interest income	—	—	6	—	—	6
Interest income - affiliate	—	—	—	—	—	—
Interest expense	(9)	(121)	—	(4)	—	(134)
Interest income (expense) - intercompany, net	377	562	(868)	(71)	—	—
Equity in net earnings (losses) of subsidiaries	(212)	(614)	215	—	611	—
Other income, net	—	—	12	—	—	12
Total other income (expense)	156	(173)	(635)	(75)	611	(116)
INCOME (LOSS) BEFORE INCOME TAXES	154	(174)	(672)	314	611	233
Income tax benefit (expense)	3	(38)	(1)	(40)	—	(76)
NET INCOME (LOSS)	157	(212)	(673)	274	611	157
Other comprehensive income (loss), net of income taxes	44	—	—	44	(44)	44
COMPREHENSIVE INCOME (LOSS)	\$ 201	(212)	(673)	318	567	201

Condensed Consolidating Statements of Comprehensive Income (Loss)
Nine Months Ended September 30, 2017 (Predecessor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	2,786	3,499	(116)	6,169
Operating revenues - affiliate	—	—	—	—	—	—
Total operating revenues	—	—	2,786	3,499	(116)	6,169
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	1,785	1,463	(116)	3,132
Selling, general and administrative expenses	4	3	843	235	—	1,085
Operating expenses - affiliate	—	—	—	—	—	—
Depreciation and amortization	—	—	276	637	—	913
Total operating expenses	4	3	2,904	2,335	(116)	5,130
OPERATING INCOME (LOSS)	(4)	(3)	(118)	1,164	—	1,039
OTHER INCOME (EXPENSE)						
Interest income	—	—	11	—	—	11
Interest income - affiliate	—	—	—	—	—	—
Interest expense	(27)	(358)	(2)	(12)	—	(399)
Interest income (expense) - intercompany, net	1,132	1,703	(2,605)	(230)	—	—
Equity in net earnings (losses) of subsidiaries	(703)	(1,892)	618	—	1,977	—
Loss on modification and extinguishment of debt	—	(44)	—	—	—	(44)
Other income, net	—	—	15	(1)	—	14
Total other income (expense)	402	(591)	(1,963)	(243)	1,977	(418)
INCOME (LOSS) BEFORE INCOME TAXES	398	(594)	(2,081)	921	1,977	621
Income tax benefit (expense)	8	(109)	(3)	(111)	—	(215)
NET INCOME (LOSS)	406	(703)	(2,084)	810	1,977	406
Other comprehensive income (loss), net of income taxes	106	—	—	106	(106)	106
COMPREHENSIVE INCOME (LOSS)	\$ 512	(703)	(2,084)	916	1,871	512

Condensed Consolidating Balance Sheets
September 30, 2018 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 36	—	73	79	—	188
Restricted cash and securities	—	—	1	2	—	3
Assets held for sale	—	—	1	14	—	15
Accounts receivable	—	—	24	691	—	715
Accounts receivable - affiliate	—	—	—	—	—	—
Intercompany advances	16,935	23,527	(106)	10,478	(50,834)	—
Note receivable - affiliate	1,825	—	—	—	—	1,825
Other	—	—	122	168	—	290
Total current assets	18,796	23,527	115	11,432	(50,834)	3,036
Property, plant, and equipment, net	—	—	3,137	6,137	—	9,274
Restricted cash and securities	15	—	10	—	—	25
GOODWILL AND OTHER ASSETS						
Goodwill	—	—	9,576	1,556	—	11,132
Customer relationships, net	—	—	3,815	3,986	—	7,801
Other intangible assets, net	—	—	373	28	—	401
Investment in subsidiaries	16,265	18,667	4,057	—	(38,989)	—
Deferred tax assets	283	1,902	203	(154)	(1,771)	463
Other, net	—	—	75	57	—	132
Total goodwill and other assets	16,548	20,569	18,099	5,473	(40,760)	19,929
TOTAL ASSETS	\$ 35,359	44,096	21,361	23,042	(91,594)	32,264
LIABILITIES AND MEMBER'S EQUITY						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	—	1	5	—	6
Accounts payable	17	57	215	330	—	619
Accounts payable - affiliate	(4)	(3)	93	2	—	88
Income and other taxes	17	3	59	35	—	114
Salaries and benefits	—	—	196	37	—	233
Interest	3	87	1	5	—	96
Current portion of deferred revenue	—	—	147	141	—	288

Current portion of deferred revenue, affiliate	—	—	45,320	5,514	(50,834)	—
Intercompany payables	—	—	—	—	—	—
Other	—	1	1	70	—	72
Total current liabilities	33	145	46,033	6,139	(50,834)	1,516
LONG-TERM DEBT	614	10,075	7	152	—	10,848
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenues	—	—	962	219	—	1,181
Deferred income taxes	651	19	837	453	(1,771)	189
Other	—	—	170	188	—	358
Total deferred revenue and other liabilities	651	19	1,969	860	(1,771)	1,728
COMMITMENTS AND CONTINGENCIES						
MEMBER'S EQUITY (DEFICIT)	34,061	33,857	(26,648)	15,891	(38,989)	18,172
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 35,359	44,096	21,361	23,042	(91,594)	32,264

Condensed Consolidating Balance Sheets
December 31, 2017 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 13	—	175	109	—	297
Restricted cash and securities	—	—	1	4	—	5
Assets held for sale	68	—	5	67	—	140
Accounts receivable	—	—	26	722	—	748
Accounts receivable - affiliate	—	—	60	4	(51)	13
Intercompany advances	16,251	21,032	—	5,200	(42,483)	—
Note receivable - affiliate	1,825	—	—	—	—	1,825
Other	—	—	54	63	—	117
Total current assets	18,157	21,032	321	6,169	(42,534)	3,145
Property, plant, and equipment, net	—	—	3,237	6,175	—	9,412
Restricted cash and securities	19	—	10	—	—	29
GOODWILL AND OTHER ASSETS						
Goodwill	—	—	1,200	9,637	—	10,837
Customer relationships, net	—	—	4,324	4,521	—	8,845
Other intangible assets, net	—	—	378	—	—	378
Investment in subsidiaries	16,954	18,403	3,616	—	(38,973)	—
Deferred tax assets	280	1,795	—	122	(1,771)	426
Other, net	—	—	32	31	—	63
Total goodwill and other assets	17,234	20,198	9,550	14,311	(40,744)	20,549
TOTAL ASSETS	\$ 35,410	41,230	13,118	26,655	(83,278)	33,135
LIABILITIES AND MEMBER'S EQUITY						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	—	2	6	—	8
Accounts payable	—	1	323	371	—	695
Accounts payable - affiliate	11	—	—	81	(51)	41
Income and other taxes	—	—	55	45	—	100
Salaries and benefits	—	—	109	27	—	136
Interest	11	91	—	7	—	109
Current portion of deferred revenue	—	—	129	131	—	260
Intercompany payables	—	—	42,483	—	(42,483)	—

Other	16	—	23	18	—	57
Total current liabilities	38	92	43,124	686	(42,534)	1,406
LONG-TERM DEBT	616	10,096	13	157	—	10,882
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenues	—	—	846	253	—	1,099
Deferred income taxes	648	—	870	465	(1,771)	212
Other	1	1	98	164	—	264
Total deferred revenue and other liabilities	649	1	1,814	882	(1,771)	1,575
MEMBER'S EQUITY (DEFICIT)	34,107	31,041	(31,833)	24,930	(38,973)	19,272
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 35,410	41,230	13,118	26,655	(83,278)	33,135

Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2018 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities	\$ (49)	—	1,420	256	—	1,627
INVESTING ACTIVITIES						
Capital expenditures	—	—	(392)	(334)	—	(726)
Proceeds from the sale of property, plant and equipment and other assets	68	—	—	51	—	119
Net cash provided by (used in) investing activities	68	—	(392)	(283)	—	(607)
FINANCING ACTIVITIES						
Payments of long-term debt	—	—	—	(5)	—	(5)
Distributions	(1,130)	—	—	—	—	(1,130)
Increase (decrease) due from/to affiliates, net	1,130	—	(1,130)	—	—	—
Net cash provided by (used in) financing activities	—	—	(1,130)	(5)	—	(1,135)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	—	—	—	—	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash and securities	19	—	(102)	(32)	—	(115)
Cash, cash equivalents and restricted cash and securities at beginning of period	32	—	186	113	—	331
Cash, cash equivalents and restricted cash and securities at end of period	\$ 51	—	84	81	—	216

Condensed Consolidating Statements of Cash Flows
Nine Months Ended September 30, 2017 (Predecessor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING ACTIVITIES						
Net Cash Provided by (Used in) Operating Activities	\$ (32)	(378)	698	1,503	—	1,791
INVESTING ACTIVITIES						
Capital expenditures	—	—	(614)	(404)	—	(1,018)
Purchase of marketable securities	—	—	(1,127)	—	—	(1,127)
Maturity of marketable securities	—	—	1,127	—	—	1,127
Proceeds from the sale of property, plant, and equipment and other assets	—	—	1	—	—	1
Net cash provided by (used in) investing activities	—	—	(613)	(404)	—	(1,017)
FINANCING ACTIVITIES						
Net proceeds from issuance of long-term debt	—	4,569	—	—	—	4,569
Payments of long-term debt	—	(4,911)	1	(7)	—	(4,917)
Increase (decrease) due from/to affiliates, net	28	720	356	(1,104)	—	—
Net cash provided by (used in) financing activities	28	378	357	(1,111)	—	(348)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	—	—	—	3	—	3
Net increase (decrease) in cash, cash equivalents and restricted cash and securities	(4)	—	442	(9)	—	429
Cash, cash equivalents and restricted cash and securities at beginning of period	37	—	1,710	110	—	1,857
Cash, cash equivalents and restricted cash and securities at end of period	\$ 33	—	2,152	101	—	2,286

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

Effective November 1, 2017, Level 3 Communications, Inc. became a wholly owned subsidiary of CenturyLink, Inc. Upon completion of the acquisition, Level 3 Communications, Inc. was merged into an acquisition subsidiary, which survived the merger under the name Level 3 Parent, LLC. Unless the context requires otherwise, references in this report to "Level 3 Communications, Inc.," "Level 3," "we," "us," "its," the "Company" and "our" refer to Level 3 Parent, LLC and its consolidated subsidiaries.

Unless context requires otherwise, references to the period ended September 30, 2017 covers the predecessor period from January 1, 2017 through September 30, 2017, and the period ended September 30, 2018 covers the successor period from January 1, 2018 through September 30, 2018.

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 and information that are based on the beliefs of management as well as assumptions made by and information currently available to us. When used in this document, the words "anticipate", "believe", "plan", "estimate" and "expect" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. See the last paragraph of this Item 2 of Part I and "Risk Factors" in Item 1A of Part II of this report 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, 2017, 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 in providing a broad array of integrated communication services to our business customers. We created our communications network by constructing our own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. We designed our network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

As discussed in Note 2 - CenturyLink Merger, on November 1, 2017, we became a wholly owned subsidiary of CenturyLink.

Since November 1, 2017, our results of operations have been included in the consolidated results of operations of CenturyLink. CenturyLink has accounted for its acquisition of us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on preliminary estimates of their acquisition date fair values and have been updated through September 30, 2018. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. CenturyLink expects to complete its final fair value determinations during the fourth quarter of 2018. CenturyLink's final fair value determinations may be different than those reflected in our consolidated financial statements as of and for the successor period ended September 30, 2018, however, we do not expect that any subsequent modifications to the preliminary purchase price allocation will be material. The recognition of assets and liabilities at fair value is reflected in our financial statements and therefore has resulted in a new basis of accounting for the "successor period" beginning on November 1, 2017. This new basis of accounting means that our financial statements for the successor periods are not comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

We have recognized \$ 16 million and \$ 94 million of certain expenses associated with activities related to CenturyLink's acquisition of us during the successor three and nine months ended September 30, 2018, respectively. These expenses were comprised of severance, retention bonuses, share-based compensation and system integration consulting. During the predecessor three and nine months ended September 30, 2017, we recognized \$31 million and \$74 million of expenses associated with our activities related to the acquisition, respectively. As part of the acquisition accounting, on November 1, 2017, we also included in our goodwill approximately \$1 million for certain restricted stock awards and \$47 million related to transaction costs, all of which were contingent on the completion of the acquisition and had no benefit to CenturyLink after the acquisition.

Since the November 1, 2017 closing of CenturyLink's acquisition of us, our operations are integrated into and are reported as part of the segments of CenturyLink. CenturyLink's chief operating decision maker ("CODM") has become our CODM but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the Securities and Exchange Commission ("SEC"). Otherwise, we do not provide our discrete financial information to the CODM on a regular basis.

Results of Operations

The following table summarizes the results of our consolidated operations for the successor three months and nine months ended September 30, 2018 and predecessor three months and nine months ended September 30, 2017 :

	Successor		Predecessor	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
(Dollars in millions)				
Operating revenues	\$ 2,010	6,149	2,059	6,169
Operating expenses	1,783	5,465	1,710	5,130
Operating income	227	684	349	1,039
Other expense	(101)	(310)	(116)	(418)
Income before income taxes	126	374	233	621
Income tax expense	(38)	(184)	(76)	(215)
Net income	\$ 88	190	157	406

Operating Revenues

We categorize our products, services and revenues among the following six categories:

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services, CDN services and Vyvx broadcast services) and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services, dark fiber services and other ancillary services;
- *Voice and collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary services;
- *IT and managed services*, which includes information technology services and managed services, which may be purchased in conjunction with our network services;
- *Other revenues*, which includes sublease rental income;
- *Affiliate*, which includes telecommunications and data services we bill to our affiliates.

The following tables summarize our consolidated operating revenues recorded under our six revenue categories:

	Successor Three Months Ended September 30, 2018	Predecessor Three Months Ended September 30, 2017	Change	% Change	Successor Nine Months Ended September 30, 2018	Predecessor Nine Months Ended September 30, 2017	Change	% Change
	(Dollars in millions)				(Dollars in millions)			
IP and data services	\$ 969	988	(19)	(2)%	2,959	2,947	12	1 %
Transport and infrastructure	664	677	(13)	(2)%	2,012	2,042	(30)	(1)%
Voice and collaboration	349	392	(43)	(11)%	1,093	1,174	(81)	(7)%
IT and managed services	1	—	1	100 %	3	—	3	100 %
Other revenues	1	2	(1)	(50)%	4	6	(2)	(33)%
Affiliate	26	—	26	100 %	78	—	78	100 %
Total revenues	\$ 2,010	2,059	(49)	(2)%	6,149	6,169	(20)	(1)%

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

Our total operating revenues decreased by \$49 million, or 2%, for the successor three months ended September 30, 2018, as compared to the predecessor three months ended September 30, 2017. The decrease in our total operating revenues was primarily due to decreases in voice and collaboration of \$43 million and transport and infrastructure of \$13 million, partially offset by an increase in affiliate revenues of \$26 million.

Our total operating revenues decreased by \$20 million, or less than 1%, for the successor nine months ended September 30, 2018, as compared to the predecessor nine months ended September 30, 2017. The decrease in our total operating revenues was primarily due to increases in affiliate revenues of \$78 million and IP and data services of \$12 million, offset by decreases in voice and collaboration of \$81 million and transport and infrastructure revenue of \$30 million.

Voice and collaboration revenues decreased by \$43 million, or 11%, and by \$81 million, or 7%, for the successor three and nine months ended September 30, 2018, as compared to the predecessor three and nine months ended September 30, 2017. The decrease in voice and collaboration revenues was primarily due to a decline in voice services.

IT and managed services revenues remained flat for the successor three and nine months ended September 30, 2018, as compared to the predecessor three and nine months ended September 30, 2017.

Transport and infrastructure revenues decreased by \$13 million , or 2% , and by \$30 million , or 1% , for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . The decrease in transport and infrastructure revenues for both periods was primarily due to a decrease in private line, partially offset by an increase in dark fiber, professional services, managed security and wavelength.

IP and data services revenues decreased by \$19 million , or 2% , and increased by \$12 million , or less than 1% , for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . The decrease in IP and data services revenues during the three-month period was primarily due to a decrease in VPN data networks, IP and Ethernet. The increase in IP and data services revenues during the nine-month period was primarily due to an increase in CDN, partially offset by a decrease in Ethernet and Vvyx.

Other revenues remained essentially flat for the successor three and nine months ended September 30, 2018 , as compared to the predecessor three and nine months ended September 30, 2017 .

Affiliate revenues increased by \$26 million for the successor three months ended September 30, 2018 , as compared to the predecessor three months ended September 30, 2017 , and \$78 million for the successor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . The increase in affiliate revenues was due to our acquisition by CenturyLink on November 1, 2017. Since CenturyLink's acquisition of us, we have recorded revenues from telecommunications and data services we bill to CenturyLink and certain of its subsidiaries as affiliate revenues. In the predecessor periods, since they were not affiliates, revenue associated with CenturyLink and its subsidiaries was recorded in the other operating revenue categories.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Successor		Predecessor		Successor		Predecessor	
	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
		Change		% Change				% Change
(Dollars in millions)					(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 976		1,046	(70)	2,954		3,132	(178)
				(7)%				(6)%
Selling, general and administrative	311		354	(43)	1,043		1,085	(42)
				(12)%				(4)%
Operating expenses - affiliate	65		—	65	173		—	173
				100 %				100 %
Depreciation and amortization	431		310	121	1,295		913	382
				39 %				42 %
Total operating expenses	\$ 1,783		1,710	73	5,465		5,130	335
				4 %				7 %

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 \$70 million , or 7% , and by \$178 million , or 6% , for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . The decrease in our cost of services and products for the successor period was primarily due to our acquisition by CenturyLink on November 1, 2017. In the predecessor period, since they were not an affiliate, the expense associated with CenturyLink and its subsidiaries was recorded as cost of services and products in the amount of \$32 million and \$99 million for the three and nine months ended September 30, 2017 , respectively. The remaining decrease is primarily due to declines in voice and collaboration revenue and network optimization.

Selling, General and Administrative

Selling, general and administrative decreased by \$43 million , or 12% , and by \$42 million , or 4% , for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . The decrease was primarily due to an increase in facilities based expenses primarily resulting from impaired leases, more than offset by a decrease in employee-related expense primarily due to lower retention bonuses and headcount and a decrease in stock-based compensation expense as a result of accelerated vesting for certain restricted stock awards associated with the CenturyLink acquisition.

Operating Expenses - Affiliate

Operating expenses - affiliate increased by \$65 million , and by \$173 million for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . The increase in our operating expenses - affiliate was due to our acquisition by CenturyLink on November 1, 2017. In the predecessor period, since they were not affiliates, the expense associated with CenturyLink and its subsidiaries was recorded as cost of services and products and selling, general and administrative expenses.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense:

	Successor	Predecessor			Successor	Predecessor		
	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change	% Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change	% Change
	(Dollars in millions)				(Dollars in millions)			
Depreciation	\$ 227	261	(34)	(13)%	700	760	(60)	(8)%
Amortization	204	49	155	316 %	595	153	442	289 %
Total depreciation and amortization	\$ 431	310	121	39 %	1,295	913	382	42 %

Depreciation expense decreased by \$34 million , or 13% , and by \$60 million , or 8% , for the successor three and nine months ended September 30, 2018 , respectively, as compared to the predecessor three and nine months ended September 30, 2017 . As of November 1, 2017, our property, plant and equipment were recorded at preliminary fair value and as a result net property, plant and equipment decreased \$1 billion due to CenturyLink's acquisition of us. This decrease in asset value resulted in lower depreciation expense for the successor three and nine months ended September 30, 2018 than would have been recorded had the acquisition not occurred. The accounting for CenturyLink's acquisition of us also resulted in an additional \$ 8.5 billion in amortizable intangible customer relationship assets, which resulted in additional amortization expense for the successor three and nine months ended September 30, 2018 . In addition, trade names and developed technology were recorded at a fair value of \$ 378 million , which resulted in an additional amortization expense for the successor three and nine months ended September 30, 2018 .

Other Consolidated Results

The following tables summarize our total other expense, net:

	Successor	Predecessor			Successor	Predecessor		
	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Change	% Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change	% Change
	(Dollars in millions)				(Dollars in millions)			
Interest income	\$ (1)	6	(7)	(117)%	—	11	(11)	(100)%
Interest income - affiliate	18	—	18	nm	50	—	50	nm
Interest expense	(137)	(134)	(3)	(2)%	(381)	(399)	18	5 %
Loss on modification and extinguishment of debt, net	—	—	—	nm	—	(44)	44	100 %
Other, net	19	12	7	58 %	21	14	7	50 %
Total Other Expense	<u>\$ (101)</u>	<u>(116)</u>	<u>15</u>	<u>13 %</u>	<u>(310)</u>	<u>(418)</u>	<u>108</u>	<u>26 %</u>

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

Interest Income

Interest income decreased by \$ 7 million for the successor three months ended September 30, 2018 , as compared to the predecessor three months ended September 30, 2017 , and by \$ 11 million , or 100% , for the successor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . The decrease in interest income for both periods was primarily due to the decrease in our cash and cash equivalents balance.

Interest Income - Affiliate

Interest income - affiliate increased by \$18 million for the successor three months ended September 30, 2018 , as compared to the predecessor three months ended September 30, 2017 , and by \$50 million for the successor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . The increase in interest income - affiliate for both periods was due to the interest associated with our \$1.825 billion loan made to CenturyLink in connection with the closing of the Merger Agreement.

Interest Expense

Interest expense increased by \$3 million , or 2% , for the successor three months ended September 30, 2018 , as compared to the predecessor three months ended September 30, 2017 , and decreased \$18 million , or 5% , for the successor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . The increase in interest expense during the three-month period was due to higher LIBOR. The decrease in interest expenses during the nine-month period was primarily due to lower interest expense associated with the repayment of our \$300 million Floating rate Notes due in 2018, partially offset by a higher LIBOR on the \$4.6 billion Tranche B 2024 Term Loan.

Loss on Modification and Extinguishment of Debt

Loss on modification and extinguishment of debt decreased by \$44 million or 100% , for the s uccessor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . During the nine months ended September 30, 2017 , we refinanced all of our then outstanding \$4.6 billion senior secured term loans.

Other Income (Expense)

Other income increased by \$ 7 million , or 58% , for the successor three months ended September 30, 2018 , as compared to the predecessor three months ended September 30, 2017 and increased \$7 million or 50% for the successor nine months ended September 30, 2018 , as compared to the predecessor nine months ended September 30, 2017 . The increase in other income for both periods was due to an increase in foreign currency gain in the successor three and nine months ended September 30, 2018 , as compared to the predecessor three and nine months ended September 30, 2017 .

Income Tax Expense

For the successor three months ended September 30, 2018 and the predecessor three months ended September 30, 2017 , our effective income tax rate was 30% and 33%, and was 49% and 35% for the successor nine months ended September 30, 2018 and the predecessor nine months ended September 30, 2017, respectively. The effective tax rate for the successor three and nine months ended September 30, 2018 was significantly impacted by purchase price adjustments as a result of the CenturyLink merger and the enactment of the Tax Cuts and Jobs Act legislation in December 2017 which resulted in a remeasurement of our deferred tax assets and liabilities at the new federal corporate tax rate. For the three and nine months ended September 30, 2018, the impact from purchase accounting adjustments resulted in a 5.6% and 22% increase in the effective rate, respectively. See Note 1 - Background .

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

At September 30, 2018 , we held cash and cash equivalents of \$188 million . At September 30, 2017 , cash and cash equivalents of \$84 million were held in foreign bank accounts for funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

Impact of Merger with CenturyLink

As of November 1, 2017, we became a wholly owned subsidiary of CenturyLink. As such, factors relating to, or affecting, CenturyLink's liquidity and capital resources could have material impacts on us, including impacts on our credit ratings, our access to capital markets and changes in the financial market's perception of us.

In connection with the closing of the Merger Agreement, we loaned \$1.825 billion to CenturyLink in exchange for an unsecured demand note that bears interest at 3.5% per annum. The principal amount of such note is payable upon demand by Level 3 Parent but no later than November 1, 2020 and is pre-payable by CenturyLink at any time.

A significant component of our liquidity is dependent upon CenturyLink's ability to repay its obligation to us.

We anticipate that any future liquidity needs will be met through (i) our cash provided by operating activities (ii) amounts due to us from CenturyLink (iii) our ability to refinance our debt obligations and (iv) capital contributions, advances or loans from CenturyLink or its affiliates if and to the extent they have available funds or access to funds that they are willing and able to contribute, advance or loan.

Capital Expenditures

We incur capital expenditures on an ongoing basis to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink and 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 the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities and cash required for other purposes.

Debt and Other Financing Arrangements

As of September 30, 2018 , our long-term debt (including current maturities and capital leases) totaled \$10.9 billion , compared to \$10.9 billion outstanding as of December 31, 2017 .

Subject to market conditions, from time to time, we expect to continue to issue term debt or senior notes to refinance our maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned us by the three major credit rating agencies, among other factors. As of the date of this report, the credit ratings for the senior unsecured debt of Level 3 Parent, LLC and Level 3 Financing, Inc. were as follows:

Borrower	Moody's Investor Services, Inc.	Standard & Poor's	Fitch Ratings
Level 3 Parent, LLC			
Unsecured	B1	B+	BB-
Level 3 Financing, Inc.			
Unsecured	Ba3	BB	BB
Secured	Ba1	BBB-	BBB-

Historical Information

The following table summarizes our consolidated cash flow activities:

	Successor	Predecessor	
	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Change
	(Dollars in millions)		
Net cash provided by operating activities	\$ 1,627	1,791	(164)
Net cash used in investing activities	\$ (607)	(1,017)	410
Net cash used in financing activities	\$ (1,135)	(348)	(787)

Operating Activities

Net cash provided by operating activities decreased \$164 million for the successor nine months ended September 30, 2018, as compared to the predecessor nine months ended September 30, 2017, primarily due to the increase in other current and non-current assets and a decrease in accounts payable. Cash provided by operating activities is subject to variability period over period because of the timing of the collection of receivables and payments related to interest expense, accounts payable, and bonuses.

Investing Activities

Net cash used in investing activities decreased \$410 million for the successor nine months ended September 30, 2018, as compared to the predecessor nine months ended September 30, 2017 primarily due to the decrease in capital expenditures of \$292 million in the successor nine months ended September 30, 2018, and by \$118 million of proceeds received from the sale of property, plant and equipment and other assets in the successor nine months ended September 30, 2018.

Financing Activities

Net cash used in financing activities increased \$787 million for the successor nine months ended September 30, 2018, as compared to the predecessor nine months ended September 30, 2017 primarily due to the \$1.1 billion of distributions we made to CenturyLink in the successor nine months ended September 30, 2018. During the nine months ended September 30, 2017, we repaid \$348 million of long-term debt. In October 2018, we declared \$190 million of distributions to be paid to CenturyLink.

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 9 - Commitments, Contingencies and Other Items for additional information.

CenturyLink is involved in several legal proceedings to which we are not a party that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly owned subsidiary of CenturyLink, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters.

Certain Matters Related to the Merger with CenturyLink

Until November 1, 2017, we filed a consolidated federal income tax return of Level 3 Communications, Inc. Since CenturyLink's acquisition of us on November 1, 2017, we have been included in the consolidated federal income tax return of CenturyLink. Under CenturyLink's tax allocation policy, CenturyLink treats our consolidated results as if we were a separate taxpayer. The policy requires us to pay our tax liabilities to CenturyLink in cash based upon our separate return taxable income. We are also included in the combined state tax returns filed by CenturyLink and the same payment and allocation policy applies.

As of the successor date of September 30, 2018, we had paid certain costs that were associated with the CenturyLink acquisition. These costs include compensation costs comprised of retention bonuses and severance. The final amounts and timing of the compensation costs to be paid is partially dependent upon personnel decisions that continue to be made as part of the continuing integration. These amounts may be material.

In accounting for the CenturyLink's acquisition of us, we recorded our debt securities at their preliminary estimated fair values, which totaled \$10.7 billion as of November 1, 2017. Our acquisition date fair value estimates were based primarily on inputs other than quoted market prices in active markets that are either directly or indirectly observable. The fair value of our debt securities exceeded their stated principal balances on the acquisition date by \$190 million, which is being recognized as a reduction to interest expense over the remaining term of the debt.

Market Risk

At September 30, 2018, we were 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.

As of the successor date of September 30, 2018, we have approximately \$10.5 billion (excluding capital lease and other obligations) of long-term debt outstanding, 56% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We also held \$4.6 billion of floating rate debt exposed to changes in the London Interbank Offered Rate ("LIBOR"). A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$46 million.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, including the British Pound, the Euro, the Brazilian Real and the Argentinian Peso, in each case as of September 30, 2018. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are immaterial, our consolidated results of operations could be adversely impacted by volatility in exchange rates or an increase in the number of foreign currency transactions. Argentina is considered hyperinflationary as of September 30, 2018, however, the Company already accounts for Argentina in U.S. Dollars, its functional currency.

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, 2018.

Off-Balance Sheet Arrangements

As of September 30, 2018, we have 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 leasing, 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 14 - Commitments and Contingencies 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, 2017, 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

CenturyLink's and our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.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 our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them 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

We have omitted this information pursuant to General Instruction H(2).

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 the Company in the reports that it files or submits 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 that this information is accumulated and communicated to the Company’s management, including its 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 the Company’s disclosure controls and procedures as of September 30, 2018. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective, as of September 30, 2018, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

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.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2018, we adopted Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the new accounting standard related to revenue recognition on our consolidated financial statements.

CenturyLink completed its acquisition of us on November 1, 2017. The Company is currently integrating policies, processes, people, technology, and operations of the combined company. CenturyLink has extended its oversight and monitoring processes that support our internal control over financial reporting to include our acquired operations. Management will continue to evaluate the Company’s internal controls over financial reporting as it continues the integration.

Other than this extension over the acquired operations and the internal controls related to the adoption of ASC 606 referenced above, and the integration of policies, processes, people, technology, and operations of the combined company, there were no changes in the Company’s internal control over financial reporting that occurred during the third quarter of 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II-OTHER INFORMATION

Effective November 1, 2017, Level 3 Communications, Inc. became a wholly owned subsidiary of CenturyLink, Inc. Upon completion of the acquisition, Level 3 Communications, Inc.'s name changed to Level 3 Parent, LLC. Unless the context requires otherwise, references in this report to "Level 3 Communications, Inc.," "Level 3," "we," "us," "its," the "Company" and "our" refer to Level 3 Parent, LLC and its consolidated subsidiaries. The Level 3 logo and Level 3 are registered service marks of our wholly owned subsidiary, Level 3 Communications, LLC, in the United States and other countries. All rights are reserved. This Form 10-Q refers to trade names and trademarks of other companies. The mention of these trade names and trademarks in this Form 10-Q is made with due recognition of the rights of these companies and without any intent to misappropriate those names or marks. All other trade names and trademarks appearing in this Form 10-Q are the property of their respective owners.

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 9 - 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 9 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, 2017.

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. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2017.

ITEM 6. EXHIBITS

- (a) Exhibits incorporated by reference are indicated in parentheses.
- 31.1* [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Executive Officer.](#)
- 31.2* [Rule 13a-14\(a\)/15d-14\(a\) Certification of the Chief Financial Officer.](#)
- 32* [Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101* The following materials from the Quarterly Report on Form 10-Q of Level 3 Parent, LLC for the quarter ended September 30, 2018, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Member's/Stockholders' Equity and (vi) Notes to Consolidated Financial Statements.

* 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 9, 2018 .

LEVEL 3 PARENT, LLC

/s/ Eric J. Mortensen

Eric J. Mortensen

Senior Vice President - Controller

(Principal Accounting Officer)

CERTIFICATIONS

I, Jeff K. Storey, certify that:

1. I have reviewed this Form 10-Q of Level 3 Parent, LLC;
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(s) 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(s) 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 (or persons performing the equivalent functions):
 - 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 9, 2018

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

CERTIFICATIONS

I, Indraneel Dev, certify that:

1. I have reviewed this Form 10-Q of Level 3 Parent, LLC;
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(s) 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(s) 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 (or persons performing the equivalent functions):
 - 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 9, 2018

/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**

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of Level 3 Parent, LLC ("Level 3"), certifies that, to his knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 of Level 3 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 Level 3 as of the dates and for the periods covered by such report.

A signed original of this statement has been provided to Level 3 and will be retained by Level 3 and furnished to the Securities and Exchange Commission or its staff upon request.

Dated: November 9, 2018

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

/s/ Indraneel Dev

Indraneel Dev

Executive Vice President and Chief
Financial Officer