

**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 June 30, 2019
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,

(Address of principal executive offices)

CO

(720) 888-1000

(Registrant's telephone number,
including area code)

80021-8869

(Zip 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 every Interactive Data File required to be submitted 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 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

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☐

Emerging growth company

☐

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

☐

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

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

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

- forecasts of our anticipated future results of operations, cash flows or financial position;
- statements concerning the anticipated impact of our transactions, investments, product development and other initiatives;
- statements about our liquidity, profit margins, tax position, tax assets, tax rates, asset values, contingent liabilities, growth opportunities and growth rates, business prospects, regulatory and competitive outlook, market share, product capabilities, investment and expenditure plans, business strategies, capital allocation plans, financing alternatives and sources, and pricing plans; and
- other similar statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts, many of which are highlighted by words such as "may," "will," "would," "could," "should," "plan," "believes," "expects," "anticipates," "estimates," "projects," "intends," "likely," "seeks," "hopes," or variations or similar expressions with respect to the future.

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

- the effects of competition from a wide variety of competitive providers, including increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products and services less desirable or obsolete;
- our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems and strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection and net neutrality;
- our ability to avoid unanticipated integration disruptions;
- 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 data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt payments and distributions;
- changes in our operating plans, corporate strategies, or 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 and maintain satisfactory relations with our workforce;
- 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, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and lenders;
- our ability to collect our receivables from financially troubled customers;
- CenturyLink's ability to use our net operating loss carryforwards in the amounts projected;
- 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;

- the effects of changes in accounting policies, practices or assumptions including changes that could potentially require future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- adverse effects of material weakness or any other significant deficiencies identified in our internal controls over financial reporting;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions; and
- other risks referenced in "Risk Factors" in Item 1A or elsewhere in our annual report on Form 10-K or other of our filings with the SEC.

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

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Dollars in millions)				
OPERATING REVENUE				
Operating revenue	\$ 1,976	2,025	3,967	4,087
Operating revenue - affiliates	38	27	93	52
Total operating revenue	2,014	2,052	4,060	4,139
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	919	980	1,886	1,978
Selling, general and administrative	347	388	675	732
Operating expenses - affiliates	87	55	133	108
Depreciation and amortization	389	433	779	864
Goodwill impairment	—	—	3,708	—
Total operating expenses	1,742	1,856	7,181	3,682
OPERATING INCOME (LOSS)	272	196	(3,121)	457
OTHER (EXPENSE) INCOME				
Interest income - affiliate	16	16	32	32
Interest expense	(130)	(124)	(261)	(244)
Other income (expense), net	3	(4)	15	3
Total other (expense), net	(111)	(112)	(214)	(209)
INCOME (LOSS) BEFORE INCOME TAXES	161	84	(3,335)	248
Income tax expense	51	44	140	146
NET INCOME (LOSS)	\$ 110	40	(3,475)	102

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in millions)			
NET INCOME (LOSS)	\$ 110	40	(3,475)	102
OTHER COMPREHENSIVE LOSS:				
Foreign currency translation adjustment, net of \$3, \$44, \$2, \$30 tax	(8)	(235)	(5)	(163)
Other comprehensive loss, net of tax	(8)	(235)	(5)	(163)
COMPREHENSIVE INCOME (LOSS)	\$ 102	(195)	(3,480)	(61)

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS

	June 30, 2019 (Unaudited)	December 31, 2018
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 228	243
Restricted cash	3	4
Accounts receivable, less allowance of \$14 and \$11	771	712
Note receivable - affiliate	1,825	1,825
Other	311	234
Total current assets	3,138	3,018
Property, plant and equipment, net of accumulated depreciation of \$1,399 and \$1,021	9,654	9,453
GOODWILL AND OTHER ASSETS		
Goodwill	7,408	11,119
Operating lease assets	1,183	—
Restricted cash	22	25
Customer relationships, net	7,219	7,567
Other intangible assets, net	432	410
Other, net	627	699
Total goodwill and other assets	16,891	19,820
TOTAL ASSETS	\$ 29,683	32,291
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 7	6
Accounts payable	777	726
Accounts payable - affiliates	458	246
Accrued expenses and other liabilities		
Salaries and benefits	197	233
Income and other taxes	117	130
Current operating lease liabilities	269	—
Interest	91	95
Other	67	78
Current portion of deferred revenue	297	310
Total current liabilities	2,280	1,824
LONG-TERM DEBT	10,820	10,838
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,236	1,181
Deferred income taxes, net	257	202
Noncurrent operating lease liabilities	962	—
Other	296	369
Total deferred revenue and other liabilities	2,751	1,752
COMMITMENTS AND CONTINGENCIES (Note 9)		
MEMBER'S EQUITY		
Member's equity	14,008	18,048
Accumulated other comprehensive loss	(176)	(171)
Total member's equity	13,832	17,877
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 29,683	32,291

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

	Six Months Ended June 30,	
	2019	2018
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net (loss) income	\$ (3,475)	102
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	779	864
Impairment of goodwill	3,708	—
Deferred income taxes	117	140
Changes in current assets and liabilities:		
Accounts receivable	(78)	(5)
Accounts payable	(53)	(100)
Other assets and liabilities, net	(124)	(53)
Other assets and liabilities, affiliate	212	17
Changes in other noncurrent assets and liabilities, net	33	27
Other, net	4	26
Net cash provided by operating activities	1,123	1,018
INVESTING ACTIVITIES		
Capital expenditures	(576)	(546)
Proceeds from sale of property, plant and equipment and other assets	1	119
Net cash used in investing activities	(575)	(427)
FINANCING ACTIVITIES		
Distributions	(565)	(605)
Other	(2)	(5)
Net cash used in financing activities	(567)	(610)
Net decrease in cash, cash equivalents and restricted cash	(19)	(19)
Cash, cash equivalents and restricted cash at beginning of period	272	331
Cash, cash equivalents and restricted cash at end of period	\$ 253	312
Supplemental cash flow information:		
Income taxes paid, net	\$ (12)	(19)
Interest paid (net of capitalized interest of \$4 and \$—)	\$ (275)	(270)
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 228	282
Restricted cash - current	3	5
Restricted cash - noncurrent	22	25
Total	\$ 253	312

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in millions)			
MEMBER'S EQUITY				
Balance at beginning of period	\$ 14,238	18,924	18,048	19,254
Net income (loss)	110	40	(3,475)	102
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	(340)	(215)	(565)	(605)
Balance at end of period	14,008	18,749	14,008	18,749
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(168)	96	(171)	18
Other comprehensive loss	(8)	(235)	(5)	(163)
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	(176)	(139)	(176)	(139)
TOTAL MEMBER'S EQUITY	\$ 13,832	18,610	13,832	18,610

See accompanying notes to consolidated financial statements.

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

References in the Notes to "Level 3 Communications, Inc.," "Level 3," "we," "us," "its," the "Company" and "our", unless the context otherwise requires, refer to Level 3 Parent, LLC and its consolidated subsidiaries.

(1) Background

General

We are an international facilities-based communications provider (that is, a provider that owns or leases a substantial portion of the property, plant and equipment necessary to provide our services) of a broad range of integrated communications services. 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.

Effective November 1, 2017, we were acquired by CenturyLink in a cash and stock transaction, including the assumption of our debt (the "CenturyLink Merger").

Basis of Presentation

Our consolidated balance sheet as of December 31, 2018, 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 six 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, 2018.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries in which we have a controlling interest. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated. Transactions with our non-consolidated affiliates (CenturyLink and its other subsidiaries, referred to herein as affiliates) have not been eliminated. Due to exchange restrictions and other conditions, effective at the end of the third quarter of 2015, we deconsolidated our Venezuelan subsidiary and began accounting for our investment in our Venezuelan subsidiary using the cost method of accounting. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the second quarter of 2019.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenue for three and six months ended June 30, 2019 and 2018.

Segments

Our operations are integrated into and reported as part 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.

Recently Adopted Accounting Pronouncements

We adopted Accounting Standards Update ("ASU") 2016-02, *"Leases (ASC 842)"*, as of January 1, 2019, using the non-comparative transition option pursuant to ASU 2018-11. Therefore, we have not restated comparative period financial information for the effects of ASC 842, and we will not make the new required lease disclosures for comparative periods beginning before January 1, 2019. Instead, we will recognize ASC 842's cumulative effect transition adjustment (discussed below) as of January 1, 2019. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things (i) allowed us to carry forward the historical lease classification; (ii) did not require us to reassess whether any expired or existing contracts are or contain leases under the new definition of a lease; and (iii) did not require us to reassess whether previously capitalized initial direct costs for any existing leases would qualify for capitalization under ASC 842. We also elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements. We did not elect the hindsight practical expedient regarding the likelihood of exercising a lessee purchase option or assessing any impairment of right-of-use assets for existing leases.

On March 5, 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-01, *"Leases (ASC 842): Codification Improvements"*, effective for public companies for fiscal years beginning after December 15, 2019. The new ASU aligns the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in ASC 842, with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of *fair value* (in ASC 820, *"Fair Value Measurement"*) should be applied. More importantly, the ASU also exempts both lessees and lessors from having to provide certain interim disclosures in the fiscal year in which a company adopts the new leases standard. Early adoption permits public companies to adopt concurrent with the transition to ASC 842 on leases. We adopted ASU 2019-01 as of January 1, 2019.

Adoption of the new standard resulted in the recording of operating lease assets and operating lease liabilities of approximately \$1.3 billion and \$1.4 billion, respectively, as of January 1, 2019. The standard did not materially impact our consolidated net earnings in the first six months of 2019 and had no impact on cash flows. Financial position for reporting periods beginning on or after January 1, 2019 is presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance.

Recently Issued Accounting Pronouncements

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *"Measurement of Credit Losses on Financial Instruments"*. 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 no later than January 1, 2020. We expect to adopt ASU 2016-13 on January 1, 2020 and recognize the impacts through a cumulative adjustment to retained earnings as of the date of adoption.

Subsequent Event

As of the date of this report, \$130 million of distributions were made to our parent in the third quarter of 2019.

(2) Goodwill, Customer Relationships and Other Intangible Assets

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

	June 30, 2019	December 31, 2018
	(Dollars in millions)	
Goodwill	\$ 7,408	11,119
Customer relationships, less accumulated amortization of \$1,183 and \$833	\$ 7,219	7,567
Other intangible assets subject to amortization:		
Trade names, less accumulated amortization of \$43 and \$30	87	100
Developed technology, less accumulated amortization of \$102 and \$67	345	310
Total other intangible assets, net	\$ 432	410

Our goodwill was derived from CenturyLink's acquisition of us where the purchase price exceeded the fair value of the net assets acquired.

We are required to perform an impairment test related to our goodwill annually, which we perform as of October 31, or sooner if an indicator of impairment occurs. Due to the decline in CenturyLink's stock price, we incurred an event in the first quarter of 2019 that triggered impairment testing. Due to this impairment indicator, we evaluated our goodwill as of March 31, 2019. There was not an additional triggering event during the second quarter of 2019.

When we performed our October 31, 2018 annual impairment test, we estimated the fair value of equity by considering both a market approach and a discounted cash flow method. The market approach method includes the use of multiples of publicly traded companies whose services are comparable to ours. The discounted cash flow method is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows beyond the cash flows from the discrete projection period. Because CenturyLink's low stock price was a trigger for impairment testing, we estimated the fair value of our operations using only the market approach in the quarter ended March 31, 2019. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry which have historically supported a range of fair values of annualized revenue and EBITDA multiples between 2.1x and 4.9x and 4.9x and 9.8x, respectively. We selected a revenue and EBITDA multiple within this range. For the three months ended March 31, 2019, based on our assessments performed as described above, we concluded that the estimated fair value was less than our carrying value of equity as of the date of our triggering event during the first quarter. As a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge aggregating to \$3.7 billion in the first quarter of 2019.

The market multiples approach that we used incorporates significant estimates and assumptions related to the forecasted results for the remainder of the year, including revenues, expenses, and the achievement of other cost synergies. In developing the market multiple, we also considered observed trends of our industry participants. Our failure to attain these forecasted results or changes in trends could result in future impairments. Our assessment included many qualitative factors that required significant judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the size of our impairments. Continued declines in our profitability, cash flows or the sustained, historically low trading prices of CenturyLink's common stock, may result in further impairment.

Total amortization expense for intangible assets for the three months ended June 30, 2019 and 2018, was \$205 million and \$202 million, respectively, and for the six months ended June 30, 2019 and 2018, was \$398 million and \$396 million, respectively. As of June 30, 2019, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$16.4 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2019 through 2023 will be as follows:

	(Dollars in millions)	
2019 (remaining six months)	\$	408
2020		816
2021		816
2022		812
2023		734

The following table shows the rollforward of goodwill from December 31, 2018 through June 30, 2019 :

	(Dollars in millions)	
As of December 31, 2018	\$	11,119
Effect of foreign currency rate change		(3)
Impairment		(3,708)
As of June 30, 2019	\$	7,408

(3) Revenue Recognition

Refer to the Revenue Recognition section of Note 1—Background and Summary of Significant Accounting Policies and Note 4—Revenue Recognition in our annual report on Form 10-K for the year ended December 31, 2018 for further information regarding our application of ASC 606, “Revenue from Contracts with Customers”, including practical expedients and judgments applied in determining the amounts and timing of revenue from contracts with customers.

Reconciliation of Total Revenue to Revenue from Contracts with Customers

The following table provides the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in millions)			
Total revenue	\$ 2,014	2,052	\$ 4,060	\$ 4,139
Adjustments for non-ASC 606 revenue ⁽¹⁾	(89)	(80)	(194)	(149)
Total revenue from contracts with customers	\$ 1,925	1,972	\$ 3,866	\$ 3,990

⁽¹⁾ 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, contract assets and contract liabilities as of June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 771	712
Contract assets	28	19
Contract liabilities	404	393

(1) Gross customer receivables of \$785 million and \$723 million, net of allowance for doubtful accounts of \$14 million and \$11 million, at June 30, 2019 and December 31, 2018, respectively.

Contract liabilities are consideration we have received from our customers or billed in advance of providing goods or services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which ranges from one to seven years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheets.

The following table provides information about revenue recognized for the three and six months ended June 30, 2019 and 2018 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in millions)			
Revenue recognized in the period from:				
Amounts included in contract liability at the beginning of the period (January 1, 2019 and 2018, respectively)	24	16	119	113
Performance obligations satisfied in previous periods	—	—	—	—

Performance Obligations

As of June 30, 2019, 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 \$5.2 billion. We expect to recognize approximately 72% of this revenue through 2021, with the balance recognized thereafter.

We do not disclose the value of unsatisfied performance obligations for contracts for 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 tables provide changes in our contract acquisition costs and fulfillment costs:

	Three Months Ended June 30,			
	2019		2018	
	(Dollars in millions)			
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
Beginning of period balance	\$ 74	97	26	35
Costs incurred	11	25	11	24
Amortization	(12)	(16)	(3)	(7)
End of period balance	\$ 73	106	34	52

	Six Months Ended June 30,			
	2019	2018		
	(Dollars in millions)			
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
Beginning of period balance	\$ 64	84	13	14
Costs incurred	29	51	26	47
Amortization	(20)	(29)	(5)	(9)
End of period balance	\$ 73	106	34	52

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

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

(4) Leases

Financial position for reporting periods beginning on or after January 1, 2019 are presented under the new guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance.

We primarily lease various office facilities, switching and colocation facilities, equipment and dark fiber. Leases with an initial term of 12 months or less are not recorded on the balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

We determine if an arrangement is a lease at inception and whether that lease meets the classification criteria of a finance or operating lease. Lease-related assets, or right-of-use assets, are recognized at the lease commencement date at amounts equal to the respective lease liabilities. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using our incremental borrowing rates. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

Some of our lease arrangements contain lease components (including fixed payments including rent, real estate taxes and insurance costs) and non-lease components (including common-area maintenance costs). We generally account for each component separately based on the estimated standalone price of each component. For colocation leases, we account for the lease and non-lease components as a single lease component.

Many of our lease agreements contain renewal options; however, we do not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that we are reasonably certain of renewing the lease at inception or when a triggering event occurs. Certain leases also include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain to be exercised. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Lease expense consisted of the following:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(Dollars in millions)	
Operating and short-term lease cost	\$ 92	196
Finance lease cost:		
Amortization of right-of-use assets	3	7
Interest on lease liability	3	6
Total finance lease cost	6	13
Total lease cost	\$ 98	209

Supplemental unaudited consolidated balance sheet information and other information related to leases:

Leases (millions)	Classification on the Balance Sheet	June 30, 2019
Assets		
Operating lease assets	Operating lease assets	\$ 1,183
Finance lease assets	Property, plant and equipment, net of accumulated depreciation	150
Total leased assets		<u>\$ 1,333</u>
Liabilities		
Current		
Operating	Other current liabilities	\$ 269
Finance	Current portion of long-term debt	7
Noncurrent		
Operating	Noncurrent operating lease liabilities	962
Finance	Long-term debt	155
Total lease liabilities		<u>\$ 1,393</u>
Weighted-average remaining lease term (years)		
Operating leases		8.8
Finance leases		13.6
Weighted-average discount rate		
Operating leases		6.63%
Finance leases		5.68%

Supplemental unaudited consolidated cash flow statement information related to leases:

	Six Months Ended June 30, 2019
	(Dollars in millions)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	208
Operating cash flows from finance leases	4
Financing cash flows from finance leases	2

As of June 30, 2019, maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
	(Dollars in millions)	
2019 (remaining six months)	\$ 155	9
2020	271	15
2021	232	16
2022	203	16
2023	172	17
Thereafter	614	165
Total lease payments	1,647	238
Less: interest	(416)	(76)
Total	1,231	162
Less: current portion	(269)	(7)
Long-term portion	\$ 962	155

As of June 30, 2019, we had no material operating or finance leases that had not yet commenced.

Operating Lease Income

We lease various IRUs, office facilities, switching facilities and other network sites to third parties under operating leases. Lease and sublease income are included in operating revenue in the consolidated statements of operations.

For the three and six months ended June 30, 2019, our gross rental income was \$51 million and \$101 million, respectively, which represents 2.5% and 2.5% of our operating revenue for both periods, respectively. For the three and six months ended June 30, 2018, our gross rental income was \$53 million and \$96 million, respectively, which represents 2.6% and 2.3% of our operating revenue for both periods, respectively.

We adopted ASU 2016-02 on January 1, 2019 as noted above, and as required, the following disclosure is provided for periods prior to adoption.

The future annual minimum payments under capital lease agreements as of December 31, 2018 were as follows:

	Future Minimum Payments	
	(Dollars in millions)	
Capital lease obligations:		
2019	\$	16
2020		15
2021		16
2022		16
2023		17
2024 and thereafter		164
Total minimum payments		244
Less: amount representing interest and executory costs		(81)
Present value of minimum payments		163
Less: current portion		(6)
Long-term portion	\$	157

At December 31, 2018, our future rental commitments for operating leases were as follows:

	Operating Leases	
	(Dollars in millions)	
2019	\$	396
2020		259
2021		219
2022		164
2023		137
2024 and thereafter		613
Total future minimum payments ⁽¹⁾	\$	1,788

(1) Minimum payments have not been reduced by minimum sublease rentals of \$29 million due in the future under non-cancelable subleases.

(5) Long-Term Debt

The following table summarizes our long-term debt:

	Interest Rates	Maturities	June 30, 2019	December 31, 2018
(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
Finance leases	Various	Various	162	163
Total long-term debt, excluding unamortized premiums			10,688	10,689
Unamortized premiums, net			139	155
Total long-term debt			10,827	10,844
Less current maturities			(7)	(6)
Long-term debt, excluding current maturities			\$ 10,820	10,838

(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 4.652% as of June 30, 2019 and 4.754% as of December 31, 2018. The interest rate on the Tranche B 2024 Term Loan is set with a minimum London Interbank Offered Rate ("LIBOR") of zero percent.

Aggregate Maturities of Long-Term Debt

Set forth below is the aggregate principal amount of our long-term debt and finance leases (excluding unamortized premiums) maturing during the following years as of June 30, 2019 :

	(Dollars in millions)
2019 (remaining six months)	\$ 4
2020	6
2021	648
2022	1,609
2023	1,209
2024 and thereafter	7,212
Total long-term debt	<u>\$ 10,688</u>

Covenants

The term loan and senior notes of Level 3 Parent, LLC and 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. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

Compliance

As of June 30, 2019, Level 3 Parent, LLC believes it and its subsidiaries were in compliance with the provisions and financial covenants in their respective material debt agreements in all material respects.

Subsequent Event

On July 29, 2019, CenturyLink, Inc. announced that Level 3 Financing, Inc. will redeem \$400 million of its \$640 million 6.125% Senior Notes on August 25, 2019.

For additional information on our long-term debt and credit facilities, see Note 5 — 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, 2018.

(6) Severance and Leased Real Estate

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

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. In accordance with transitional guidance under the new lease standard (ASC 842), the existing lease obligation of \$47 million as of January 1, 2019 has been netted against the operating lease right of use assets at adoption. For additional information, see Note 4—Leases to our consolidated financial statements in Item 1 of Part I of this report.

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

	Severance	
	(Dollars in millions)	
Balance at January 1, 2019	\$	19
Accrued to expense		1
Payments, net		(7)
Balance at June 30, 2019	\$	13

(7) Products and Services Revenue

We categorize our products, services and revenue among the following five categories:

- *IP and Data Services* , which include primarily VPN data networks, Ethernet, IP, video (including our CDN services and Vyvx broadcast services) and other ancillary services;
- *Transport and Infrastructure* , which includes private line (including business data services), wavelength, colocation and data center services, including cloud, hosting and application management solutions, professional services, network security services, dark fiber services and other ancillary services;
- *Voice and Collaboration* , which includes primarily TDM voice services, VOIP and other ancillary services;
- *Other*, which includes sublease rental income and information technology services and managed services, which may be purchased in conjunction with our other network services; and
- *Affiliate Services*, we provide our affiliates with telecommunication services that we also provide to external customers.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(Dollars in millions)			
IP and Data Services	\$ 965	988	1,945	1,991
Transport and Infrastructure	655	673	1,313	1,349
Voice and Collaboration	355	363	706	745
Other	1	1	3	2
Affiliate Services	38	27	93	52
Total operating revenue	\$ 2,014	2,052	4,060	4,139

We recognize revenue 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 revenue aggregated \$101 million and \$98 million for the three months ended June 30, 2019 and June 30, 2018 , respectively, and \$210 million and \$205 million for the six months ended June 30, 2019 and June 30, 2018, respectively. These USF surcharges, where we record revenue and transaction taxes, are assigned to the products and services categories based on the underlying revenue. 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 Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy based on the reliability of the inputs used to determine fair value. Input Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Input Level 2 refers to fair values estimated using significant other observable inputs and Input Level 3 includes fair values estimated using significant unobservable inputs.

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

		June 30, 2019		December 31, 2018	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt, excluding finance lease and other obligations	2	\$ 10,665	10,583	10,681	10,089

(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 June 30, 2019 aggregated to approximately \$68 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 was \$9 million at June 30, 2019.

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

In October 2013, the Tribunal decided the central issue underlying the 2001 assessments in SUNAT's favor. We appealed that decision to the first judicial level in Peru, which decided the central issue in favor of SUNAT. In

June 2017, we filed an appeal with the court of appeal. In November 2017, the court of appeals issued a decision affirming the first judicial level and we filed an appeal of the decision to the Supreme Court of Justice. Oral arguments were held before the Supreme Court of Justice in June 2019. A decision on this case is pending.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax 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 \$38 million at June 30, 2019 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 June 30, 2019 and December 31, 2018, we had outstanding letters of credit or other similar obligations of approximately \$27 million and \$30 million, respectively, of which \$21 million and \$24 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 16 - 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, 2018. 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) Accumulated Other Comprehensive Loss

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the six months ended June 30, 2019 :

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2018	\$ 5	(176)	(171)
Other comprehensive loss, net of tax	—	(5)	(5)
Net other comprehensive loss	—	(5)	(5)
Balance at June 30, 2019	\$ 5	(181)	(176)

The table below summarizes changes in accumulated other comprehensive income recorded on our consolidated balance sheets by component for the six months ended June 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	(163)	(163)
Amounts reclassified from accumulated other comprehensive loss	6	6
Net other comprehensive loss	(157)	(157)
Balance at June 30, 2018	\$ (139)	(139)

(11) 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 June 30, 2019

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUE						
Operating revenue	\$ —	—	953	1,023	—	1,976
Operating revenue - affiliates	—	—	54	215	(231)	38
Total operating revenue	—	—	1,007	1,238	(231)	2,014
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	464	455	—	919
Selling, general and administrative	—	2	393	183	(231)	347
Operating expenses - affiliates	—	—	65	22	—	87
Depreciation and amortization	—	—	163	226	—	389
Goodwill Impairment	—	—	—	—	—	—
Total operating expenses	—	2	1,085	886	(231)	1,742
OPERATING (LOSS) INCOME	—	(2)	(78)	352	—	272
OTHER INCOME (EXPENSE)						
Interest income - affiliate	16	—	—	—	—	16
Interest (expense) income	(8)	(120)	3	(5)	—	(130)
Interest income (expense) - intercompany, net	948	162	(1,786)	675	1	—
Equity in net (losses) earnings of subsidiaries	(848)	(918)	561	—	1,205	—
Other income (expense), net	6	—	(5)	2	—	3
Total other income (expense), net	114	(876)	(1,227)	672	1,206	(111)
INCOME (LOSS) BEFORE INCOME TAXES	114	(878)	(1,305)	1,024	1,206	161
Income tax expense (benefit)	3	(30)	(18)	96	—	51
NET INCOME (LOSS)	111	(848)	(1,287)	928	1,206	110
Other comprehensive (loss), net of income taxes	(8)	—	—	(8)	8	(8)
COMPREHENSIVE INCOME (LOSS)	\$ 103	(848)	(1,287)	920	1,214	102

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

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUE						
Operating revenue	\$ —	—	977	1,048	—	2,025
Operating revenue - affiliates	—	—	6	64	(43)	27
Total operating revenue	—	—	983	1,112	(43)	2,052
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	600	380	—	980
Selling, general and administrative expenses	—	2	286	143	(43)	388
Operating expenses - affiliates	—	—	37	18	—	55
Depreciation and amortization	—	—	174	259	—	433
Total operating expenses	—	2	1,097	800	(43)	1,856
OPERATING (LOSS) INCOME	—	(2)	(114)	312	—	196
OTHER INCOME (EXPENSE)						
Interest income - affiliate	16	—	—	—	—	16
Interest expense	(8)	(113)	—	(4)	1	(124)
Interest income (expense) - intercompany, net	348	604	(878)	(74)	—	—
Equity in net losses of subsidiaries	(316)	(832)	—	—	1,148	—
Other income (expense), net	—	—	3	(6)	(1)	(4)
Total other income (expense), net	40	(341)	(875)	(84)	1,148	(112)
INCOME (LOSS) BEFORE INCOME TAXES	40	(343)	(989)	228	1,148	84
Income tax (benefit) expense	—	(27)	(13)	84	—	44
NET INCOME (LOSS)	40	(316)	(976)	144	1,148	40
Other comprehensive loss, net of income taxes	(235)	—	—	(235)	235	(235)
COMPREHENSIVE LOSS	<u>\$ (195)</u>	<u>(316)</u>	<u>(976)</u>	<u>(91)</u>	<u>1,383</u>	<u>(195)</u>

Condensed Consolidating Statements of Comprehensive Income (Loss)
Six Months Ended June 30, 2019

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUE						
Operating revenue	\$ —	—	1,908	2,059	—	3,967
Operating revenue - affiliates	—	—	109	417	(433)	93
Total operating revenue	—	—	2,017	2,476	(433)	4,060
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	968	918	—	1,886
Selling, general and administrative	—	3	762	343	(433)	675
Operating expenses - affiliates	—	—	87	46	—	133
Depreciation and amortization	—	—	308	471	—	779
Goodwill Impairment	—	—	1,369	2,339	—	3,708
Total operating expenses	—	3	3,494	4,117	(433)	7,181
OPERATING (LOSS) INCOME	—	(3)	(1,477)	(1,641)	—	(3,121)
OTHER (EXPENSE) INCOME						
Interest income - affiliate	32	—	—	—	—	32
Interest expense (income)	(16)	(239)	3	(9)	—	(261)
Interest income (expense) - intercompany, net	1,881	326	(3,546)	1,338	1	—
Equity in net losses of subsidiaries	(5,367)	(5,511)	(1,236)	—	12,114	—
Other (expense) income, net	(2)	—	8	9	—	15
Total other (expense) income, net	(3,472)	(5,424)	(4,771)	1,338	12,115	(214)
(LOSS) INCOME BEFORE INCOME TAXES	(3,472)	(5,427)	(6,248)	(303)	12,115	(3,335)
Income tax expense (benefit)	3	(60)	—	197	—	140
NET (LOSS) INCOME	(3,475)	(5,367)	(6,248)	(500)	12,115	(3,475)
Other comprehensive (loss) income, net of income taxes	(5)	—	—	(5)	5	(5)
COMPREHENSIVE (LOSS) INCOME	\$ (3,480)	(5,367)	(6,248)	(505)	12,120	(3,480)

Condensed Consolidating Statements of Comprehensive Income (Loss)
Six Months Ended June 30, 2018

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUE						
Operating revenue	\$ —	—	1,933	2,154	—	4,087
Operating revenue - affiliates	—	—	31	104	(83)	52
Total operating revenue	—	—	1,964	2,258	(83)	4,139
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	1,189	789	—	1,978
Selling, general and administrative	—	3	545	267	(83)	732
Operating expenses - affiliates	—	—	90	18	—	108
Depreciation and amortization	—	—	344	520	—	864
Total operating expenses	—	3	2,168	1,594	(83)	3,682
OPERATING (LOSS) INCOME	—	(3)	(204)	664	—	457
OTHER (EXPENSE) INCOME						
Interest income - affiliate	32	—	—	—	—	32
Interest expense	(16)	(221)	(1)	(7)	1	(244)
Interest income (expense) - intercompany, net	703	1,212	(1,759)	(156)	—	—
Equity in net (losses) earnings of subsidiaries	(631)	(1,671)	(1)	—	2,303	—
Other income (expense), net	—	—	4	—	(1)	3
Total other income (expense), net	88	(680)	(1,757)	(163)	2,303	(209)
INCOME (LOSS) BEFORE INCOME TAXES	88	(683)	(1,961)	501	2,303	248
Income tax (benefit) expense	(14)	(52)	34	178	—	146
NET INCOME (LOSS)	102	(631)	(1,995)	323	2,303	102
Other comprehensive loss, net of income taxes	(163)	—	—	(163)	163	(163)
COMPREHENSIVE (LOSS) INCOME	\$ (61)	(631)	(1,995)	160	2,466	(61)

Condensed Consolidating Balance Sheets
June 30, 2019

	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	\$ 3	—	157	68	—	228
Restricted cash	—	—	—	3	—	3
Accounts receivable	—	—	103	668	—	771
Intercompany advances	18,195	24,063	7,783	2,940	(52,981)	—
Note receivable - affiliate	1,825	—	—	—	—	1,825
Other	—	—	137	174	—	311
Total current assets	20,023	24,063	8,180	3,853	(52,981)	3,138
Property, plant, and equipment, net	—	—	3,384	6,270	—	9,654
GOODWILL AND OTHER ASSETS						
Goodwill	—	—	423	6,985	—	7,408
Operating lease assets	—	—	1,302	414	(533)	1,183
Restricted cash	12	—	8	2	—	22
Customer relationships, net	—	—	3,546	3,673	—	7,219
Other intangible assets, net	—	—	429	3	—	432
Investment in subsidiaries	10,175	12,404	2,625	—	(25,204)	—
Other, net	271	1,482	118	146	(1,390)	627
Total goodwill and other assets	10,458	13,886	8,451	11,223	(27,127)	16,891
TOTAL ASSETS	\$ 30,481	37,949	20,015	21,346	(80,108)	29,683
LIABILITIES AND MEMBER'S EQUITY						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	—	—	7	—	7
Accounts payable	—	31	387	359	—	777
Accounts payable - affiliates	80	16	371	(9)	—	458
Accrued expenses and other liabilities						
Salaries and benefits	—	—	160	37	—	197
Income and other taxes	—	6	39	72	—	117
Current operating lease liabilities	—	—	272	90	(93)	269
Interest	12	75	1	3	—	91

Intercompany payables	—	—	49,046	3,934	(52,980)	—
Other	—	—	4	63	—	67
Current portion of deferred revenue	—	—	140	157	—	297
Total current liabilities	92	128	50,420	4,713	(53,073)	2,280
LONG-TERM DEBT	612	10,054	6	148	—	10,820
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenue	—	—	1,044	192	—	1,236
Deferred income taxes, net	56	—	817	774	(1,390)	257
Noncurrent operating lease liabilities	—	—	1,077	325	(440)	962
Other	—	—	152	144	—	296
Total deferred revenue and other liabilities	56	—	3,090	1,435	(1,830)	2,751
MEMBER'S EQUITY (DEFICIT)	29,721	27,767	(33,501)	15,050	(25,205)	13,832
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 30,481	37,949	20,015	21,346	(80,108)	29,683

Condensed Consolidating Balance Sheets
December 31, 2018

	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	\$ 2	—	164	77	—	243
Restricted cash	—	—	—	4	—	4
Accounts receivable	—	—	70	642	—	712
Intercompany advances	16,852	23,957	7,744	2,707	(51,260)	—
Note receivable - affiliate	1,825	—	—	—	—	1,825
Other	1	3	97	133	—	234
Total current assets	18,680	23,960	8,075	3,563	(51,260)	3,018
Property, plant, and equipment, net	—	—	3,136	6,317	—	9,453
GOODWILL AND OTHER ASSETS						
Goodwill	—	—	1,665	9,454	—	11,119
Restricted cash	15	—	9	1	—	25
Customer relationships, net	—	—	3,823	3,744	—	7,567
Other intangible assets, net	—	—	409	1	—	410
Investment in subsidiaries	15,541	17,915	3,861	—	(37,317)	—
Other, net	275	1,421	110	225	(1,332)	699
Total goodwill and other assets	15,831	19,336	9,877	13,425	(38,649)	19,820
TOTAL ASSETS	\$ 34,511	43,296	21,088	23,305	(89,909)	32,291
LIABILITIES AND MEMBER'S EQUITY						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	—	1	5	—	6
Accounts payable	—	—	380	346	—	726
Accounts payable - affiliates	62	11	162	11	—	246
Accrued expenses and other liabilities	—	—	189	44	—	233
Salaries and benefits	—	—	189	44	—	233
Income and other taxes	—	4	72	54	—	130
Interest	11	78	1	5	—	95
Intercompany payables	—	—	45,347	5,913	(51,260)	—
Other	3	1	8	66	—	78

Current portion of deferred revenue	—	—	168	142	—	310
Total current liabilities	76	94	46,328	6,586	(51,260)	1,824
LONG-TERM DEBT	613	10,068	7	150	—	10,838
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenue	—	—	971	210	—	1,181
Deferred income taxes, net	56	—	841	637	(1,332)	202
Other	—	—	197	172	—	369
Total deferred revenue and other liabilities	56	—	2,009	1,019	(1,332)	1,752
MEMBER'S EQUITY (DEFICIT)	33,766	33,134	(27,256)	15,550	(37,317)	17,877
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 34,511	43,296	21,088	23,305	(89,909)	32,291

Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2019

	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 operating activities	\$ (2)	—	891	234	—	1,123
INVESTING ACTIVITIES						
Capital expenditures	—	—	(335)	(241)	—	(576)
Proceeds from sale of property, plant and equipment and other assets	—	—	1	—	—	1
Net cash used in investing activities	—	—	(334)	(241)	—	(575)
FINANCING ACTIVITIES						
Distributions	(565)	—	—	—	—	(565)
Other	—	—	—	(2)	—	(2)
Increase (decrease) due from affiliate, net	565	—	(565)	—	—	—
Net cash used in financing activities	—	—	(565)	(2)	—	(567)
Net increase (decrease) in cash, cash equivalents and restricted cash	(2)	—	(8)	(9)	—	(19)
Cash, cash equivalents and restricted cash at beginning of period	17	—	173	82	—	272
Cash, cash equivalents and restricted cash at end of period	\$ 15	—	165	73	—	253

Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2018

	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 (used in) provided by operating activities	\$ (85)	—	899	204	—	1,018
INVESTING ACTIVITIES						
Capital expenditures	—	—	(289)	(257)	—	(546)
Proceeds from sale of property, plant and equipment and other assets	68	—	—	51	—	119
Net cash provided by (used in) investing activities	68	—	(289)	(206)	—	(427)
FINANCING ACTIVITIES						
Distributions	(605)	—	—	—	—	(605)
Other	—	—	—	(5)	—	(5)
Increase (decrease) due from/to affiliates, net	605	—	(605)	—	—	—
Net cash used in financing activities	—	—	(605)	(5)	—	(610)
Net (decrease) increase in cash, cash equivalents and restricted cash	(17)	—	5	(7)	—	(19)
Cash, cash equivalents and restricted cash at beginning of period	32	—	186	113	—	331
Cash, cash equivalents and restricted cash at end of period	\$ 15	—	191	106	—	312

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

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.

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

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018 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, 2018, 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 six 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.

Results of Operations

The following table summarizes the results of our consolidated operations for the three and six months ended June 30, 2019 and June 30, 2018:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(Dollars in millions)				
Operating revenue	\$ 2,014	2,052	4,060	4,139
Operating expenses	1,742	1,856	7,181	3,682
OPERATING INCOME	272	196	(3,121)	457
Other expense, net	(111)	(112)	(214)	(209)
INCOME (LOSS) BEFORE INCOME TAXES	161	84	(3,335)	248
Income tax expense	51	44	140	146
NET INCOME (LOSS)	\$ 110	40	(3,475)	102

Operating Revenue

We categorize our products, services and revenue among the following five categories:

- *IP and Data Services*, which include primarily VPN data networks, Ethernet, IP, video (including our CDN services and Vyvx broadcast services) and other ancillary services;
- *Transport and Infrastructure*, which includes private line (including business data services), wavelength, colocation and data center facilities and services, including cloud, hosting and application management solutions professional services, dark fiber services and other ancillary services;

- *Voice and Collaboration* , which includes primarily TDM voice services, VoIP and other ancillary services;
- *Other* , which includes sublease rental income and information technology services and managed services, which may be purchased in conjunction with our other network services; and
- *Affiliate Services*, we provide our affiliates with telecommunication services that we also provide to external customers.

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

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

	Three Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
	(Dollars in millions)			
IP and Data Services	\$ 965	988	(23)	(2)%
Transport and Infrastructure	655	673	(18)	(3)%
Voice and Collaboration	355	363	(8)	(2)%
Other	1	1	—	— %
Affiliate Services	38	27	11	41 %
Total operating revenue	\$ 2,014	2,052	(38)	(2)%

	Six Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
	(Dollars in millions)			
IP and Data Services	\$ 1,945	1,991	(46)	(2)%
Transport and Infrastructure	1,313	1,349	(36)	(3)%
Voice and Collaboration	706	745	(39)	(5)%
Other	3	2	1	50 %
Affiliate Services	93	52	41	79 %
Total operating revenue	\$ 4,060	4,139	(79)	(2)%

Our total operating revenue decreased by \$38 million , or 2% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Total operating revenue decreased by \$79 million , or 2% , for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. The decrease in our total operating revenue was primarily due to the declines in IP and data services, primarily VPN data networks and CDN services, voice and collaboration, primarily voice services, and transport and infrastructure, primarily private line services. These declines were partially offset by an increase in affiliate services due to an increase in the level of services we provide to our affiliates.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 919	980	(61)	(6)%
Selling, general and administrative	347	388	(41)	(11)%
Operating expenses - affiliates	87	55	32	58 %
Depreciation and amortization	389	433	(44)	(10)%
Total operating expenses	\$ 1,742	1,856	(114)	(6)%
	Six Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,886	1,978	(92)	(5)%
Selling, general and administrative	675	732	(57)	(8)%
Operating expenses - affiliates	133	108	25	23 %
Depreciation and amortization	779	864	(85)	(10)%
Goodwill Impairment	3,708	—	3,708	nm
Total operating expenses	\$ 7,181	3,682	3,499	95 %

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 \$61 million , or 6% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Cost of services and products (exclusive of depreciation and amortization) decreased by \$92 million , or 5% , for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. The decrease s in our cost of services and products for both periods were primarily due to lower salaries and wages and employee related expenses from lower headcount, reduced network expense and voice usage costs, reduced customer premises equipment costs from lower sales and lower space and power costs, which were partially offset by higher customer installation costs, professional services and an increase in right of way and dark fiber expenses.

Selling, General and Administrative

Selling, general and administrative decreased by \$41 million , or 11% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Selling, general and administrative decreased by \$57 million , or 8% , for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 .The decrease s in selling, general and administrative expenses for both periods were primarily due to lower salaries and wages and employee related expenses from lower headcount, lower rent expense in 2019 and from higher exited lease obligations in 2018, lower hardware and software expenses and a decline in property and other taxes, which were partially offset by higher internal commissions and bad debt expense.

Operating Expenses - Affiliates

Operating expenses - affiliate increased by \$32 million , or 58% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Operating expenses - affiliate increased by \$25 million , or 23% , for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 . The increase in operating expenses - affiliates was primarily due to the increase in the level of services provided to us by our affiliates.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense:

	Three Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
	(Dollars in millions)			
Depreciation	\$ 184	231	(47)	(20)%
Amortization	205	202	3	1 %
Total depreciation and amortization	<u>\$ 389</u>	<u>433</u>	<u>(44)</u>	<u>(10)%</u>
	Six Months Ended June 30,			
	2019	2018	Increase/(Decrease)	% Change
	(Dollars in millions)			
Depreciation	\$ 381	468	(87)	(19)%
Amortization	398	396	2	1 %
Total depreciation and amortization	<u>\$ 779</u>	<u>864</u>	<u>(85)</u>	<u>(10)%</u>

Depreciation expense decreased by \$47 million , or 20% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 primarily due to a net decline in depreciable assets of \$37 million and the impact of the runoff of plant, property and equipment assigned a one year life at the time CenturyLink acquired us, of approximately \$15 million . Depreciation expense decreased by \$87 million , or 19% , for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 primarily due to a net decline in depreciable assets of \$69 million and the impact of the runoff of plant, property and equipment assigned a one year life at the time CenturyLink acquired us, of approximately \$30 million , partially offset by increases associated with purchase price depreciation adjustments of \$15 million .

Amortization expense increased slightly for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 and for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 , primarily due to the amortization of software development assets.

Goodwill Impairment

Our goodwill was derived from CenturyLink's acquisition of us where the purchase price exceeded the fair value of the net assets acquired.

We are required to perform an impairment test related to our goodwill annually, which we perform as of October 31, or sooner if an indicator of impairment occurs. Due to the decline in CenturyLink's stock price, we incurred an event in the first quarter of 2019 that triggered impairment testing. Due to this impairment indicator, we evaluated our goodwill as of March 31, 2019, which led to the first quarter 2019 impairment charge described below. There were no additional indicators of impairment during the second quarter of 2019.

When we performed our October 31, 2018 annual impairment test, we estimated the fair value of equity by considering both a market approach and a discounted cash flow method. The market approach method includes the use of multiples of publicly traded companies whose services are comparable to ours. The discounted cash flow

method is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows beyond the cash flows from the discrete projection period. Because CenturyLink's low stock price was a trigger for impairment testing, we estimated the fair value of our operations using only the market approach as of March 31, 2019. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry which have historically supported a range of fair values of annualized revenue and EBITDA multiples between 2.1x and 4.9x and 4.9x and 9.8x, respectively. We selected a revenue and EBITDA multiple within this range. For the three months ended March 31, 2019, based on our assessments performed as described above, we concluded that the estimated fair value was less than our carrying value of equity as of the date of our triggering event during the first quarter. As a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge aggregating to \$3.7 billion for the three months ended March 31, 2019.

Other Consolidated Results

The following tables summarize our total other expense, net:

	Three Months Ended June 30,		Increase/(Decrease)	% Change
	2019	2018		
	(Dollars in millions)			
Interest income - affiliate	\$ 16	16	—	— %
Interest expense	(130)	(124)	6	5 %
Other income (expense), net	3	(4)	7	nm
Total Other Expense	<u>\$ (111)</u>	<u>(112)</u>	<u>(1)</u>	<u>(1)%</u>
Income tax expense	\$ 51	44	7	16 %
	Six Months Ended June 30,		Increase/(Decrease)	% Change
	2019	2018		
	(Dollars in millions)			
Interest income - affiliate	\$ 32	32	—	— %
Interest expense	(261)	(244)	17	7 %
Other income (expense), net	15	3	12	nm
Total Other Expense	<u>\$ (214)</u>	<u>(209)</u>	<u>5</u>	<u>2 %</u>
Income tax expense	\$ 140	146	(6)	(4)%

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

Interest Income - Affiliate

Interest income - affiliate did not change for the three and six months ended June 30, 2019, as compared to the three and six months ended June 30, 2018.

Interest Expense

Interest expense increased by \$6 million , or 5% , for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Interest expense increased by \$17 million , or 7% , for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. The increase was primarily driven by a 1% LIBOR rate increase on Level 3 Financing Inc.'s term loan.

Other Income, net

Other income, net increased by \$7 million for the three months ended June 30, 2019 , as compared to the three months ended June 30, 2018 . Other income, net increased by \$12 million for the six months ended June 30, 2019, as compared to the six months ended June 30, 2018. The increase was primarily due to an increase in foreign currency gains.

Income Tax Expense

For the three months ended June 30, 2019 and the three months ended June 30, 2018 , our effective income tax rate was 31.7% and 52.4% , respectively. For the six months ended June 30, 2019 and the six months ended June 30, 2018 , our effective income tax rate was (4.2)% and 58.9% , respectively. The effective tax rate for the six months ended June 30, 2019 was significantly impacted by the goodwill impairment and the new base erosion and anti-abuse provisions of the Tax Cuts and Jobs Act. Without the goodwill impairment, the rate would be 37.5%. The effective tax rate for the six months ended June 30, 2018 was significantly impacted by the enactment of the Tax Cuts and Jobs Act legislation in December 2017 which resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate.

Liquidity and Capital Resources

Overview

At June 30, 2019 , we held cash and cash equivalents of \$228 million . At June 30, 2019 , cash and cash equivalents of \$49 million were held in foreign bank accounts for funding our foreign operations. Due to various factors, our access to foreign cash is generally more restricted than our access to domestic cash.

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 June 30, 2019 , our long-term debt (including current maturities and finance leases) totaled \$10.8 billion , which was flat when compared to \$10.8 billion outstanding as of December 31, 2018 .

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:

	Six Months Ended June 30,		Change
	2019	2018	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 1,123	1,018	105
Net cash used in investing activities	\$ (575)	(427)	148
Net cash used in financing activities	\$ (567)	(610)	(43)

Operating Activities

Net cash provided by operating activities increased \$105 million for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 , primarily due to an increase in accounts payable and accounts payable - affiliates, partially offset by increases in accounts receivable and other current assets and liabilities, net. Cash provided by operating activities is subject to variability period over period as a result 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 increased \$148 million for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 primarily due to an increase in capital expenditures and a decrease in proceeds from the sale of property, plant and equipment and other assets.

Financing Activities

Net cash used in financing activities decreased \$43 million for the six months ended June 30, 2019 , as compared to the six months ended June 30, 2018 primarily due to a decrease in distributions.

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 it, could have a material adverse effect on its 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.

Market Risk

At June 30, 2019, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations. 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 June 30, 2019, we have approximately \$10.5 billion (excluding unamortized premiums and finance 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 have \$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. Although the percentages of our consolidated revenue 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.

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 presented above if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at June 30, 2019.

Off-Balance Sheet Arrangements

As of June 30, 2019, we have 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 16 - 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, 2018, 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

Omitted 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 furnishes 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 June 30, 2019. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective, as of June 30, 2019, due to the material weakness in internal control over financial reporting that was disclosed in our Annual Report on Form 10-K for the fiscal year ended in December 31, 2018 related to the existence and accuracy of our revenue transactions.

Remediation Plans

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing remediation plans to address both of the material weaknesses described in that report. During the second quarter, we remediated our material weakness related to the ineffective design and operation of process level internal controls over the fair value measurement of certain assets acquired and liabilities assumed in CenturyLink's acquisition of us. The measures taken to remediate this material weakness are described in further detail in the Changes in Internal Control Over Financial Reporting section below.

The remaining material weakness relates to our ineffective design and operation of certain process level internal controls over the existence and accuracy of revenue transactions. This material weakness will not be considered remediated until we have designed and implemented sufficient process level controls and the applicable controls operate for a sufficient period of time such that management has concluded, through testing, that these controls are operating effectively. Based on our progress to date, we expect that the remediation of this material weakness will be completed prior to the end of fiscal 2019.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2019, we designed and documented new processes and internal controls, and strengthened existing process level internal controls, in response to the material weakness identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 related to the ineffective design and operation of process level internal controls over the fair value measurement of certain assets acquired and liabilities assumed in CenturyLink's acquisition of us, as described below:

- We conducted an effective risk assessment to identify and assess changes needed to financial reporting and process level controls related to the fair value measurements of assets acquired and liabilities assumed in future business combinations. We designed and documented new process level internal controls and strengthened existing process level internal controls resulting from our risk assessment over the fair value measures for business combinations for areas in which we deemed there is a reasonable possibility of material misstatement of financial statement items acquired or assumed in a business combination.
- We prepared and adopted a formal policy that assigns responsibilities to personnel within the company for the design, implementation, and operation of controls over business combination fair value measurements.
- We disseminated a formal training and information and communication plan that will be utilized in the event of a future business combination to ensure the right information is available to personnel on a timely basis so they can fulfill their control responsibilities related to the fair value measurements.

Management has concluded that these remediation activities have addressed the material weakness related to the fair value measurement of certain assets acquired and liabilities assumed in CenturyLink's acquisition of us and believes that the design of our process level internal controls over the fair value measurements of certain assets and liabilities assumed in a business combination would operate effectively in the event of a future business combination transaction as of June 30, 2019.

Other than with respect to the remediation efforts described above, there have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the second quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations of Internal Controls

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

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 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, 2018.

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, 2018 .

ITEM 6. EXHIBITS

- (a) Exhibits incorporated by reference are indicated in parentheses.
- 10.1* [Form of Level 3 Communications, LLC Aircraft Time Sharing Agreement](#)
- 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.](#)
- 32.1* [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2* [Certification of 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 June 30, 2019, formatted in Inline 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 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 August 9, 2019 .

LEVEL 3 PARENT, LLC

/s/ Eric J. Mortensen

By:

Eric J. Mortensen
Senior Vice President - Controller
(Principal Accounting Officer)

AIRCRAFT TIME SHARING AGREEMENT

This **AIRCRAFT TIME SHARING AGREEMENT**, dated as of _____ (the “Agreement”), is entered into by and between **Level 3 Communications, LLC**, a limited liability company organized in the State of Delaware (“Lessor”) and _____ (“Lessee”).

WITNESSETH:

WHEREAS, Lessor is the operator and lessee of the aircraft bearing the Manufacturer’s Serial Number and the United States Federal Aviation Administration (“FAA”) Registration Number listed on Exhibit “A” (the “Aircraft”);

WHEREAS, from time to time, Lessee may desire to use the Aircraft for personal usage;

WHEREAS, Lessor may lease the Aircraft with flight crew to Lessee for the above operations on a non-exclusive time sharing basis in accordance with §91.501 of the Federal Aviation Regulations (“FARs”); and

WHEREAS, the parties desire to enter into this Agreement to set forth the parties’ agreement with respect to such time sharing arrangement.

NOW THEREFORE, in consideration of the mutual covenants herein set forth, the parties agree as follows:

1. Provision of Aircraft and Flight Crew. Subject to the Aircraft’s availability, Lessor agrees to allow Lessee’s usage of the Aircraft on a time sharing basis in accordance with the provisions of §§ 91.501(b)(6), 91.501(c)(1) and 91.501(d) of the FARs. Lessor shall provide, at its sole expense, fully qualified flight crew for all flight operations under this Agreement.

2. Term. This Agreement shall commence on the date hereof and terminate upon cessation of Lessor’s operation of the Aircraft, unless earlier terminated pursuant to Paragraph 16 below or by mutual agreement of the parties.

3. Reimbursement of Expenses.

3.1 For each flight, including any “deadhead” flights made for Lessee, conducted under this Agreement, Lessee shall pay Lessor the sum of the expenses of operating such flight to the extent prescribed by FAR §91.501(d), *i.e.* the sum of the expenses set forth in subparagraphs (a) - (j) below or a percentage of such amount, but not greater than 100%, which shall be determined from time to time by the Lessor in its sole discretion:

- (a) Fuel, oil, lubricants, and other additives;
- (b) Travel expenses of the crew, including food, lodging, and ground transportation;
- (c) Hangar and tie-down costs away from the Aircraft’s base of operation;
- (d) Insurance obtained for the specific flight;
- (e) Landing fees, airport taxes, and similar assessments;
- (f) Customs, foreign permit, and similar fees directly related to the flight;
- (g) In flight food and beverages;

- (h) Passenger ground transportation;
- (i) Flight planning and weather contract services; and
- (j) An additional charge equal to one hundred percent (100%) of the expenses listed in subparagraph (a) above.

3.2 The "SIFL Amount" shall be the total amount determined for Lessee and those passengers on such trip taxable to Lessee under IRS regulations Section 1.61-21(g) and Section 1.132-5(m).

3.3 If the SIFL Amount exceeds the payment due from Lessee under Section 3.1, then Lessor shall include on Lessee's IRS Form W-2 or Form 1099 as appropriate, as additional taxable compensation, the amount by which the SIFL Amount exceeds the amount paid by Lessee. All such compensation shall be subject to employment taxes and other taxes as required in accordance with Lessor's regular payroll practices. Lessee shall, at Lessor's request, reimburse Lessor for all taxes applicable to Lessee's compensation.

4. Invoicing and Payment. All payments to be made to Lessor by Lessee hereunder shall be paid in the manner set forth in this Paragraph 4. Lessor will pay, or cause to be paid, all expenses related to the operation of the Aircraft hereunder in the ordinary course. As to each flight operated hereunder, Lessor shall provide to Lessee an invoice for the charges specified in Paragraph 3 of this Agreement within fifteen (15) days after the end of each calendar quarter for flights performed within such quarter. Any amounts due for taxes shall be included on the invoices submitted to Lessee. Lessee shall pay Lessor the full amount of such invoice no later than thirty (30) days after Lessee's receipt of the invoice.

5. Flight Requests. Lessee will provide Lessor with flight requests and proposed flight schedules as far in advance as possible. Flight requests shall be in a written form mutually convenient to and agreed upon by the parties. In addition to proposed schedules and departure times, Lessee shall provide at least the following information for each proposed flight reasonably in advance of the desired departure time as required by Lessor or its flight crew:

- (a) departure point;
- (b) destination;
- (c) date and time of flight;
- (d) number and identity of anticipated passengers;
- (e) nature and extent of luggage and/or cargo to be carried;
- (f) date and time of return flight, if any; and
- (g) any other information concerning the proposed flight that may be pertinent to or required by Lessor or its flight crew.

6. Aircraft Scheduling. Lessor shall have final authority over all scheduling of the Aircraft, provided however that Lessor will use reasonable efforts to accommodate Lessee's requests. Any flights scheduled under this Agreement are subject to cancellation by either party without incurring liability to the other party. In the event of cancellation, the canceling party shall provide the maximum notice reasonably practicable.

7. Aircraft Maintenance. Lessor shall be solely responsible for securing scheduled and unscheduled maintenance, preventive maintenance, and required or recommended inspections of the Aircraft in accordance with FAR Part 91, and shall take such requirements into account in scheduling the Aircraft. Performance of maintenance, preventive maintenance or inspection shall not be delayed or postponed for the purpose of scheduling the Aircraft unless such maintenance or inspection can safely be conducted at

a later time in compliance with applicable laws, regulations and requirements, and such delay or postponement is consistent with the sound discretion of the pilot-in-command. In the event that any non-standard maintenance is required during the term and will interfere with Lessee's requested or scheduled usage, Lessor, or Lessor's pilot-in-command, shall notify Lessee of the maintenance required, the effect on the ability to comply with Lessee's requested or scheduled usage and the manner in which the parties will proceed with the performance of such maintenance and conduct of such flight(s). In no event shall Lessor be liable to Lessee or any other person for loss, injury or damage occasioned by the delay or failure to furnish the Aircraft under this Agreement, whether or not maintenance-related.

8. Operational Authority and Control. Lessor shall be responsible for the physical and technical operation of the Aircraft and the safe performance of all flights under this Agreement, and shall retain full authority and control including exclusive operational control and exclusive possession, command and control of the Aircraft for all flights under this Agreement. In accordance with applicable FARs, the qualified flight crew provided by Lessor will exercise all required and/or appropriate duties and responsibilities in regard to the safety of each flight conducted hereunder. The pilot-in-command shall have absolute discretion in all matters concerning the preparation of the Aircraft for flight and the flight itself, the load carried and its distribution, the decision whether or not a flight shall be undertaken, the route to be flown, the place where landings shall be made, and all other matters relating to operation of the Aircraft. Lessee specifically agrees that the flight crew shall have final and complete authority to delay or cancel any flight for any reason or condition which in the sole judgment of the pilot-in-command could compromise the safety of the flight, and to take any other action which in the sole judgment of the pilot-in-command is necessitated by considerations of safety. No such action of the pilot-in-command shall create or support any liability to Lessee or any other person for loss, injury, damage or delay. Lessor's operation of the Aircraft hereunder shall be strictly within the guidelines and policies established by Lessor and FAR Part 91.

9. Insurance.

(a) Lessor, at its expense, will maintain or cause to be maintained in full force and effect throughout the term of this Agreement (i) aircraft liability insurance for bodily injury to or death of persons (including passengers) and property damage liability, in respect of the Aircraft in such amount as is customarily maintained by prudent operators of similar aircraft, naming Lessee as an additional insured, and (ii) hull insurance for the full replacement cost of the Aircraft.

(b) Lessor shall use reasonable commercial efforts to procure such additional insurance coverage for specific flights under this Agreement as Lessee may request in writing naming Lessee as an additional insured; provided, that the cost of such additional insurance shall be borne by Lessee pursuant to Paragraph 3(d) hereof.

10. Use of Aircraft. Lessee warrants that:

(a) Lessee will use the Aircraft under this Agreement for and only for his or her own account, including the carriage of his or her guests, and will not use the Aircraft for the purpose of providing transportation of passengers or cargo for compensation or hire;

(b) Lessee will not permit any lien, security interest or other charge or encumbrance to attach against the Aircraft as a result of his or her actions or inactions, and shall not convey, mortgage, assign, lease or in any way alienate the Aircraft or Lessor's rights hereunder; and

(c) During the term of this Agreement, Lessee will abide by and conform to all such laws, governmental and airport orders, rules, and regulations as shall from time to time be in effect relating in any way to the operation or use of the Aircraft under a time sharing arrangement and all applicable policies of Lessor.

11. Limitation of Liability. To the fullest extent permitted by applicable law, neither party shall have any liability under this Agreement for incidental, indirect or consequential damages of any nature.

12. Taxes. Lessee shall be responsible for paying, and Lessor shall be responsible for collecting from Lessee and paying over to the appropriate authorities, all applicable federal excise taxes imposed under Internal Revenue Code §4261 and all sales, use and other excise taxes imposed by any authority in connection with the use of the Aircraft by Lessee hereunder.

13. Notices and Communications. All notices and other communications under this Agreement shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt or refusal to accept receipt) by personal delivery or by a reputable overnight courier service, addressed as follows:

If to Lessor: Level 3 Communications, LLC
100 CenturyLink Dr.
Monroe, LA 71203
Attn: Legal Department

If to Lessee:

or to such other person or address as either party may from time to time designate in writing to the other party.

14. Further Acts. Lessor and Lessee shall from time to time perform such other and further acts and execute such other and further instruments as may be required by law or may be reasonably necessary (i) to carry out the intent and purpose of this Agreement, and (ii) to establish, maintain and protect the respective rights and remedies of the other party.

15. Successors and Assigns. Neither this Agreement nor any party's interest herein shall be assignable to any other party. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their heirs, representatives and successors.

16. Termination. Either party may terminate this Agreement for any reason upon written notice to the other, such termination to become effective immediately.

17. Governing Law. This Agreement shall be construed under and the legal relations between the parties shall be governed by the laws of the State of Delaware.

18. Severability. If any provision of this Agreement is held to be illegal, invalid or unenforceable, the legality, validity and enforceability of the remaining provisions shall not be affected or impaired.

19. Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and there are no representations, warranties, rights, obligations, liabilities, conditions, covenants, or agreements relating to such subject matter that are not expressly set forth herein.

20. Amendment or Modification. This Agreement may be amended or modified only in writing duly executed by the parties hereto.

21. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement, binding on the parties notwithstanding that the parties are not signatories to the same counterpart. Any signed .pdf copies of this Agreement attached to email shall have the same binding effect as an original signed Agreement.

22. Truth in Leasing Compliance. Lessor, on behalf of Lessee, shall (i) deliver a copy of this Agreement to the Aircraft Registration Branch, Technical Section, of the FAA in Oklahoma City within 24 hours of its execution; (ii) notify the appropriate Flight Standards District Office at least 48 hours prior to the first flight under this Agreement of the registration number of the Aircraft, and the location of the airport of departure and departure time for such flight; and (iii) carry a copy of this Agreement onboard the Aircraft at all times when the Aircraft is being operated under this Agreement.

23. TRUTH IN LEASING STATEMENT PURSUANT TO SECTION 91.23 OF THE FEDERAL AVIATION REGULATIONS :

(a) LESSOR CERTIFIES THAT THE AIRCRAFT HAS BEEN INSPECTED AND MAINTAINED WITHIN THE 12-MONTH PERIOD PRECEDING THE DATE OF THIS AGREEMENT (OR SUCH SHORTER PERIOD AS LESSOR SHALL HAVE POSSESSED THE AIRCRAFT) IN ACCORDANCE WITH THE PROVISIONS OF PART 91 OF THE FEDERAL AVIATION REGULATIONS, AND THAT ALL APPLICABLE REQUIREMENTS FOR THE AIRCRAFT'S MAINTENANCE AND INSPECTION THEREUNDER HAVE BEEN MET AND ARE VALID FOR THE OPERATIONS TO BE CONDUCTED UNDER THIS AGREEMENT.

(B) LESSOR AGREES, CERTIFIES AND ACKNOWLEDGES, AS EVIDENCED BY ITS SIGNATURE BELOW, THAT WHENEVER THE AIRCRAFT IS OPERATED UNDER THIS AGREEMENT, LESSOR SHALL BE KNOWN AS, CONSIDERED, AND SHALL IN FACT BE THE OPERATOR OF THE AIRCRAFT, AND THAT LESSOR UNDERSTANDS ITS RESPONSIBILITIES FOR COMPLIANCE WITH APPLICABLE FEDERAL AVIATION REGULATIONS.

(C) THE PARTIES UNDERSTAND THAT AN EXPLANATION OF FACTORS AND PERTINENT FEDERAL AVIATION REGULATIONS BEARING ON OPERATIONAL CONTROL CAN BE OBTAINED FROM THE NEAREST FAA FLIGHT STANDARDS DISTRICT OFFICE.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed effective as of the day and year first above written. The persons signing below warrant their authority to sign.

LESSOR:

Level 3 Communications, LLC

By: _____

Name: _____

Title: _____

LESSEE:

A legible copy of this Agreement shall be kept in the Aircraft for all operations conducted hereunder.

[Aircraft Time Sharing Agreement Signature Page]

EXHIBIT “A”

<u>Aircraft</u>	<u>Manufacturer’s Serial Number</u>	<u>FAA Registration Number</u>
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Lessor may amend this Exhibit A through notice to Lessee to eliminate Aircraft or add new Aircraft in its sole and absolute discretion.

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: August 9, 2019

/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: August 9, 2019

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer

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

I Jeff K. Storey, Chief Executive Officer of Level 3 Parent, LLC ("Level 3"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 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.

Date: August 9, 2019

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

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

I Indraneel Dev, Chief Financial Officer of Level 3 Parent, LLC ("Level 3"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 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.

Date: August 9, 2019

/s/ Indraneel Dev

Indraneel Dev

Executive Vice President and Chief
Financial Officer