

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2022
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)

1025 Eldorado Blvd.,

Broomfield, CO

(Address of principal executive offices)

47-0210602

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

80021-8869

(Zip Code)

(720) 888-1000

(Registrant's telephone number,
including area code)

Securities registered pursuant to Section 12(b) of the Act: None

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF LUMEN TECHNOLOGIES, 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

☐

Non-accelerated filer

☒

Accelerated filer

☐

Smaller reporting company

☐

Emerging growth company

☐

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

☐

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

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

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

Unless the context requires otherwise, references in this report to "Level 3," "we," "us," "its," the "Company" and "our" refer to Level 3 Parent, LLC and its predecessor Level 3 Communications, Inc., and their respective consolidated subsidiaries. References to "Lumen Technologies" or "Lumen" refer to our ultimate parent company, Lumen Technologies, Inc. and its consolidated subsidiaries.

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 or 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, buildout plans, and other initiatives, including synergies or costs associated with these initiatives;
- statements about our liquidity, profitability, profit margins, tax position, tax assets, tax rates, asset values, contingent liabilities, growth opportunities, growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, market share, product capabilities, investment and expenditure plans, business strategies, distribution and securities repurchase plans, leverage, capital allocation plans, financing alternatives and sources, and pricing plans;
- statements regarding how the health and economic challenges raised by the COVID-19 pandemic may impact our business, financial position, operating results or prospects; 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," "plans," "believes," "expects," "anticipates," "estimates," "forecasts," "projects," "proposes," "targets," "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 below to factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward-looking statements. These factors include but are not limited to:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our more mature service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- our ability to successfully and timely attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact of possible cyber-attacks, security breaches, service outages, system failures, 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 legislative, regulatory or judicial proceedings relating to content liability standards, intercarrier compensation, broadband deployment, data protection, privacy and net neutrality;
- our ability to effectively retain and hire key personnel;
- changes in customer demand for our products and services, including increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments and distributions;
- our ability to successfully and timely implement our corporate strategies, including our deleveraging strategy;
- our ability to successfully and timely consummate the pending divestiture of our European, Middle Eastern and African business, to successfully and timely realize the anticipated benefits from that divestiture and our divestiture completed in 2022, and to successfully operate our retained business after such divestitures;
- changes in our operating plans, corporate strategies and capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market or regulatory conditions, or otherwise;
- the impact of any future material acquisitions or divestitures that we may transact;
- the negative impact of increases in the costs of Lumen's pension, healthcare and post-employment benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations;
- the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our security holders, key business partners, suppliers, vendors, landlords and financial institutions;
- Lumen's ability to meet evolving environmental, social and governance ("ESG") expectations and benchmarks, and effectively communicate its ESG strategies;
- our ability to collect our receivables from, or continue to do business with, financially-troubled customers;
- Lumen's ability to use its net operating loss carryforwards in the amounts projected;
- our ability to continue to use or renew intellectual property used to conduct our operations;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates, including Lumen Technologies;

- changes in tax, pension, healthcare or other laws or regulations, or in general government funding levels, including those arising from recently-enacted federal legislation promoting increased broadband development;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require additional future impairment charges;
- continuing uncertainties regarding the impact that COVID-19 disruptions could have on our business, operations, cash flows and corporate initiatives;
- the effects of adverse weather, terrorism, epidemics, pandemics, rioting, societal unrest, or other natural or man-made disasters or disturbances;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;
- the effects of changes in interest rates and inflation;
- the effects of more general factors such as changes 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 the "Risk Factors" section or other portions of this report or other of our filings with the U.S. Securities and Exchange Commission (the "SEC").

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
OPERATING REVENUE				
Operating revenue	\$ 1,762	1,934	\$ 5,548	5,797
Operating revenue - affiliates	57	56	170	167
Total operating revenue	1,819	1,990	5,718	5,964
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	785	897	2,472	2,643
Selling, general and administrative	269	305	901	872
Gain on sale of business	(119)	—	(119)	—
Operating expenses - affiliates	173	116	481	354
Depreciation and amortization	377	431	1,178	1,304
Total operating expenses	1,485	1,749	4,913	5,173
OPERATING INCOME	334	241	805	791
OTHER (EXPENSE) INCOME				
Interest income - affiliate	19	16	50	49
Interest expense	(99)	(90)	(284)	(272)
Other (expense) income, net	(4)	(9)	(25)	1
Total other expense, net	(84)	(83)	(259)	(222)
INCOME BEFORE INCOME TAXES	250	158	546	569
Income tax expense	312	37	397	150
NET (LOSS) INCOME	\$ (62)	121	\$ 149	419

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
NET (LOSS) INCOME	\$ (62)	121	\$ 149	419
OTHER COMPREHENSIVE LOSS				
Reclassification of realized loss on foreign currency translation to gain on sale of business, net of \$—, \$—, \$—, and \$— tax	112	—	112	—
Foreign currency translation adjustments, net of \$28, \$13, \$70, and \$16 tax	(114)	(93)	(229)	(101)
Other comprehensive loss, net of tax	(2)	(93)	(117)	(101)
COMPREHENSIVE (LOSS) INCOME	\$ (64)	28	\$ 32	318

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 130	146
Accounts receivable, less allowance of \$27 and \$39	596	642
Note receivable - affiliate	1,468	1,468
Assets held for sale	10	2,708
Other	251	239
Total current assets	2,455	5,203
Property, plant and equipment, net of accumulated depreciation of \$3,649 and \$3,202	8,918	9,042
GOODWILL AND OTHER ASSETS		
Goodwill	6,598	6,666
Other intangible assets, net	5,218	5,725
Other, net	1,614	1,459
Total goodwill and other assets	13,430	13,850
TOTAL ASSETS	\$ 24,803	28,095
<u>LIABILITIES AND MEMBER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 26	26
Accounts payable	431	381
Accounts payable - affiliates	46	18
Accrued expenses and other liabilities		
Salaries and benefits	161	176
Income and other taxes	98	83
Current operating lease liabilities	358	299
Other	94	150
Liabilities held for sale	—	435
Current portion of deferred revenue	307	291
Total current liabilities	1,521	1,859
LONG-TERM DEBT	8,079	10,396
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,489	1,404
Operating lease liabilities	1,077	953
Other	807	474
Total deferred revenue and other liabilities	3,373	2,831
COMMITMENTS AND CONTINGENCIES (Note 8)		
MEMBER'S EQUITY		
Member's equity	12,298	13,360
Accumulated other comprehensive loss	(468)	(351)
Total member's equity	11,830	13,009
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 24,803	28,095

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2022	2021
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 149	419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,178	1,304
Gain on sale of business	(119)	—
Deferred income taxes	367	122
Net gain on early retirement of debt	(9)	—
Changes in current assets and liabilities:		
Accounts receivable	2	(41)
Accounts payable	(37)	(34)
Other assets and liabilities, net	(141)	(74)
Other assets and liabilities, affiliate	81	(780)
Changes in other noncurrent assets and liabilities, net	117	33
Other, net	99	(8)
Net cash provided by operating activities	1,687	941
INVESTING ACTIVITIES		
Capital expenditures	(877)	(874)
Proceeds from sale of business	2,707	—
Proceeds from sale of property, plant and equipment and other assets	2	52
Net cash provided by (used in) investing activities	1,832	(822)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	—	891
Distributions	(1,210)	(25)
Payments of long-term debt	(2,367)	(932)
Other	—	(1)
Net cash used in financing activities	(3,577)	(67)
Net (decrease) increase in cash, cash equivalents and restricted cash	(58)	52
Cash, cash equivalents and restricted cash at beginning of period	191	205
Cash, cash equivalents and restricted cash at end of period	\$ 133	257
Supplemental cash flow information:		
Income taxes paid, net	\$ (4)	(23)
Interest paid (net of capitalized interest of \$12 and \$11)	\$ (326)	(304)
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 130	215
Cash and cash equivalents included in assets held for sale	—	36
Restricted cash included in Other current assets	1	2
Restricted cash included in Other, net noncurrent assets	2	4
Total	\$ 133	257

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
MEMBER'S EQUITY				
Balance at beginning of period	\$ 13,018	13,412	13,360	13,139
Net (loss) income	(62)	121	149	419
Distributions	(657)	—	(1,210)	(25)
Other	(1)	(1)	(1)	(1)
Balance at end of period	12,298	13,532	12,298	13,532
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(466)	(242)	(351)	(234)
Other comprehensive loss	(2)	(93)	(117)	(101)
Balance at end of period	(468)	(335)	(468)	(335)
TOTAL MEMBER'S EQUITY	\$ 11,830	13,197	\$ 11,830	13,197

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
Notes To Consolidated Financial Statements
(UNAUDITED)

Unless the context requires otherwise, references in this report to "Level 3," "we," "us," "its," the "Company" and "our", refer to Level 3 Parent, LLC and its predecessor, Level 3 Communications, Inc. and their respective subsidiaries. References to "Lumen Technologies" or "Lumen" refer to our ultimate parent company, Lumen Technologies, Inc. and its consolidated subsidiaries.

(1) Background

General

We are an international facilities-based technology 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.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2021, 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 note 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 U.S. Securities and Exchange Commission ("SEC"). However, in our opinion, the disclosures made therein are adequate to make the information presented not misleading. We believe these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2021.

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 (Lumen Technologies and its other subsidiaries, referred to herein as affiliates) have not been eliminated.

Operating lease assets are included in other, net under goodwill and other assets on our consolidated balance sheets. Other, net included affiliate operating lease assets of \$411 million and \$294 million as of September 30, 2022 and December 31, 2021, respectively. Additionally, current operating lease liabilities included the current portion of affiliate operating lease liabilities of \$116 million and \$82 million as of September 30, 2022 and December 31, 2021, respectively, and operating lease liabilities included the noncurrent portion of affiliate operating lease liabilities of \$307 million and \$224 million as of September 30, 2022 and December 31, 2021, respectively.

Segments

Our operations are integrated into and reported as part of Lumen Technologies. Lumen'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 SEC. Consequently, we do not provide our discrete financial information to the CODM on a regular basis. As such, we have one reportable segment.

Summary of Significant Accounting Policies

Refer to the significant accounting policies described in Note 1 — Background and Summary of Significant Accounting Policies to the consolidated financial statements and accompanying notes in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021.

Recently Adopted Accounting Pronouncements

Government Assistance

On January 1, 2022, we adopted Accounting Standards Update ("ASU") 2021-10, "*Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance*" ("ASU 2020-10"). This ASU increases transparency in financial reporting by requiring business entities to disclose information about certain types of government assistance they receive. The ASU only impacts annual financial statement note disclosures. Therefore, the adoption of ASU 2021-10 did not have a material impact to our consolidated financial statements.

Leases

On January 1, 2022, we adopted ASU 2021-05, "*Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*" ("ASU 2021-05"). This ASU (i) amends the lease classification requirements for lessors to align them with practice under ASC Topic 840, (ii) provides criteria for lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease; and (iii) provides guidance with respect to net investments by lessors under operating leases and other related topics. The adoption of ASU 2021-05 did not have a material impact to our consolidated financial statements.

Debt

On January 1, 2021, we adopted ASU 2020-09, "*Debt (Topic 470) Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*" ("ASU 2020-09"). This ASU amends and supersedes various SEC guidance to reflect SEC Release No. 33-10762, which includes amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. The adoption of ASU 2020-09 did not have a material impact to our consolidated financial statements.

Investments

On January 1, 2021, we adopted ASU 2020-01, "*Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*" ("ASU 2020-01"). This ASU, among other things, clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, *Investments - Equity Method and Joint Ventures*, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. As of September 30, 2022, we determined there was no application or discontinuation of the equity method during the reporting periods covered by this report. The adoption of ASU 2020-01 did not have a material impact to our consolidated financial statements.

Income Taxes

On January 1, 2021, we adopted ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*" ("ASU 2019-12"). This ASU removes certain exceptions for investments, intra-period allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. The adoption of ASU 2019-12 did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

In September 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-04, "*Liabilities-Supplier Finance Program (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*" ("ASU 2022-04"). These amendments require that a company that uses a supplier finance program in connection with the purchase of goods or services disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, program activity during the period, changes from period to period and potential magnitude of program transactions. ASU 2022-04 will become effective for us in the first quarter of fiscal 2023 and early adoption is permitted. As of September 30, 2022, we are reviewing our supplier finance agreements to determine the impact to disclosures in our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions” (“ASU 2022-03”). These amendments clarify that a contractual restriction on the sales of an investment in equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. ASU 2022-03 will become effective for us in the first quarter of fiscal 2023 and early adoption is permitted. As of September 30, 2022, we do not expect ASU 2022-03 to have an impact to our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-02, “*Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings (“TDR”) and Vintage Disclosures*” (“ASU 2022-02”). These amendments eliminate the TDR recognition and measurement guidance, enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. ASU 2022-02 will become effective for us in the first quarter of fiscal 2023 and early adoption is permitted. As of September 30, 2022, we do not expect ASU 2022-02 to have an impact to our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-01, “*Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method*” (ASU 2022-01). The ASU expands the current single-layer method to allow multiple hedged layers of a single closed portfolio under the method. ASU 2022-01 will become effective for us in the first quarter of fiscal 2023 and early adoption is permitted. As of September 30, 2022, we do not expect ASU 2022-01 to have an impact to our consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, “*Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*” (“ASU 2021-08”), which requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. ASU 2021-08 will become effective for us in the first quarter of fiscal 2023 and early adoption is permitted. As of September 30, 2022, we do not expect ASU 2021-08 to have an impact to our consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, “*Reference Rate Reform (Topic 848): Scope*” (“ASU 2021-01”), which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. ASU 2021-01 also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. These amendments may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. ASU 2021-01 provides optional expedients for a limited time to ease the potential burden in accounting for reference rate reform. Based on our review of our key material contracts through September 30, 2022, ASU 2021-01 does not have a material impact to our consolidated financial statements.

(2) Recently Completed Divestiture of the Latin American Business

On August 1, 2022, affiliates of Level 3 Parent, LLC, an indirect wholly-owned subsidiary of Lumen Technologies, Inc., sold Lumen's Latin American business pursuant to a definitive agreement dated July 25, 2021 for pre-tax cash proceeds of approximately \$2.7 billion, subject to certain post-closing adjustments.

During both the three and nine months ended September 30, 2022, we recorded a \$119 million pre-tax gain on disposal associated with the sale of our Latin American business. This gain is reflected as operating income within the consolidated statements of operations.

In connection with the sale, Lumen has entered into a transition services agreement under which it will provide to the purchaser various support services. In addition, Lumen and the purchaser entered into commercial agreements whereby they will provide each other various network and other commercial services. Lumen also agreed to indemnify the purchaser for certain matters for which future cash payments by Lumen could be required. Lumen has estimated the fair value of these indemnifications to be \$86 million, which is included in other long-term liabilities in our consolidated balance sheet and has reduced our gain on the sale accordingly.

We do not believe this divestiture represented a strategic shift for Level 3. Therefore, the Latin American business did not meet the criteria to be classified as a discontinued operation. As a result, we continued to report our operating results for the Latin American business in our consolidated operating results through the disposal date. The pre-tax net income of the Latin American business is estimated to be as follows in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Pre-tax net income ⁽¹⁾	\$	19	62	197
			137	

⁽¹⁾ The pre-tax net income includes operating results prior to the close of the sale of the business on August 1, 2022

The Latin American business was included in our continuing operations and classified as assets and liabilities held for sale on our consolidated balance sheets through the closing of the transaction on August 1, 2022. As a result of closing the transaction, we derecognized \$2.4 billion of net assets, the principal components of which were as follows:

	August 1, 2022
	(Dollars in millions)
Assets	
Cash and cash equivalents	\$ 40
Accounts receivable, less allowance of \$3	105
Other current assets	86
Property, plant and equipment, net accumulated depreciation of \$447	1,703
Goodwill ⁽¹⁾	719
Customer relationships and other intangibles, net	140
Other non-current assets	70
Total assets	\$ 2,863
Liabilities	
Accounts payable	\$ 105
Income and other taxes	42
Other current liabilities	59
Deferred income taxes, net	154
Other non-current liabilities	122
Total liabilities	\$ 482

⁽¹⁾ The assignment of goodwill was based on the relative fair value of the disposal group and the portion of the remaining reporting unit prior to the disposal group being classified as held for sale.

(3) Goodwill, Customer Relationships and Other Intangible Assets

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

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Goodwill	\$ 6,598	6,666
Customer relationships, less accumulated amortization of \$3,245 and \$2,779	\$ 4,804	5,325
Capitalized software, less accumulated amortization of \$380 and \$349	412	378
Trade names, less accumulated amortization of \$129 and \$109	2	22
Total other intangible assets, net	\$ 5,218	5,725

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

We assess our goodwill for impairment annually, or under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the carrying value of equity of our reporting unit exceeds its fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assess goodwill at our reporting unit. In reviewing the criteria for reporting units, we have determined that we are one reporting unit.

The following table shows the rollforward of goodwill from December 31, 2021 through September 30, 2022:

	(Dollars in millions)
As of December 31, 2021 ⁽¹⁾	\$ 6,666
Effect of foreign currency exchange rate changes	(68)
As of September 30, 2022 ⁽¹⁾	\$ 6,598

⁽¹⁾ Goodwill at September 30, 2022 and December 31, 2021 is net of accumulated impairment loss of \$3.6 billion.

Total amortization expense for finite-lived intangible assets for the three months ended September 30, 2022 and 2021 totaled \$187 million and \$210 million, respectively, and for the nine months ended September 30, 2022 and 2021, totaled \$565 million and \$637 million, respectively. As of September 30, 2022, the gross carrying amount of goodwill, customer relationships, capitalized software, indefinite-life and other intangible assets was \$15.6 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2022 through 2026 will be as provided in the table below.

	(Dollars in millions)
2022 (remaining three months)	\$ 182
2023	718
2024	714
2025	689
2026	646

(4) Revenue Recognition

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

- *Compute and Application Services*, which include our Edge Cloud services, IT solutions, Unified Communications and Collaboration ("UC&C"), data center, content delivery network ("CDN") and managed security services;
- *IP and Data Services*, which include Ethernet, IP, and VPN data networks, including software-defined wide area networks ("SD WAN") based services, Dynamic Connections and Hyper WAN;
- *Fiber Infrastructure Services*, which include dark fiber, optical services and equipment;
- *Voice and Other*, which include Time Division Multiplexing ("TDM") voice, private line and other legacy services; and
- *Affiliate Services*, which include communications services provided to our affiliates that we also provide to our external customers.

Disaggregated Revenue by Service Offering

The following table provides disaggregation of revenue from contracts with customers based on service offering for the nine months ended September 30, 2022 and 2021. It also shows the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards. The amounts in the tables below include the Latin American business revenues prior to it being sold on August 1, 2022.:

	Three Months Ended September 30, 2022			Three Months Ended September 30, 2021		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
(Dollars in millions)						
Compute and Application Services	\$ 235	(100)	135	287	(126)	161
IP and Data Services	831	—	831	890	—	890
Fiber Infrastructure Services	381	(54)	327	412	(56)	356
Voice and Other	315	(3)	312	345	(3)	342
Affiliate Services	57	(57)	—	56	(56)	—
Total revenue	\$ 1,819	(214)	1,605	1,990	(241)	1,749

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
(Dollars in millions)						
Compute and Application Services	\$ 795	(354)	441	850	(380)	470
IP and Data Services	2,600	—	2,600	2,659	—	2,659
Fiber Infrastructure Services	1,175	(165)	1,010	1,210	(164)	1,046
Voice and Other	978	(11)	967	1,078	(8)	1,070
Affiliate Services	170	(170)	—	167	(167)	—
Total revenue	\$ 5,718	(700)	5,018	5,964	(719)	5,245

⁽¹⁾ Includes lease revenue which is not within the scope of ASC 606.

Operating Lease Income

We lease various dark fiber, office facilities, colocation facilities, switching facilities, other network sites and service equipment to third parties under operating leases. Lease and sublease revenue are included in operating revenue in our consolidated statements of operations.

For the three months ended September 30, 2022 and 2021, our gross rental income was \$175 million and \$202 million, which represents approximately 10% of our operating revenue for both periods. For the nine months ended September 30, 2022 and 2021, our gross rental income was \$581 million and \$601 million, which represents approximately 10% of our operating revenue for both periods.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities, net of amounts reclassified as held for sale as of September 30, 2022 and December 31, 2021:

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 593	640
Contract assets ⁽²⁾	30	35
Contract liabilities ⁽³⁾	287	247

(1) Reflects gross customer receivables of \$620 million and \$679 million, net of allowance for credit losses of \$27 million and \$39 million, at September 30, 2022 and December 31, 2021, respectively. As of December 31, 2021, this amount excludes customer receivables classified as held for sale of \$83 million.

(2) As of December 31, 2021, no amounts have been classified as held for sale.

(3) As of December 31, 2021, amount excludes contract liabilities classified as held for sale of \$58 million.

Contract liabilities are consideration we have received from our customers or billed in advance of providing the goods or services promised in the future. We defer recognizing this consideration until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which typically ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue and liabilities held for sale in our consolidated balance sheets. During the three and nine months ended September 30, 2022, we recognized \$20 million and \$128 million, respectively, of revenue that was included in contract liabilities of \$305 million as of January 1, 2022, including contract liabilities that were classified as held for sale. During the three and nine months ended September 30, 2021, we recognized \$30 million and \$151 million, respectively, of revenue that was included in contract liabilities of \$385 million as of January 1, 2021.

Performance Obligations

As of September 30, 2022, we expect to recognize approximately \$3.8 billion of revenue in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied. We expect to recognize approximately 80% of this revenue through 2024, with the balance recognized thereafter.

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

Contract Costs

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

	Three Months Ended September 30, 2022		Three Months Ended September 30, 2021	
	Acquisition Costs	Fulfillment Costs ⁽¹⁾	Acquisition Costs	Fulfillment Costs
(Dollars in millions)				
Beginning of period balance	\$ 78	101	75	124
Costs incurred	16	20	15	22
Amortization	(14)	(17)	(14)	(21)
Change in contract costs held for sale ⁽¹⁾	—	1	—	(27)
End of period balance	<u>\$ 80</u>	<u>105</u>	<u>76</u>	<u>98</u>

	Nine Months Ended September 30, 2022		Nine Months Ended September 30, 2021	
	Acquisition Costs	Fulfillment Costs ⁽¹⁾	Acquisition Costs	Fulfillment Costs
(Dollars in millions)				
Beginning of period balance	\$ 76	99	78	122
Costs incurred	45	63	44	68
Amortization	(41)	(57)	(46)	(65)
Change in contract costs held for sale ⁽¹⁾	—	—	—	(27)
End of period balance	<u>\$ 80</u>	<u>105</u>	<u>76</u>	<u>98</u>

⁽¹⁾ The beginning of period balance for the three and nine months ended September 30, 2022 excluded fulfillment costs classified as held for sale of \$28 million and \$27 million, respectively.

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 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 life of approximately 34 months for our business customers. Amortized fulfillment costs are included in cost of services and products, and amortized acquisition costs are included in selling, general and administrative expenses in our consolidated statements of operations. The amount of these deferred costs that are anticipated to be amortized in the next 12 months are included in other current assets on our consolidated balance sheets. The amount of deferred costs expected to be amortized beyond 12 months is included in other non-current assets on our consolidated balance sheets. Deferred acquisition and fulfillment costs are assessed for impairment on a quarterly basis.

(5) Credit Losses on Financial Instruments

To assess our expected credit losses on financial instruments, we aggregate financial assets with similar risk characteristics to monitor their credit quality or deterioration over the life of such assets. We periodically monitor certain risk characteristics within our aggregated financial assets and revise their composition accordingly, to the extent internal and external risk factors change. We separately evaluate financial assets that do not share risk characteristics with other financial assets. Our financial assets measured at amortized cost primarily consist of accounts receivable.

We use a loss rate method to estimate our allowance for credit losses. Our determination of the current expected credit loss rate begins with our review of historical loss experience as a percentage of accounts receivable. We measure our historical loss period based on the average days to recognize accounts receivable as credit losses. When asset specific characteristics and current conditions change from those in the historical period, due to changes in our credit and collections strategy, certain classes of aged balances, or credit loss and recovery policies, we perform a qualitative and quantitative assessment to adjust our historical loss rate. We use regression analysis to develop an expected loss rate using historical experience and economic data over a forecast period. We measure our forecast period based on the average days to collect payment on billed accounts receivable. To determine our current allowance for credit losses, we combine the historical and expected credit loss rates and apply them to our period end accounts receivable.

If there is an unexpected deterioration of a customer's financial condition or an unexpected change in economic conditions, including macroeconomic events, we assess the need to adjust the allowance for credit losses. Any such resulting adjustments would affect earnings in the period that adjustments are made.

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

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

	(Dollars in millions)	
Beginning balance at December 31, 2021 ⁽¹⁾	\$	39
Provision for expected losses		2
Write-offs charged against the allowance		(17)
Recoveries collected		2
Foreign currency exchange rate change adjustment		1
Ending balance at September 30, 2022	\$	27

⁽¹⁾ As of December 31, 2021, amount excludes allowance for credit losses classified as held for sale of \$3 million. See Note 2—Recently Completed Divestiture of the Latin American Business.

(6) Long-Term Debt

The following chart reflects our consolidated long-term debt, including finance leases and other obligations, unamortized discounts and premiums, net and unamortized debt issuance costs, but excluding intercompany debt:

	Interest Rates ⁽¹⁾	Maturities ⁽¹⁾	September 30, 2022	December 31, 2021
(Dollars in millions)				
Level 3 Financing, Inc.				
Senior Secured Debt: ⁽²⁾				
Senior notes	3.400% - 3.875%	2027 - 2029	\$ 1,500	1,500
Tranche B 2027 Term Loan ⁽³⁾	LIBOR + 1.75%	2027	2,411	3,111
Senior Notes and other debt:				
Senior notes ⁽⁴⁾	3.625% - 4.625%	2027 - 2029	3,940	5,515
Finance leases and other obligations	Various	Various	301	319
Unamortized premiums, net			3	34
Unamortized debt issuance costs			(50)	(57)
Total long-term debt			8,105	10,422
Less current maturities			(26)	(26)
Long-term debt, excluding current maturities			\$ 8,079	10,396

(1) As of September 30, 2022.

(2) See Note 7—Long-Term Debt in our Annual Report on Form 10-K for the year ended December 31, 2021 for a description of certain affiliate guarantees and liens securing this debt.

(3) The Tranche B 2027 Term Loan had an interest rate of 4.865% and 1.854% as of September 30, 2022 and December 31, 2021, respectively.

(4) See Note 7—Long-Term Debt in our Annual Report on Form 10-K for the year ended December 31, 2021 for a description of guarantees provided by certain affiliates of Level 3 Financing, Inc.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of September 30, 2022 (excluding unamortized premiums, net, unamortized debt issuance costs, and intercompany debt), maturing during the following years:

	(Dollars in millions)
2022 (remaining three months)	\$ 8
2023	27
2024	32
2025	38
2026	36
2027 and thereafter	8,011
Total long-term debt	\$ 8,152

Debt Repayment

During the nine months ended September 30, 2022, we repaid the following aggregate principal amount of indebtedness through a combination of tender offers, redemptions, and repayments. These transactions resulted in a net gain of \$9 million.

Debt	Period of Repayment	(Dollars in millions)
Tranche B 2027 Term Loan	Q3 2022	\$ 700
5.375% Senior Notes due 2025	Q3 2022	800
5.250% Senior Notes due 2026	Q3 2022	775
Total Debt Repayments		<u>\$ 2,275</u>

Covenants

The term loan and senior notes of Level 3 Financing, Inc. contain extensive affirmative and negative covenants. Such covenants include, among other things and subject to certain significant exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates including Lumen Technologies and its other subsidiaries, dispose of assets and merge or consolidate with any other person. Also, in connection with a "change of control" of Level 3 Parent, LLC, or Level 3 Financing, Inc., Level 3 Financing will be required to offer to repurchase or repay certain of its long-term debt at a price of 101% of the principal amount of debt repurchased or repaid, plus accrued and unpaid interest.

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

Compliance

As of September 30, 2022, we believe we were in compliance with the provisions and financial covenants contained in our debt agreements in all material respects.

(7) Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable, note receivable-affiliate and long-term debt (excluding finance leases and other obligations) and certain indemnification obligations. Due to their short-term nature, the carrying amounts of our cash and cash equivalents, restricted cash, accounts receivable, note receivable-affiliate and accounts payable approximate their fair values.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy.

We determined the fair values of our long-term debt, including the current portion, based primarily on inputs other than quoted market prices in active markets that are either directly or indirectly observable such as discounted future cash flows using current market interest rates.

The three input levels in the hierarchy of fair value measurements are defined by the FASB are generally as follows:

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

The following table presents the carrying amounts and estimated fair values of our financial liabilities as of September 30, 2022 and December 31, 2021, as well as the input level used to determine the fair values indicated below:

	Input Level	September 30, 2022		December 31, 2021	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding finance leases	2	\$ 7,804	6,572	10,103	10,090
Indemnifications related to the sale of the Latin American business	3	\$ 86	86	—	—

(8) Commitments, Contingencies and Other Items

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

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at September 30, 2022 aggregated to approximately \$24 million and are included in other current liabilities, other liabilities, or liabilities held for sale 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.

Latin American Tax Litigation and Claims

In connection with the recent divestiture of our Latin American business, the purchaser assumed responsibility for the Peruvian tax litigation and Brazilian tax claims described in our prior periodic reports filed with the SEC. We have agreed to indemnify the purchaser for amounts paid in respect to the Brazilian tax claims. The value of this indemnification is included in the indemnification amount as disclosed in Note 7—Fair Value of Financial Instruments.

Other Proceedings, Disputes and Contingencies

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, regulatory hearings 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 within the next twelve 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 is reasonably expected to exceed \$300,000 in fines and penalties.

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

The matters listed 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 consolidated financial statements included in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2021. 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.

(9) Accumulated Other Comprehensive Loss

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the nine months ended September 30, 2022:

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2021	\$ 3	(354)	(351)
Other comprehensive loss, net of tax	—	(229)	(229)
Amounts reclassified from accumulated other comprehensive (loss) income	\$ —	112	112
Net other comprehensive loss	—	(117)	(117)
Balance at September 30, 2022	\$ 3	(471)	(468)

The tables below present further information about our reclassifications out of accumulated other comprehensive (loss) income by component for the three and nine months ended September 30, 2022:

Three and Nine Months Ended September 30, 2022	Decrease (Increase) in Net Income (Dollars in millions)	Affected Line Item in Consolidated Statement of Operations
Reclassification of realized loss on foreign currency translation to gain on sale of business	\$ 112	Gain on sale of business
Income tax benefit	—	Income tax expense
Net of tax	<u>\$ 112</u>	

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the nine months ended September 30, 2021:

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2020	\$ (13)	(221)	(234)
Other comprehensive loss, net of tax	—	(101)	(101)
Net other comprehensive loss	—	(101)	(101)
Balance at September 30, 2021	<u>\$ (13)</u>	<u>(322)</u>	<u>(335)</u>

(10) Other Financial Information

Other Current Assets

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

	September 30, 2022	December 31, 2021
	(Dollars in millions)	
Prepaid expenses	\$ 127	109
Contract fulfillment costs	48	48
Contract acquisition costs	47	45
Contract assets	23	28
Other	6	9
Total other current assets	<u>\$ 251</u>	<u>239</u>

(1) As of December 31, 2021, other current assets excluded \$81 million that had been classified as held for sale.

(11) Subsequent Events

Pending Divestiture of our European, Middle Eastern and African Business

On November 2, 2022, affiliates of Level 3 Parent, LLC entered into an exclusive arrangement to divest our operations in Europe, the Middle East and Africa (the “EMEA business”) to Colt Technology Services Group Limited, a portfolio company of Fidelity Investments, in exchange for \$1.8 billion in cash, subject to certain working capital and other purchase price adjustments. We expect to close the transaction as early as late 2023, following completion of a consultation process under French law required prior to execution of the purchase agreement and receipt of all requisite regulatory approvals in the U.S. and certain countries where the EMEA business operates, as well as the satisfaction of other customary conditions. Upon being executed following the French consultation process, the purchase agreement will contain various customary covenants for transactions of this type, including various indemnities.

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. References to "Lumen Technologies" or "Lumen" refer to our ultimate parent company, Lumen Technologies, Inc. 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" referenced in Item 1A of Part II of this report or other of our filings with the SEC for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2021, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first nine months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

We are an international facilities-based technology and communications company engaged in providing a broad array of integrated communication services to our business customers.

On August 1, 2022, affiliates of Level 3 Parent, LLC sold our Latin American business to an affiliate of a fund advised by Stonepeak Partners LP in exchange for pre-tax cash proceeds of approximately \$2.7 billion, subject to certain post-closing adjustments. See Note 2—Recently Completed Divestiture of the Latin American Business for additional details.

Pending Divestiture of our European, Middle Eastern and African Business

On November 2, 2022, affiliates of Level 3 Parent, LLC entered into an exclusive arrangement to divest our operations in Europe, the Middle East and Africa in exchange for \$1.8 billion in cash, subject to certain working capital and other purchase price adjustments. For more information, see Note 11—Subsequent Events to our consolidated financial statements in Item 1 of Part I of this report.

Impact of COVID-19 Pandemic and the Macroeconomic Environment

As previously described in greater detail in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2021, in response to the safety and economic challenges arising out of the COVID-19 pandemic and in a continued attempt to mitigate the negative impact on our stakeholders, we have taken a variety of steps to ensure the availability of our network infrastructure, to promote the safety of our employees and customers, to enable us to continue to adapt and provide our products and services worldwide to our customers, and to strengthen our communities. We expect to continue revising our responses to the pandemic or take additional steps necessary to adjust to changed circumstances.

Social distancing, business and school closures, travel restrictions, and macroeconomic changes arising out of the pandemic have impacted us, our customers and our business since March 2020. Additionally, as discussed in further detail in our prior reports, the pandemic and macroeconomic changes arising therefrom have resulted in (i) increases in certain revenue streams and decreases in others, (ii) increases in overtime expenses, (iii) operational challenges resulting from shortages of certain components and other supplies that we use in our business, and (iv) delays in our cost transformation initiatives. We have also experienced delayed decision-making by certain of our customers. Thus far, these changes have not materially impacted our financial performance or financial position. However, we continue to monitor global disruptions and work with our vendors to mitigate supply chain risks.

We reopened our offices in April 2022 under a "hybrid" working environment, which will permit some of our employees the flexibility to work remotely at least some of the time for the foreseeable future.

Products, Services and Revenue

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

- *Compute and Application Services*, which include our Edge Cloud services, IT solutions, Unified Communications and Collaboration ("UC&C"), data center, content delivery network ("CDN") and managed security services;
- *IP and Data Services*, which include Ethernet, IP, and VPN data networks, including software-defined wide area networks ("SD WAN") based services, Dynamic Connections and Hyper WAN;
- *Fiber Infrastructure Services*, which include dark fiber, optical services and equipment;
- *Voice and Other*, which include Time Division Multiplexing ("TDM") voice, private line and other legacy services; and
- *Affiliate Services*, which include communications services provided to our affiliates that we also provide to our external customers.

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

Results of Operations

Results in this section include the results of our Latin American business prior to it being sold on August 1, 2022.

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2022 and September 30, 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(Dollars in millions)			
Operating revenue	\$ 1,819	1,990	5,718	5,964
Operating expenses	1,485	1,749	4,913	5,173
Operating income	334	241	805	791
Other expense, net	(84)	(83)	(259)	(222)
Income before income taxes	250	158	546	569
Income tax expense	312	37	397	150
Net (loss) income	\$ (62)	121	149	419

For a discussion of certain trends that impact our business, see the MD&A discussion of trends impacting Lumen's non-mass markets business included in Lumen's reports filed with the SEC, including its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022.

Operating Revenue

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

	Three Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Compute and Application Services	\$ 235	287	(18)%
IP and Data Services	831	890	(7)%
Fiber Infrastructure Services	381	412	(8)%
Voice and Other	315	345	(9)%
Affiliate Services	57	56	2 %
Total operating revenue	<u>\$ 1,819</u>	<u>1,990</u>	(9)%

	Nine Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Compute and Application Services	\$ 795	850	(6)%
IP and Data Services	2,600	2,659	(2)%
Fiber Infrastructure Services	1,175	1,210	(3)%
Voice and Other	978	1,078	(9)%
Affiliate Services	170	167	2 %
Total operating revenue	<u>\$ 5,718</u>	<u>5,964</u>	(4)%

Our total operating revenue decreased by \$171 million and \$246 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021 primarily due to the sale of the Latin American business, as well as overall decreases in IT Solutions, Ethernet services, VPN data networks, voice and private line and ready access revenue. For the nine months ended September 30, 2022, the decrease was partially offset growth in IP, cloud services and managed security revenue.

Operating Expenses

The following table summarizes our consolidated operating expenses:

	Three Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 785	897	(12)%
Selling, general and administrative	269	305	(12)%
Gain on sale of business	(119)	—	nm
Operating expenses - affiliates	173	116	49 %
Depreciation and amortization	377	431	(13)%
Total operating expenses	\$ 1,485	1,749	(15)%

	Nine Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,472	2,643	(6)%
Selling, general and administrative	901	872	3 %
Gain on sale of business	(119)	—	nm
Operating expenses - affiliates	481	354	36 %
Depreciation and amortization	1,178	1,304	(10)%
Total operating expenses	\$ 4,913	5,173	(5)%

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 \$112 million and \$171 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021, primarily due the sale of the Latin American business and decreases in facility costs and lower real estate and power costs.

Selling, General and Administrative

Selling, general and administrative decreased by \$36 million for the three months ended September 30, 2022 as compared to the three months ended September 30, 2021 primarily due to lower non-employee related expenses and lower bad debt expense, as well as the sale of our Latin American business. Selling, general and administrative increased \$29 million for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021 primarily due to higher employee related expenses as well as a gain on sale of assets in the nine months ended September 30, 2021, which was partially offset by the sale of our Latin American business.

Gain on Sale of Business

For a discussion of the gain on the sale of the Latin American business that we recorded in the third quarter of 2022, see Note 2—Recently Completed Divestiture of the Latin American Business.

Operating Expenses - Affiliates

Operating expenses - affiliates increased by \$57 million and \$127 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021, primarily due to higher affiliate lease expense for circuits and colocation facilities.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense:

	Three Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Depreciation	\$ 190	221	(14)%
Amortization	187	210	(11)%
Total depreciation and amortization	\$ 377	431	(13)%

	Nine Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Depreciation	\$ 613	667	(8)%
Amortization	565	637	(11)%
Total depreciation and amortization	\$ 1,178	1,304	(10)%

Depreciation expense decreased by \$31 million and \$54 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021, primarily due to discontinuing the depreciation of the tangible assets of our recently divested Latin American business during their classification as assets held for sale, resulting in a decrease of \$9 million and \$61 million, respectively, of depreciation expense during the three and nine months ended September 30, 2022 compared to the three and nine months ended September 30, 2021. The decrease for the three months ended September 30, 2022 was also due to a decrease of \$9 million resulting from the net decrease in depreciable assets. The decrease during the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021 was partially offset by a \$13 million increase in net depreciable assets.

Amortization expense decreased by \$23 million and \$72 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021. For the three and nine months ended September 30, 2022, amortization expense decreased by \$19 million and \$44 million, respectively, associated with the net reduction in amortizable assets and by \$3 million and \$25 million, respectively, due to discontinuing the amortization of the intangible assets of our recently divested Latin American business during their classification as assets held for sale.

Other Consolidated Results

The following table summarizes other expense, net and income tax expense:

	Three Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Interest income - affiliate	\$ 19	16	19 %
Interest expense	(99)	(90)	10 %
Other expense, net	(4)	(9)	nm
Total other expense, net	\$ (84)	(83)	1 %
Income tax expense	\$ 312	37	nm

	Nine Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Interest income - affiliate	\$ 50	49	2 %
Interest expense	(284)	(272)	4 %
Other (expense) income, net	(25)	1	nm
Total other expense, net	\$ (259)	(222)	17 %
Income tax expense	\$ 397	150	165 %

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 increased by \$3 million and \$1 million, respectively, for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021. The increase was driven by increases in affiliate note balances and an increase in interest rates.

Interest Expense

Interest expense increased by \$9 million and \$12 million for the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021. The increase was due to an increase in average interest rates from 3.53% to 4.13% and 3.60% to 3.89%, respectively, for the three and nine months ended September 30, 2022. This was partially offset by the decrease in average outstanding long-term debt from \$10.4 billion to \$9.3 billion, for both the three and nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021.

Other (Expense) Income, Net

The following table summarizes our total other (expense) income, net:

	Three Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Gain on extinguishment of debt	\$ 9	—	nm
Foreign currency loss	(21)	(11)	(91)%
Interest income	5	—	nm
Other	3	2	50 %
Total other expense, net	<u>\$ (4)</u>	<u>(9)</u>	nm

	Nine Months Ended September 30,		% Change
	2022	2021	
	(Dollars in millions)		
Gain on extinguishment of debt	\$ 9	16	(44)%
Foreign currency gain	(41)	(14)	(193)%
Interest income	5	—	nm
Other	2	(1)	nm
Total other income, net	<u>\$ (25)</u>	<u>1</u>	nm

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

Income Tax Expense

For the three months ended September 30, 2022 and 2021, our effective income tax rate was 124.8% and 23.4%, respectively. For the nine months ended September 30, 2022 and 2021, our effective income tax rate was 72.7% and 26.4%, respectively. The effective tax rate for the three and nine months ended September 30, 2022 was significantly impacted by the gain on the sale of our Latin American business. Without the gain on the sale of our Latin American business, our effective tax would have been 28.0% and 28.5%, respectively, for the three and nine months ended September 30, 2022.

Liquidity and Capital Resources

Overview

As of September 30, 2022, we held cash and cash equivalents of \$130 million, of which \$68 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.

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

Impact of Recently Completed Divestiture of our Latin American Business

As discussed in Note 2—Recently Completed Divestiture of the Latin American Business, we sold our Latin American business on August 1, 2022. As further described elsewhere herein, this transaction provided us with a substantial amount of cash proceeds, but ultimately will reduce our base of income-generating assets that generate our recurring cash from operating activities.

Debt and Other Financing Arrangements

As of September 30, 2022, our long-term debt (including current maturities and finance leases) outstanding totaled \$8.1 billion. See Note 6—Long-Term Debt.

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 be impacted by 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 secured and unsecured debt of Level 3 Financing, Inc. were as follows:

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

Our credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future changes in the senior unsecured or secured debt ratings of Level 3 Financing, Inc. could impact our access to debt capital or adjust our borrowing costs. With the recent downgrade of certain of our credit ratings, we may experience increased borrowing costs. See "Risk Factors—Financial Risks" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2021.

From time to time over the past couple of years, we have engaged in various refinancings, redemptions, tender offers, open market purchases and other transactions designed to reduce our consolidated indebtedness, lower our interest costs, improve our financial flexibility or otherwise enhance our debt profile. We plan to continue to pursue similar transactions in the future. Whether and when we implement any additional such transactions depends on a wide variety of factors, including without limitation market conditions, our upcoming debt maturities, and our cash requirements. There is no guarantee that we will be successful in implementing any such transactions or attaining our stated objectives.

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. Letters of credit are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of September 30, 2022, we had outstanding letters of credit or other similar obligations of approximately \$3 million, all of which was collateralized by restricted cash.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2021.

Cash Flow Activities

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		\$ Change
	2022	2021	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 1,687	941	746
Net cash provided by (used in) investing activities	\$ 1,832	(822)	2,654
Net cash used in financing activities	\$ (3,577)	(67)	3,510

Operating Activities

Net cash provided by operating activities increased by \$746 million for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021, primarily due payments on accounts payable - affiliate during the nine months ended September 30, 2021, as well as foreign currency adjustments. Cash provided by operating activities is subject to variability period over period as a result of timing, including the collection of receivables and payments of interest, accounts payable, and bonuses.

Investing Activities

Net cash provided by (used in) investing activities increased by \$2.7 billion for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021. The increase was primarily due to pre-tax proceeds of \$2.7 billion from the sale of the Latin American business.

Financing Activities

Net cash used in financing activities increased by \$3.5 billion for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021 primarily due an increase in distributions paid to our parent as well as due to the prior period repayment of accounts payable - affiliate, as discussed in Operating Activities above, and an increase in payments of long-term debt.

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 8—Commitments, Contingencies and Other Items for additional information.

Lumen Technologies 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 Lumen Technologies, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in Lumen'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.

Federal officials have proposed changes to current programs and laws that could impact us, including proposals designed to increase broadband access, increase competition among broadband providers, lower broadband costs and re-adopt "net neutrality" rules similar to those adopted under the Obama Administration. In November 2021, the U.S. Congress enacted legislation that appropriated \$65 billion to improve broadband affordability and access, primarily through federally funded state grants. As of the date of this report, various state and federal agencies are continuing to take steps to make this funding available to eligible applicants, including us. It remains premature to speculate on the potential impact of this legislation on us.

Market Risk

At September 30, 2022, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations.

As of September 30, 2022, we had approximately \$7.9 billion (excluding unamortized premiums, net, unamortized debt issuance costs and finance leases) of long-term debt outstanding, 69% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We also held approximately \$2.4 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 \$24 million. Additionally, our credit agreements contain language about a possible change from LIBOR to an alternative index.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, including the British Pound and the Euro. 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 September 30, 2022.

Other Information

Lumen's and our website is www.lumen.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.lumen.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed by us or our ultimate controlling member Lumen Technologies, Inc., and all amendments to those reports, in the "Investor Relations" section of our website (ir.lumen.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after they are electronically filed with the SEC.

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 us in the reports we file or furnish under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure this information is accumulated and communicated to our senior management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Chris Stansbury, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2022. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of September 30, 2022, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

Other than the implementation of controls over accounting for the divestiture of our Latin American business and the calculation of the resulting gain therefrom, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the third quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

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

PART II-OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 8—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 8 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—Legal and Regulatory Risks—Our pending legal proceedings could have a material adverse impact on us” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. We urge you to carefully consider (i) the other information set forth in this report and (ii) the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
2.1	Put Option Agreement, dated as of November 2, 2022 by and among certain affiliates of Level 3 Parent, LLC, and Colt Technology Services Group Limited (incorporated by reference to Exhibit 2.1 to Level 3 Parent, LLC's Current Report on Form 8-K filed with the SEC on November 2, 2022).
31.1*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	The following materials from the Quarterly Report on Form 10-Q of Level 3 Parent, LLC for the quarter ended September 30, 2022, formatted in Inline XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Statements Of Comprehensive (Loss) Income, (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Member's Equity and (vi) Notes to Consolidated Financial Statements.
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 3, 2022.

LEVEL 3 PARENT, LLC

By: /s/ Andrea Genschaw
Andrea Genschaw
Senior Vice President, Controller
(Principal Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this quarterly report on Form 10-Q of 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Jeff K. Storey

 Jeff K. Storey
 Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Chris Stansbury, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2022

/s/ Chris Stansbury

Chris Stansbury
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 September 30, 2022 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: November 3, 2022

/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, Chris Stansbury, 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 September 30, 2022 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: November 3, 2022

/s/ Chris Stansbury
Chris Stansbury
Executive Vice President and Chief
Financial Officer