

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2023

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 ☒
Although the registrant is no longer required to file reports under Section 13 or 15(d) of such Act, it has filed all such reports for the preceding 12 months.

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

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

Large accelerated filer

☐

Accelerated filer

☐

Non-accelerated filer

☒

Smaller reporting company

☐

Emerging growth company

☐

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

☐

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

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

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

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 COVID-19 pandemic and its aftermath 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 intense 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 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 generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, taxes and benefits payments;
- our ability to effectively retain and hire key personnel;
- our ability to successfully adjust to 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, to introduce profitable new offerings on a timely and cost-effective basis and to transition customers from our legacy products to our newer offerings;
- our ability to successfully and timely implement our corporate strategies, including our deleveraging and buildout strategies;
- our ability to successfully and timely consummate the planned 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 and transform our remaining business;
- 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, debt covenant restrictions or otherwise;
- the ability of us and our affiliates to meet the terms and conditions of our respective debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- the impact of any purported notice of default or notice of acceleration arising from alleged breach of covenants under our credit documents;
- our ability to maintain favorable relations with our security holders, key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to timely obtain necessary hardware, software, equipment, services, governmental permits and other items on favorable terms;
- 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;
- 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 governmental programs promoting increased broadband development;
- our ability to use our net operating loss carryforwards in the amounts projected;
- 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 and its aftermath could have on our business, operations, cash flows and corporate initiatives;
- the effects of adverse weather, terrorism, epidemics, pandemics, rioting, vandalism, 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 or 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 geopolitical 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
OPERATING REVENUE				
Operating revenue	\$ 1,711	1,896	3,438	3,786
Operating revenue - affiliates	53	57	110	113
Total operating revenue	1,764	1,953	3,548	3,899
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	731	836	1,502	1,687
Selling, general and administrative	318	318	604	632
Loss on disposal group held for sale	8	—	85	—
Operating expenses - affiliates	231	162	399	308
Depreciation and amortization	355	405	702	801
Goodwill impairment	1,970	—	1,970	—
Total operating expenses	3,613	1,721	5,262	3,428
OPERATING (LOSS) INCOME	(1,849)	232	(1,714)	471
OTHER INCOME (EXPENSE)				
Interest expense	(120)	(95)	(213)	(185)
Interest income - affiliate	15	15	31	31
Other income (expense), net	7	(14)	12	(21)
Total other expense, net	(98)	(94)	(170)	(175)
(LOSS) INCOME BEFORE INCOME TAXES	(1,947)	138	(1,884)	296
Income tax (benefit) expense	(23)	41	(1)	85
NET (LOSS) INCOME	\$ (1,924)	97	(1,883)	211

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
NET (LOSS) INCOME	\$ (1,924)	97	\$ (1,883)	211
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustments, net of \$(2), \$32, \$(8) and \$42 tax	1	(184)	12	(115)
Other comprehensive income (loss), net of tax	1	(184)	12	(115)
COMPREHENSIVE (LOSS) INCOME	\$ (1,923)	(87)	\$ (1,871)	96

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2023	December 31, 2022
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 256	118
Accounts receivable, less allowance of \$17 and \$19	518	517
Note receivable - affiliate	1,466	1,468
Assets held for sale	1,937	1,853
Other	209	197
Total current assets	4,386	4,153
Property, plant and equipment, net of accumulated depreciation of \$3,353 and \$2,875	7,384	7,303
GOODWILL AND OTHER ASSETS		
Goodwill	—	1,970
Other intangible assets, net	4,675	4,973
Other, net	1,362	1,360
Total goodwill and other assets	6,037	8,303
TOTAL ASSETS	\$ 17,807	19,759
<u>LIABILITIES AND MEMBER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 28	26
Accounts payable	365	365
Accounts payable - affiliates	94	70
Accrued expenses and other liabilities		
Salaries and benefits	119	146
Income and other taxes	81	86
Current operating lease liabilities	320	326
Other	156	109
Liabilities held for sale	488	446
Current portion of deferred revenue	279	274
Total current liabilities	1,930	1,848
LONG-TERM DEBT	8,966	8,070
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,486	1,420
Operating lease liabilities	868	922
Other	674	701
Total deferred revenue and other liabilities	3,028	3,043
COMMITMENTS AND CONTINGENCIES (Note 9)		
MEMBER'S EQUITY		
Member's equity	4,215	7,142
Accumulated other comprehensive loss	(332)	(344)
Total member's equity	3,883	6,798
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 17,807	19,759

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2023	2022
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net (loss) income	\$ (1,883)	211
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	702	801
Loss on disposal group held for sale	85	—
Goodwill impairment	1,970	—
Deferred income taxes	(6)	54
Changes in current assets and liabilities:		
Accounts receivable	3	33
Accounts payable	(16)	(29)
Other assets and liabilities, net	(34)	(113)
Other assets and liabilities, affiliate	(1)	85
Changes in other noncurrent assets and liabilities, net	16	64
Other, net	(3)	78
Net cash provided by operating activities	<u>833</u>	<u>1,184</u>
INVESTING ACTIVITIES		
Capital expenditures	(530)	(554)
Proceeds from sale of property, plant and equipment and other assets	24	1
Other, net	—	—
Net cash used in investing activities	<u>(506)</u>	<u>(553)</u>
FINANCING ACTIVITIES		
Distributions	(161)	(553)
Payments of long-term debt	(14)	(64)
Other	(12)	—
Net cash used in financing activities	<u>(187)</u>	<u>(617)</u>
Net increase in cash, cash equivalents and restricted cash	140	14
Cash, cash equivalents and restricted cash at beginning of period	164	191
Cash, cash equivalents and restricted cash at end of period	<u>\$ 304</u>	<u>205</u>
Supplemental cash flow information:		
Income taxes paid, net	\$ (4)	(23)
Interest paid (net of capitalized interest of \$10 and \$8)	\$ (183)	(182)
Supplemental non-cash information regarding financing activities:		
Issuance of senior secured notes as part of exchange offers (Note 6)	\$ 924	—
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 256	154
Cash and cash equivalents and restricted cash included in assets held for sale	46	48
Restricted cash included in Other current assets	—	1
Restricted cash included in Other, net noncurrent assets	2	2
Total	<u>\$ 304</u>	<u>205</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
MEMBER'S EQUITY				
Balance at beginning of period	\$ 6,199	13,264	\$ 7,142	13,360
Net (loss) income	(1,924)	97	(1,883)	211
Distributions	(60)	(343)	(1,085)	(553)
Other	—	—	41	—
Balance at end of period	4,215	13,018	4,215	13,018
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(333)	(282)	(344)	(351)
Other comprehensive income (loss)	1	(184)	12	(115)
Balance at end of period	(332)	(466)	(332)	(466)
TOTAL MEMBER'S EQUITY	\$ 3,883	12,552	\$ 3,883	12,552

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 and communications company focused on providing our customers with a broad array of integrated products and services necessary to fully participate in our ever-evolving digital world. We operate one of the world's most interconnected networks. Our platform empowers our customers to swiftly adjust digital programs securely to meet immediate demands, create efficiencies, accelerate market access and reduce costs - allowing customers to rapidly evolve their IT programs to address dynamic changes. Our specific products and services are detailed in Note 4—Revenue Recognition.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2022, 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 six months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022.

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 \$354 million and \$391 million as of June 30, 2023 and December 31, 2022, respectively. Additionally, current operating lease liabilities included the current portion of affiliate operating lease liabilities of \$131 million and \$125 million as of June 30, 2023 and December 31, 2022, respectively, and operating lease liabilities included the noncurrent portion of affiliate operating lease liabilities of \$244 million and \$286 million as of June 30, 2023 and December 31, 2022, respectively.

We reclassified certain prior period amounts to conform to the current period presentation, including our revenue by product and service categories. See Note 4—Revenue Recognition for additional information. These changes had no impact on total operating revenue, total operating expenses or net (loss) income for any period.

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 our 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, 2022.

Recently Adopted Accounting Pronouncements

Supplier Finance Programs

On January 1, 2023, we adopted Accounting Standards Update (“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. The adoption of ASU 2022-04 did not have a material impact to our consolidated financial statements.

Credit Losses

On January 1, 2023, we adopted ASU 2022-02, *“Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (“TDR”) and Vintage Disclosures”* (“ASU 2022-02”). The ASU eliminates the TDR recognition and measurement guidance, enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The adoption of ASU 2022-02 did not have any impact to our consolidated financial statements.

Derivatives and Hedging

On January 1, 2023, we adopted 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. The adoption of ASU 2022-01 did not have any impact to our consolidated financial statements.

Business Combinations

On January 1, 2023, we adopted ASU 2021-08, *“Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers”* (“ASU 2021-08”). This ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The adoption of ASU 2021-08 did not have any impact to our consolidated financial statements.

Government Assistance

On January 1, 2022, we adopted ASU 2021-10, *“Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance”* (“ASU 2021-10”). This ASU requires business entities to disclose information about certain types of government assistance they receive. The ASU only impacts annual financial statement note disclosures. 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.

Recently Issued Accounting Pronouncements

In March 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-02, *"Investments-Equity method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method"* ("ASU 2023-02"). These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. ASU 2023-02 will become effective for us in the first quarter of fiscal 2024 and early adoption is permitted. As of June 30, 2023, we do not expect ASU 2023-02 will have an impact to our consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, *"Leases (Topic 842): Common Control Arrangements"* ("ASU 2023-01"). These amendments require all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. ASU 2023-01 will become effective for us in the first quarter of fiscal 2024 and early adoption is permitted. As of June 30, 2023, we do not expect ASU 2023-01 will have an impact to 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 an 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 2024 and early adoption is permitted. As of June 30, 2023, we do not expect ASU 2022-03 will have an impact to our consolidated financial statements.

(2) Planned Divestiture of the EMEA Business

On November 2, 2022, affiliates of Level 3 Parent, LLC, an indirect wholly-owned subsidiary of Lumen Technologies, Inc., granted an option to Colt Technology Services Group Limited, a portfolio company of Fidelity Investments, to purchase certain of their operations in Europe, the Middle East and Africa (the "EMEA business"), in exchange for \$1.8 billion in cash, subject to certain working capital and other purchase price adjustments. Following the completion of a French consultative process, Colt exercised its option and on February 8, 2023, the parties entered into a definitive purchase agreement, which contains various customary covenants for transactions of this type, including various indemnities. Level 3 Parent, LLC expects to close the transaction in late 2023, subject to receiving 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.

The actual amount of our net after-tax proceeds from this divestiture could vary substantially from the amounts we currently estimate, particularly if we experience delays in completing the transaction or if any of our other assumptions prove to be incorrect.

We do not believe this divestiture represents a strategic shift for us. Therefore, the planned divestiture of the EMEA business does not meet the criteria to be classified as discontinued operations. As a result, we will continue to report our operating results for the EMEA business (the "disposal group") in our consolidated operating results until the transaction is closed.

The pre-tax net income of the disposal group is estimated to be and reported as follows in the table below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(Dollars in millions)			
EMEA business pre-tax net income (loss)	\$ 51	(15)	99	(34)

As of June 30, 2023 in the accompanying consolidated balance sheet, the assets and liabilities of our EMEA business are classified as held for sale and measured at the lower of (i) the carrying value when we classified the disposal group as held for sale and (ii) the fair value of the disposal group, less costs to sell. Effective with the designation of the disposal group as held for sale on November 2, 2022, we suspended recording depreciation of property, plant and equipment and amortization of finite-lived intangible assets and right-of-use assets while these assets are classified as held for sale. We estimate that we would have recorded an additional \$71 million and \$142 million of depreciation, intangible amortization, and amortization of right-of-use assets for the three and six months ended June 30, 2023, respectively, if the EMEA business did not meet the held for sale criteria.

The classification of the EMEA business as held for sale was considered an event or change in circumstance which requires an assessment of the goodwill of the disposal group for impairment each reporting period until disposal. We performed a pre-classification and post-classification goodwill impairment test of the disposal group as described further in Note 3—Goodwill, Customer Relationships and Other Intangible Assets, in our Annual Report on Form 10-K for the year ended December 31, 2022. As a result of our impairment tests, we determined the EMEA business disposal group was impaired, resulting in a non-cash, non-tax-deductible goodwill impairment charge of \$224 million in the fourth quarter of 2022. We evaluated the recoverability of the carrying value of the assets and liabilities held for sale relative to the agreed upon sales price, adjusted for costs to sell, and recorded an estimated loss on disposal of \$616 million during the year ended December 31, 2022 in the consolidated statement of operations and a valuation allowance included in assets held for sale on the consolidated balance sheet. As a result of our evaluation of the recoverability of the carrying value of the EMEA assets and liabilities held for sale relative to the agreed upon sales price, adjusted for costs to sell, as of June 30, 2023, we recorded an \$8 million and \$85 million estimated loss on disposal during the three and six months ended June 30, 2023, respectively, and adjusted the valuation allowance by the same amounts. In future quarters, through the closing date, we will conduct similar evaluations and adjust the valuation allowance for the EMEA assets held for sale as necessary.

The principal components of the held for sale assets and liabilities of the EMEA business as of the dates below are as follows:

	June 30, 2023	December 31, 2022
	(Dollars in millions)	
Assets held for sale		
Cash and cash equivalents	\$ 45	43
Accounts receivable, less allowance of \$5 and \$5	77	76
Other current assets	62	56
Property, plant and equipment, net accumulated depreciation of \$1,024 and \$998	1,976	1,864
Customer relationships and other intangibles, net	106	100
Operating lease assets	196	156
Valuation allowance on assets held for sale ⁽¹⁾	(701)	(616)
Deferred tax assets	142	131
Other non-current assets	34	32
Total assets held for sale	\$ 1,937	1,842
Liabilities held for sale		
Accounts payable	\$ 66	78
Salaries and benefits	17	23
Current portion of deferred revenue	39	28
Current operating lease liabilities	44	33
Other current liabilities	34	28
Deferred income taxes	50	38
Asset retirement obligations	31	30
Deferred revenue, non-current	103	85
Operating lease liabilities, non-current	104	103
Total liabilities held for sale	\$ 488	446

⁽¹⁾ Includes the impact of \$327 million and \$353 million as of June 30, 2023 and December 31, 2022, respectively, primarily related to loss on foreign currency translation, expected to be reclassified out of accumulated other comprehensive loss upon close of the sale.

(3) Goodwill, Customer Relationships and Other Intangible Assets

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

	June 30, 2023 ⁽¹⁾	December 31, 2022 ⁽¹⁾
	(Dollars in millions)	
Goodwill	\$ —	1,970
Customer relationships, less accumulated amortization of \$3,579 and \$3,265	\$ 4,246	4,563
Capitalized software, less accumulated amortization of \$376 and \$387	429	410
Trade names, less accumulated amortization of \$— and \$130 ⁽²⁾	—	—
Total other intangible assets, net	\$ 4,675	4,973

(1) These values exclude assets classified as held for sale.

(2) Trade names with a gross carrying value of \$130 million became fully amortized during 2022 and were retired during the first quarter of 2023.

Our goodwill at December 31, 2022 was derived from Lumen's acquisition of us where the purchase price exceeded the fair value of the net assets acquired.

We are required to 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 our operations consist of one reporting unit.

Second Quarter 2023 Goodwill Impairment Analysis

When we performed our October 31, 2022 annual impairment test, we estimated the fair value of our reporting unit by considering both a market approach and a discounted cash flow method.

The sustained decline in Lumen's share price during the second quarter of 2023 was considered a triggering event requiring evaluation of goodwill impairment; as such, we estimated the fair value using only the market approach. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry which supported a range of fair values derived from annualized revenue and EBITDA multiples between 1.5x and 4.3x and 4.6x and 10.5x, respectively. The revenue and EBITDA multiples were below these comparable market multiples. For the three months ended June 30, 2023, based on our assessment performed as described above, we concluded the estimated fair value was less than our carrying value of equity. As a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$2.0 billion for the three months ended June 30, 2023.

The market approach that we used in the quarter ended June 30, 2023 incorporated estimates and assumptions related to the forecasted results for the remainder of the year, including revenues, expenses, and the achievement of certain strategic initiatives. In developing the market multiples, we considered observed trends of our industry participants. Our assessment included many factors that required significant judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the size of our impairments.

The following table shows the rollforward of goodwill assigned to our reportable segment from December 31, 2022 through June 30, 2023:

	(Dollars in Millions)
As of December 31, 2022 ⁽¹⁾	\$ 1,970
Impairment	(1,970)
As of June 30, 2023 ⁽¹⁾	\$ —

⁽¹⁾ Goodwill at June 30, 2023 and December 31, 2022 is net of accumulated impairment losses of \$10.2 billion and \$8.2 billion, respectively.

Total amortization expense for finite-lived intangible assets for the three months ended June 30, 2023 and 2022 totaled \$180 million and \$186 million, respectively, and for the six months ended June 30, 2023 and 2022 totaled \$356 million and \$378 million, respectively. As of June 30, 2023, the gross carrying amount of customer relationships, capitalized software, indefinite-life and other intangible assets was \$8.6 billion.

We estimate that amortization expense for intangible assets for the years ending December 31, 2023 through 2027 will be as provided in the table below. As a result of classifying our EMEA business as being held for sale on our June 30, 2023 consolidated balance sheet, the amounts presented below do not include the future amortization of the intangible assets for the business to be divested. See Note 2—Planned Divestiture of the EMEA Business for more information.

	(Dollars in millions)
2023 (remaining six months)	\$ 349
2024	681
2025	661
2026	649
2027	607

(4) Revenue Recognition

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

- *Grow*, which includes products and services that we anticipate will grow, including our colocation, dark fiber, Edge Cloud services, IP, managed security, software-defined wide area networks ("SD WAN"), secure access service edge ("SASE"), Unified Communications and Collaboration ("UC&C") and wavelengths services;
- *Nurture*, which includes our more mature offerings, including ethernet and VPN data network services;
- *Harvest*, which includes our legacy services managed for cash flow, including Time Division Multiplexing ("TDM") voice, private line and other legacy services;
- *Other*, which includes equipment sales, IT solutions and other 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.

Disaggregated Revenue by Service Offering

The following tables provide disaggregation of revenue from contracts with customers based on service offering for the three and six months ended June 30, 2023 and 2022. 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 revenue for the Latin American business prior to it being sold on August 1, 2022. See Note 2—Completed Divestiture of the Latin American Business and Planned Divestiture of European, Middle Eastern and African Business in our Annual Report on Form 10-K for the year ended December 31, 2022 for additional information on these divestitures.

	Three Months Ended June 30, 2023			Three Months Ended June 30, 2022		
	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)						
Grow	\$ 986	(152)	834	1,042	(183)	859
Nurture	429	(5)	424	495	(4)	491
Harvest	271	—	271	330	—	330
Other	25	—	25	29	—	29
Affiliate Services	53	(53)	—	57	(57)	—
Total revenue	\$ 1,764	(210)	1,554	1,953	(244)	1,709

	Six Months Ended June 30, 2023			Six Months Ended June 30, 2022		
	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)						
Grow	\$ 1,959	(314)	1,645	2,066	(365)	1,701
Nurture	868	(8)	860	998	(8)	990
Harvest	561	—	561	666	—	666
Other	50	—	50	56	—	56
Affiliate Services	110	(110)	—	113	(113)	—
Total revenue	\$ 3,548	(432)	3,116	3,899	(486)	3,413

⁽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 income are included in operating revenue in our consolidated statements of operations.

For the three months ended June 30, 2023 and 2022, our gross rental income was \$174 million and \$203 million, which represents approximately 10% of our operating revenue for both periods. For the six months ended June 30, 2023 and 2022, our gross rental income was \$355 million and \$406 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 classified as held for sale as of June 30, 2023 and December 31, 2022:

	June 30, 2023	December 31, 2022
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 516	515
Contract assets ⁽²⁾	8	13
Contract liabilities ⁽³⁾	222	222

(1) Reflects gross customer receivables of \$533 million and \$534 million, net of allowance for credit losses of \$17 million and \$19 million, at both June 30, 2023 and December 31, 2022. As of June 30, 2023 and December 31, 2022, this amount excludes customer receivables classified as held for sale of \$77 million and \$76 million, respectively.

(2) As of June 30, 2023 and December 31, 2022, amount excludes contract assets classified as held for sale of \$12 million and \$16 million, respectively.

(3) As of June 30, 2023 and December 31, 2022, amount excludes contract liabilities classified as held for sale of \$62 million and \$59 million, respectively.

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 six months ended June 30, 2023, we recognized \$19 million and \$98 million, respectively, of revenue that was included in contract liabilities of \$281 million as of January 1, 2023, including contract liabilities that were classified as held for sale. During the three and six months ended June 30, 2022, we recognized \$23 million and \$108 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.

Performance Obligations

As of June 30, 2023, 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. As of June 30, 2023, the transaction price related to unsatisfied performance obligations that are expected to be recognized for the remainder of 2023, 2024 and thereafter was \$1.0 billion, \$1.4 billion and \$1.4 billion, respectively.

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 EMEA business classified as held for sale.

Contract Costs

The following tables provide changes in our contract acquisition costs and fulfillment costs:

	Three Months Ended June 30, 2023		Three Months Ended June 30, 2022	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
(Dollars in millions)				
Beginning of period balance ⁽¹⁾⁽²⁾	\$ 74	99	77	100
Costs incurred	10	21	14	22
Amortization	(15)	(18)	(13)	(20)
Change in contract costs held for sale	—	—	—	(1)
End of period balance ⁽⁵⁾⁽⁶⁾	\$ 69	102	78	101

	Six Months Ended June 30, 2023		Six Months Ended June 30, 2022	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
(Dollars in millions)				
Beginning of period balance ⁽³⁾⁽⁴⁾	\$ 76	106	76	99
Costs incurred	27	44	29	43
Amortization	(30)	(34)	(27)	(40)
Change in contract costs held for sale	(4)	(14)	—	(1)
End of period balance ⁽⁵⁾⁽⁶⁾	\$ 69	102	78	101

- (1) Beginning of period balance for the three months ended June 30, 2023 excludes \$10 million of acquisition costs and \$14 million of fulfillment costs classified as held for sale related to the EMEA business.
- (2) Beginning of period balance for the three months ended June 30, 2022 excludes no acquisition costs and \$27 million of fulfillment costs classified as held for sale (related to the Latin American business, sold in the third quarter of 2022).
- (3) Beginning of period balance for the six months ended June 30, 2023 excludes \$6 million of acquisition costs and no fulfillment costs classified as held for sale related to the EMEA business.
- (4) Beginning of period balance for the six months ended June 30, 2022 excludes no acquisition costs and \$27 million of fulfillment costs classified as held for sale (related to the Latin American business, sold in the third quarter of 2022).
- (5) End of period balance for the three and six months ended June 30, 2023 excludes \$10 million of acquisition costs and \$14 million of fulfillment costs classified as held for sale related to the EMEA business.
- (6) End of period balance for the three and six months ended June 30, 2022 excludes no acquisition costs and \$28 million of fulfillment costs classified as held for sale (related to the Latin American business, sold in the third quarter of 2022).

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 35 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, 2022 ⁽¹⁾	\$	19
Provision for expected losses		5
Write-offs charged against the allowance		(9)
Recoveries collected		2
Ending balance at June 30, 2023 ⁽¹⁾	\$	17

⁽¹⁾ As of June 30, 2023 and December 31, 2022, amounts exclude a \$5 million allowance for credit losses classified as held for sale. See Note 2—Planned Divestiture of the EMEA Business.

(6) Long-Term Debt

The following table 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⁾	June 30, 2023	December 31, 2022
(Dollars in millions)				
Level 3 Financing, Inc.				
Senior Secured Debt: ⁽²⁾				
Senior notes	3.400% - 10.500%	2027 - 2030	\$ 2,425	1,500
Tranche B 2027 Term Loan ⁽³⁾	SOFR + 1.75%	2027	2,411	2,411
Senior Notes and other debt:				
Senior notes ⁽⁴⁾	3.625% - 4.625%	2027 - 2029	3,940	3,940
Finance leases and other obligations ⁽⁵⁾	Various	Various	272	291
Unamortized premiums, net			3	3
Unamortized debt issuance costs			(57)	(49)
Total long-term debt			8,994	8,096
Less current maturities			(28)	(26)
Long-term debt, excluding current maturities			\$ 8,966	8,070

⁽¹⁾ As of June 30, 2023.

⁽²⁾ See Note 7—Long-Term Debt in our Annual Report on Form 10-K for the year ended December 31, 2022 for a description of certain affiliate guarantees and liens securing this debt.

⁽³⁾ The Tranche B 2027 Term Loan had an interest rate of 6.967% and 6.134% as of June 30, 2023 and December 31, 2022, respectively.

⁽⁴⁾ See Note 7—Long-Term Debt in our Annual Report on Form 10-K for the year ended December 31, 2022 for a description of guarantees provided by certain affiliates of Level 3 Financing, Inc.

⁽⁵⁾ Excludes finance lease obligations of our EMEA business classified as held for sale.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of June 30, 2023 (excluding unamortized premiums, net, unamortized debt issuance costs, and intercompany debt), maturing during the following years:

	(Dollars in millions)
2023 (remaining six months)	\$ 14
2024	30
2025	37
2026	35
2027	4,180
2028 and thereafter	4,752
Total long-term debt	\$ 9,048

New Issuances

Pursuant to exchange offers commenced on March 16, 2023 (the “Exchange Offers”), on March 31, 2023, Level 3 Financing, Inc. issued \$915 million of its 10.500% Senior Secured Notes due 2030 (the “Initial Notes”) in exchange for \$1.535 billion of Lumen’s outstanding senior unsecured notes.

On April 17, 2023, in connection with the Exchange Offers, Level 3 Financing, Inc. issued an additional \$9 million of its 10.500% Senior Secured Notes due 2030 in exchange for \$19 million aggregate principal amount of Lumen's senior unsecured notes.

Supplier Finance Program

Pursuant to our purchase of network equipment under a supplier finance program implemented in 2021 with one of our key equipment vendors, we are obligated to make quarterly installment payments over a 5-year period and pay annual interest of 1.25% on unpaid balances. The first unsecured quarterly payment was due April 27, 2022, with remaining quarterly payments due through the end of the term on July 1, 2026. The supplier also agreed to certain milestone performance and other provisions that could result in us earning credits to be applied by us towards future equipment purchases. As of June 30, 2023 and December 31, 2022, we had not earned any such credits and our outstanding obligations under the plan were \$62 million and \$67 million, respectively, of which \$14 million and \$12 million were included in current maturities of long-term debt and the remaining balances were reflected as the long-term debt.

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, 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 June 30, 2023, 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 using the below-described 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 following financial liabilities as of June 30, 2023 and December 31, 2022, as well as the input level used to determine the fair values indicated below:

	Input Level	June 30, 2023		December 31, 2022	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding finance leases	2	\$ 8,722	6,886	7,805	6,581
Indemnifications related to the sale of the Latin American business ⁽¹⁾	3	86	86	86	86

⁽¹⁾ Nonrecurring fair value is measured as of August 1, 2022.

(8) Affiliate Transactions

We provide competitive local exchange carrier telecommunications services to our affiliates that we also provide to external customers. We believe these services are priced consistent with non-regulated rates charged to external customers. These services are billed directly to our affiliates and recognized as affiliate revenue on our consolidated statements of operations.

Costs are incurred directly by our affiliates for the services they use whenever possible. When such costs are not directly incurred, they are allocated among all affiliates based upon the most reasonable method, first using cost causative measures, or, if no cost causative measure is available, using a general allocator. Unlike other affiliates of Lumen, we do not operate as a service company to our affiliates and therefore any allocated affiliate revenue we earn reduces the affiliate charges incurred by us and is presented on a net basis within Operating expenses – affiliates on our consolidated statements of operations. From time to time, we may adjust the basis for allocating the costs of a shared service among affiliates. Any such changes in allocation methodologies are generally applied prospectively.

We also purchase services from our affiliates, including telecommunication services, insurance, flight services, and other support services such as legal, regulatory, finance, administration and executive support. Our affiliates charge us for those services using the allocation methodology described above.

(9) Commitments, Contingencies and Other Items

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

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. Subject to these limitations, at June 30, 2023, we had accrued \$37 million in the aggregate for our litigation and non-income tax contingencies which is included in other current liabilities, other liabilities, or liabilities held for sale on our consolidated balance sheet as of such date. We cannot at this time estimate the reasonably possible loss or range of loss in excess of this \$37 million accrual due to the inherent uncertainties and speculative nature of contested proceedings. 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 2022 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 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. In addition, in the past we acquired companies that operated certain manufacturing companies in the first part of the 1900s. Under applicable environmental laws, we could be responsible for environmental liabilities arising from the historical operations of our predecessors.

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, 2022. The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us.

(10) Accumulated Other Comprehensive Loss

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the six months ended June 30, 2023:

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2022	\$ 21	(365)	(344)
Other comprehensive income, net of tax	—	12	12
Net other comprehensive income	—	12	12
Balance at June 30, 2023	\$ 21	(353)	(332)

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the six months ended June 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	—	(115)	(115)
Net other comprehensive loss	—	(115)	(115)
Balance at June 30, 2022	\$ 3	(469)	(466)

(11) Other Financial Information

Other Current Assets

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

	June 30, 2023	December 31, 2022
	(Dollars in millions)	
Prepaid expenses	\$ 113	99
Contract fulfillment costs	46	44
Contract acquisition costs	41	42
Contract assets	6	10
Other	3	2
Total other current assets ⁽¹⁾	\$ 209	197

⁽¹⁾ Excludes \$62 million and \$56 million of other current assets related to EMEA business that were classified as held for sale as of June 30, 2023 and December 31, 2022, respectively.

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 for factors relating to these statements 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 risk factors applicable to 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, 2022, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first six months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

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

On August 1, 2022, we sold our Latin American business. For additional information regarding this divestiture, see Note 2—Completed Divestiture of the Latin American Business and Planned Divestiture of European, Middle Eastern and African Business to the audited financial statements included within our Annual Report on Form 10-K for the year ended December 31, 2022.

Pending Divestiture of our European, Middle Eastern and African Business

Under agreements entered into on November 2, 2022 and February 8, 2023, affiliates of Level 3 Parent, LLC have agreed to divest certain operations in EMEA to Colt Technology Services Group Limited, a portfolio company of Fidelity Investments, in exchange for \$1.8 billion in cash, subject to certain post-closing adjustments. We expect to close the transaction in late 2023, subject to receiving 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. The actual amount of our net after-tax proceeds from this divestiture could vary substantially from the amounts we currently estimate, particularly if we experience delays in completing the transaction or any of our other assumptions prove to be incorrect.

Changes in the Macroeconomic, Industry and Work Environments

Societal, governmental, and macroeconomic changes have impacted us, our customers and our business in several ways since the onset of the COVID-19 pandemic in the U.S. in March 2020. Beginning in the second half of 2020 and continuing into 2023, we rationalized our leased footprint and ceased using 13 leased property locations that were underutilized. These lease cancellations resulted in accelerated lease costs, but will lower our future operating costs. In conjunction with our plans to continue to reduce costs, we expect to continue our real estate rationalization efforts and expect to incur additional accelerated real estate costs in future periods. Additionally, as discussed further elsewhere herein, the pandemic and macroeconomic changes arising therefrom have resulted in (i) increases in certain revenue streams and decreases in others, (ii) operational challenges resulting from inflation and, to a lesser extent, shortages of certain components and other supplies that we use in our business, (iii) delays in our cost transformation initiatives, and (iv) delayed decision-making by certain of our customers. None of these effects, individually or in the aggregate, have to date materially impacted our financial performance or financial position.

We reopened our offices in April 2022 under a "hybrid" working environment, which has permitted some of our employees the flexibility to work remotely at least some of the time.

If any of the above-listed factors intensify, our financial results could be materially impacted in a variety of ways, including by increasing our expenses, decreasing our revenues, further delaying our network expansion plans or otherwise interfering with our ability to deliver products and services. For additional information on the impacts of the pandemic and the macroeconomic changes arising therefrom, see (i) the remainder of this item, including "—Liquidity and Capital Resources—Overview" and (ii) Item 1A of Part II of this report.

Products, Services and Revenue

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

- *Grow*, which includes products and services that we anticipate will grow, including our colocation, dark fiber, Edge Cloud services, IP, managed security, software-defined wide area networks ("SD WAN"), secure access service edge ("SASE"), Unified Communications and Collaboration ("UC&C") and wavelengths services;
- *Nurture*, which includes our more mature offerings, including ethernet and VPN data network services;
- *Harvest*, which includes our legacy services managed for cash flow, including Time Division Multiplexing ("TDM") voice, private line and other legacy services;
- *Other*, which includes equipment sales, IT solutions and other 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 six months ended June 30, 2023 and June 30, 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating revenue	\$ 1,764	1,953	3,548	3,899
Operating expenses	3,613	1,721	5,262	3,428
Operating (loss) income	(1,849)	232	(1,714)	471
Other expense, net	(98)	(94)	(170)	(175)
(Loss) income before income taxes	(1,947)	138	(1,884)	296
Income tax (benefit) expense	(23)	41	(1)	85
Net (loss) income	\$ (1,924)	97	(1,883)	211

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 June 30, 2023.

Operating Revenue

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

	Three Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Grow	\$ 986	1,042	(5)%
Nurture	429	495	(13)%
Harvest	271	330	(18)%
Other	25	29	(14)%
Affiliate Services	53	57	(7)%
Total operating revenue	\$ 1,764	1,953	(10)%

	Six Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Grow	\$ 1,959	2,066	(5)%
Nurture	868	998	(13)%
Harvest	561	666	(16)%
Other	50	56	(11)%
Affiliate Services	110	113	(3)%
Total operating revenue	\$ 3,548	3,899	(9)%

Our total operating revenue decreased by \$189 million and \$351 million for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022. Approximately \$182 million and \$360 million, respectively, of these decreases were due to the sale of the Latin American business in the second half of 2022. More specifically, within each revenue category:

- Grow decreased by \$56 million and \$107 million for the three and six months ended June 30, 2023, respectively, compared to June 30, 2022 due to a decrease of approximately \$135 million and \$264 million, respectively, associated with the sale of the Latin American business for the three and six months ended June 30, 2023. These declines were partially offset by growth in most products, primarily due to an increase of \$78 million and \$156 million, respectively, in products such as IP, dark fiber, wavelengths and colocation for the three and six months ended June 30, 2023.
- Nurture decreased by \$66 million and \$130 million for the three and six months ended June 30, 2023, respectively, compared to June 30, 2022 due primarily to a decrease of approximately \$42 million and \$85 million, respectively, associated with the sale of the Latin American business for the three and six months ended June 30, 2023. The remainder of the decline is principally attributable to declines in Ethernet services of \$16 million and \$36 million, respectively, and declines in VPN data network services of \$11 million and \$14 million, respectively, for the three and six months ended June 30, 2023;

- Harvest decreased by \$59 million and \$105 million for the three and six months ended June 30, 2023 compared to June 30, 2022 primarily due primarily to a decrease of approximately \$5 million and \$11 million, respectively, associated with the sale of the Latin American business for the three and six months ended June 30, 2023. The remainder of the decline is principally attributable to a decline in legacy voice services of \$50 million and \$89 million, respectively, for the three and six months ended June 30, 2023;
- Other decreased for the three and six months ended June 30, 2023 compared to June 30, 2022 primarily due to a decrease in IT solutions revenue.

Operating Expenses

The following table summarizes our consolidated operating expenses:

	Three Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 731	836	(13)%
Selling, general and administrative	318	318	— %
Loss on disposal group held for sale	8	—	nm
Operating expenses - affiliates	231	162	43 %
Depreciation and amortization	355	405	(12)%
Goodwill impairment	1,970	—	nm
Total operating expenses	\$ 3,613	1,721	110 %

	Six Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,502	1,687	(11)%
Selling, general and administrative	604	632	(4)%
Loss on disposal group held for sale	85	—	nm
Operating expenses - affiliates	399	308	30 %
Depreciation and amortization	702	801	(12)%
Goodwill impairment	1,970	—	nm
Total operating expenses	\$ 5,262	3,428	54 %

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 \$105 million and \$185 million, respectively, for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, primarily due to a decrease of \$91 million and \$179 million for the three and six months ended June 30, 2023, respectively, associated with the sale of the Latin American business in the second half of 2022, as well as decreases of \$16 million and \$1 million, respectively, in facility costs.

Selling, General and Administrative

Selling, general and administrative remained flat and decreased by \$28 million, respectively, for the three and six months ended June 30, 2023 as compared to the three and six months ended June 30, 2022 primarily due to a decrease of \$31 million and \$65 million for the three and six months ended June 30, 2023, respectively, associated with the sale of our Latin American business in the second half of 2022, as well as a \$15 million gain on a sale of property impacting the six months ended June 30, 2023. These decreases were partially offset by an increase of \$33 million and \$48 million, respectively, in employee-related expenses.

Loss on Disposal Group Held for Sale

For a discussion of the loss on the disposal group held for sale that we recognized for the three and six months ended June 30, 2023, see Note 2—Planned Divestiture of the EMEA Business.

Operating Expenses - Affiliates

Operating expenses - affiliates increased by \$69 million and \$91 million, respectively, for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, primarily due to higher allocated corporate expenses of \$31 million and \$42 million, respectively, increased customer installation costs of \$10 million for the three months ended June 30, 2023 and higher employee related affiliate expenses of \$17 million for the six months ended June 30, 2023.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense:

	Three Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Depreciation	\$ 175	219	(20)%
Amortization	180	186	(3)%
Total depreciation and amortization	\$ 355	\$ 405	(12)%

	Six Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Depreciation	\$ 346	423	(18)%
Amortization	356	378	(6)%
Total depreciation and amortization	\$ 702	801	(12)%

Depreciation expense decreased by \$44 million and \$77 million, respectively, for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, primarily due to the discontinuation during the fourth quarter of 2022 of the depreciation of the tangible EMEA assets that we plan to divest, resulting in a decrease of \$44 million and \$89 million, respectively, of depreciation expense during the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022. The decreases were partially offset by higher depreciation expense of \$6 million and \$18 million, respectively, associated with net growth in depreciable assets.

Amortization expense decreased by \$6 million and \$22 million, respectively, for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022, primarily due to a decrease of \$8 million and \$16 million, respectively, due to the discontinuation during the fourth quarter of 2022 of the amortization of the intangible EMEA assets that we plan to divest and a decrease of \$1 million and \$7 million,

respectively, from net decreases in assets. The decreases were partially offset by accelerated amortization of decommissioned applications of \$2 million for both periods.

Goodwill Impairment

We are required to perform impairment tests related to our goodwill annually, which we perform as of October 31, or sooner if an indicator of impairment occurs. The sustained decline in Lumen's share price during the second quarter of 2023 was considered a triggering event requiring evaluation of goodwill impairment.

When we performed an impairment test during the second quarter of 2023, we concluded that the estimated fair value of our reporting unit was less than our carrying value of equity as of our testing date. As a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge aggregating to \$2.0 billion in the second quarter of 2023.

See Note 3—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in this report for further details on these tests and impairment charges.

Other Consolidated Results

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

	Three Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Interest income - affiliate	\$ 15	15	— %
Interest expense	(120)	(95)	26 %
Other income (expense), net	7	(14)	nm
Total other expense, net	\$ (98)	(94)	4 %
Income tax (benefit) expense	\$ (23)	41	(156)%

	Six Months Ended June 30,		% Change
	2023	2022	
	(Dollars in millions)		
Interest income - affiliate	\$ 31	31	— %
Interest expense	(213)	(185)	15 %
Other income (expense), net	12	(21)	nm
Total other expense, net	\$ (170)	(175)	(3)%
Income tax (benefit) expense	\$ (1)	85	(101)%

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 remained flat for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022.

Interest Expense

Interest expense increased by \$25 million and \$28 million, respectively, for the three and six months ended June 30, 2023, as compared to the three and six months ended June 30, 2022. These increases were due to an increase in average interest rates from (i) 3.82% to 5.09% for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022, and (ii) 3.77% to 5.06% for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022. These increases were partially offset by the decrease in average outstanding long-term debt from (i) \$10.4 billion to \$9.0 billion for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022 and (ii) \$10.4 billion to \$8.6 billion for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022.

Other Income (Expense), Net

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

	Three Months Ended June 30,	
	2023	2022
	(Dollars in millions)	
Foreign currency gain (loss)	\$ 11	(11)
Other	(4)	(3)
Total other income (expense), net	\$ 7	(14)

	Six Months Ended June 30,	
	2023	2022
	(Dollars in millions)	
Foreign currency gain (loss)	\$ 14	(20)
Other	(2)	(1)
Total other income (expense), net	\$ 12	(21)

Income Tax Expense

For the three months ended June 30, 2023 and 2022, our effective income tax rate was 1.2% and 29.7%, respectively. For the six months ended June 30, 2023 and 2022, our effective income tax rate was 0.1% and 28.7%, respectively. The effective tax rate for the three and six months ended June 30, 2023 includes a \$389 million unfavorable impact of a non-deductible goodwill impairment charge.

Liquidity and Capital Resources

Overview

As of June 30, 2023, we held cash and cash equivalents of \$301 million, \$45 million of which is classified as held for sale. As of such date, we had approximately \$65 million of cash and cash equivalents 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.

We are currently experiencing competitive, macroeconomic and financial pressures, including operational challenges resulting from inflation, dis-synergies resulting from our 2022 divestiture and, to a lesser extent, shortages of certain components and other supplies that we use in our business. These and other factors contributed to us recognizing a goodwill impairment in the fourth quarter of 2022, and, coupled with the sustained decline in Lumen's share price during the second quarter of 2023 contributed to us recognizing an additional goodwill impairment for the three months ended June 30, 2023.

Impact of Planned Divestiture of the EMEA Business

During 2022, we agreed to divest our EMEA business subject to the receipt of various approvals and the satisfaction of other customary conditions. See Note 2—Planned Divestiture of the EMEA Business. As further described in previous reports, these transactions have provided or are expected to provide 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 Instruments and Financing Arrangements

As of June 30, 2023, our long-term debt (including current maturities and finance leases) outstanding totaled \$9.0 billion. See Note 6—Long-Term Debt.

Pursuant to exchange offers commenced on March 16, 2023 (the "Exchange Offers"), on March 31, 2023, Level 3 Financing, Inc. issued \$915 million of its 10.500% Senior Secured Notes due 2030 in exchange for \$1.535 billion of Lumen's outstanding senior unsecured notes. On April 17, 2023, Level 3 Financing, Inc. issued an additional \$9 million of its 10.500% Senior Secured Notes due 2030 in exchange for \$19 million aggregate principal amount of Lumen's senior unsecured notes.

Subject to market conditions and to the extent permitted under applicable debt covenants, from time to time we plan 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 filing 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	B1	B	B+
Secured	Ba2	BB-	BB

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 us or our subsidiaries could impact our access to capital or borrowing costs. With the recent downgrades of our credit ratings, we may find it more difficult to borrow on favorable terms, or at all. 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, 2022.

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 aggregate interest costs, improve our financial flexibility or otherwise enhance our debt profile. We plan to continue to pursue similar transactions in the future to the extent feasible. 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, our cash requirements and limitations under our debt covenants. There is no guarantee that we will be successful in implementing any such transactions or attaining our stated objectives. We may not disclose these transactions in advance, unless required by applicable law or material in nature or amount. See Note 6—Long-Term Debt for additional information.

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 June 30, 2023, we had outstanding letters of credit or other similar obligations of approximately \$3 million, all of which were 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, 2022.

Cash Flow Activities

The following table summarizes our consolidated cash flow activities:

	Six Months Ended June 30,		\$ Change
	2023	2022	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 833	1,184	(351)
Net cash used in investing activities	(506)	(553)	(47)
Net cash used in financing activities	(187)	(617)	(430)

Operating Activities

Net cash provided by operating activities decreased by \$351 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, primarily due to lower net income adjusted for non-cash expenses and gains, partially driven by the sale of the Latin American business in the second half of 2022. 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 used in investing activities decreased by \$47 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022. The decrease was primarily due to a decrease in capital expenditures as well as an increase in proceeds from the sale of property, plant and equipment.

Financing Activities

Net cash used in financing activities decreased by \$430 million for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022 primarily due to a decrease in distributions paid to our parent and debt repayments.

Other Matters

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

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 late 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 June 30, 2023, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations.

As of June 30, 2023, we had approximately \$8.8 billion (excluding unamortized premiums, net, unamortized debt issuance costs and finance leases) of long-term debt outstanding, 73% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We also held approximately \$2.4 billion of unhedged floating rate debt based on the secured overnight financing rate ("SOFR"). A hypothetical increase of 100 basis points in SOFR relative to this debt would decrease our annual pre-tax earnings by approximately \$24 million.

We conduct a portion of our business in currencies other than the U.S. dollar, the currency in which our consolidated financial statements are reported. Our European subsidiaries use, and prior to the August 1, 2022 divestiture of our Latin American business, certain of our former Latin American subsidiaries used the local currency as their functional currency, as the majority of their sales and purchases are or were transacted in their local currencies. Although we continue to evaluate strategies to mitigate risks related to the effect of fluctuations in currency exchange rates, we will likely recognize gains or losses from international transactions. Accordingly, changes in foreign currency rates relative to the U.S. dollar could positively or negatively impact our operating results.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at June 30, 2023.

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 President and Chief Executive Officer, Kate Johnson, and our Executive Vice President and Chief Financial Officer, Chris Stansbury, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2023. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of June 30, 2023, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the second quarter of 2023 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 9—Commitments, Contingencies and Other Items, included in Item 1 of Part I of this quarterly report on Form 10-Q is incorporated herein by reference. The ultimate outcome of the matters described in Note 9 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Legal and Regulatory Risks—Our pending legal proceedings could have a material adverse impact on our financial condition and operating results and on our ability to access the capital markets” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022.

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 recommend that you 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, 2022, as supplemented by the disclosures included in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 and by the disclosure immediately below.

Certain of our debtholders may seek to claim that our use of proceeds following the sale of our Latin American business resulted in potential defaults under our credit documents.

On July 25, 2023, Lumen Technologies received a letter from representatives purporting to act on behalf of holders of approximately 37% of Lumen Technologies' funded debt and approximately 56% of our funded debt requesting a meeting to discuss upcoming debt maturities of Lumen and its affiliates, as well as what the letter referred to as an apparent event of default by Level 3 relating to our use of proceeds from the divestiture of our Latin American business.

Although we do not believe that there is any default under our debt agreements, and there has been no delivery of any notice of default, there can be no assurance that debtholders will not deliver a purported notice of default, or seek to declare the principal amount of their debt holdings due and payable, together with accrued interest. Any such acceleration also could allow lenders under the senior secured credit arrangements of Lumen or us to declare all funds borrowed to be due and payable, to terminate their commitments thereunder, and to cease making further loans. Secured debtholders could also institute foreclosure proceedings against their collateral. Any such actions may result in an outcome that could have a material adverse impact on the business, operations and financial condition of us or our affiliates, and any such actions could force us or them to seek bankruptcy protection. In addition, responding to or defending against any claims of default, including through litigation, may require us or our affiliates to expend significant funds and management time and attention, and could adversely impact our or their ability to obtain financing in the future or to refinance our or their existing indebtedness.

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
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 June 30, 2023, 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 August 1, 2023.

LEVEL 3 PARENT, LLC

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kate Johnson, 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: August 1, 2023

/s/ Kate Johnson

Kate Johnson
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: August 1, 2023

/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, Kate Johnson, Chief Executive Officer of Level 3 Parent, LLC ("Level 3"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 of Level 3 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Level 3 as of the dates and for the periods covered by such report.

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

Date: August 1, 2023

/s/ Kate Johnson
Kate Johnson
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 June 30, 2023 of Level 3 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Level 3 as of the dates and for the periods covered by such report.

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

Date: August 1, 2023

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