

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended September 30, 2021
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:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
—	—	—

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

- the effects of competition from a wide variety of competitive providers, including decreased demand for our more mature service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact of possible security breaches, service outages, system failures, or similar events impacting our network or the availability and quality of our services;

- the effects of ongoing changes in the regulation of the communications industry, including the outcome of legislative, regulatory or judicial proceedings relating to content liability standards, intercarrier compensation, broadband deployment, data protection, privacy and net neutrality;
- our ability to effectively retain and hire key personnel;
- possible changes in the demand for our products and services, including increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments and distributions;
- our ability to successfully and timely implement our operating plans and corporate strategies, including our deleveraging strategy;
- our ability to successfully and timely consummate the pending divestiture of our Latin American business on the terms proposed, to realize the anticipated benefits therefrom and to operate our retained business successfully thereafter;
- 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 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 for active and retired employees, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations;
- the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our security holders, key business partners, suppliers, vendors, landlords and financial institutions;
- Lumen's ability to meet evolving environmental, social and governance ("ESG") expectations and benchmarks, and effectively communicate its ESG strategies;
- our ability to collect our receivables from, or continue to do business with, financially-troubled customers;
- Lumen's ability to use its net operating loss carryforwards in the amounts projected;
- 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 pending proposals of the Biden Administration to increase infrastructure spending and federal income tax rates;

- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require additional future impairment charges;
- continuing uncertainties regarding the impact that COVID-19 disruptions and vaccination policies could have on our business, operations, cash flows and corporate initiatives;
- the effects of adverse weather, terrorism, epidemics, pandemics, rioting, societal unrest, or other natural or man-made disasters or disturbances;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions; and
- other risks referenced in the "Risk Factors" section or other portions of this report or other of our filings with the U.S. Securities and Exchange Commission (the "SEC").

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

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
(Dollars in millions)				
OPERATING REVENUE				
Operating revenue	\$ 1,934	1,918	5,797	5,782
Operating revenue - affiliates	56	53	167	153
Total operating revenue	1,990	1,971	5,964	5,935
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	897	857	2,643	2,623
Selling, general and administrative	305	300	872	922
Operating expenses - affiliates	116	101	354	274
Depreciation and amortization	431	429	1,304	1,250
Total operating expenses	1,749	1,687	5,173	5,069
OPERATING INCOME	241	284	791	866
OTHER (EXPENSE) INCOME				
Interest income - affiliate	16	13	49	39
Interest expense	(90)	(99)	(272)	(301)
Other (expense) income, net	(9)	41	1	29
Total other expense, net	(83)	(45)	(222)	(233)
INCOME BEFORE INCOME TAXES	158	239	569	633
Income tax expense	37	42	150	147
NET INCOME	<u>\$ 121</u>	<u>197</u>	<u>419</u>	<u>486</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
NET INCOME	\$ 121	197	419	486
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments, net of \$13, \$(21), \$16 and \$(2) tax	(93)	41	(101)	(179)
Other comprehensive (loss) income, net of tax	(93)	41	(101)	(179)
COMPREHENSIVE INCOME	\$ 28	238	318	307

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (unaudited)	December 31, 2020
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 215	190
Accounts receivable, less allowance of \$39 and \$45	620	683
Note receivable - affiliate	1,468	1,468
Assets held for sale	2,657	—
Other	238	297
Total current assets	5,198	2,638
Property, plant and equipment, net of accumulated depreciation of \$2,998 and \$2,818	9,011	10,518
GOODWILL AND OTHER ASSETS		
Goodwill	6,667	7,405
Other intangible assets, net	5,907	6,605
Other, net	1,459	1,410
Total goodwill and other assets	14,033	15,420
TOTAL ASSETS	\$ 28,242	28,576
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 24	14
Accounts payable	407	495
Accounts payable - affiliates	76	869
Accrued expenses and other liabilities		
Salaries and benefits	166	220
Income and other taxes	98	111
Current operating lease liabilities	283	241
Other	143	159
Liabilities held for sale	412	—
Current portion of deferred revenue	289	315
Total current liabilities	1,898	2,424
LONG-TERM DEBT	10,402	10,373
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,335	1,396
Operating lease liabilities	942	903
Other	468	575
Total deferred revenue and other liabilities	2,745	2,874
COMMITMENTS AND CONTINGENCIES (Note 10)		
MEMBER'S EQUITY		
Member's equity	13,532	13,139
Accumulated other comprehensive loss	(335)	(234)
Total member's equity	13,197	12,905
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 28,242	28,576

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2021	2020
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 419	486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,304	1,250
Deferred income taxes	122	124
Changes in current assets and liabilities:		
Accounts receivable	(41)	(101)
Accounts payable	(34)	(139)
Other assets and liabilities, net	(74)	(195)
Other assets and liabilities, affiliate	(780)	364
Changes in other noncurrent assets and liabilities, net	33	116
Other, net	(8)	39
Net cash provided by operating activities	<u>941</u>	<u>1,944</u>
INVESTING ACTIVITIES		
Capital expenditures	(874)	(1,124)
Collections on note receivable - affiliate	—	122
Proceeds from sale of property, plant and equipment and other assets	52	105
Net cash used in investing activities	<u>(822)</u>	<u>(897)</u>
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	891	2,020
Distributions	(25)	(1,075)
Payments of long-term debt	(932)	(2,056)
Other	(1)	(4)
Net cash used in financing activities	<u>(67)</u>	<u>(1,115)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	52	(68)
Cash, cash equivalents and restricted cash at beginning of period	205	338
Cash, cash equivalents and restricted cash at end of period	<u>\$ 257</u>	<u>270</u>
Supplemental cash flow information:		
Income taxes paid, net	\$ (23)	(20)
Interest paid (net of capitalized interest of \$11 and \$18)	\$ (304)	(323)
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 215	256
Cash and cash equivalents included in assets held for sale	36	—
Restricted cash included in Other current assets	2	2
Restricted cash included in Other, net noncurrent assets	4	12
Total	<u>\$ 257</u>	<u>270</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
MEMBER'S EQUITY				
Balance at beginning of period	\$ 13,412	13,301	13,139	13,724
Net income	121	197	419	486
Cumulative effect of adoption of ASU 2016-13, Measurement of Credit Losses, net of \$2 tax	—	—	—	(3)
Distributions	—	(400)	(25)	(1,118)
Other	(1)	(2)	(1)	7
Balance at end of period	13,532	13,096	13,532	13,096
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(242)	(399)	(234)	(179)
Other comprehensive (loss) income	(93)	41	(101)	(179)
Balance at end of period	(335)	(358)	(335)	(358)
TOTAL MEMBER'S EQUITY	\$ 13,197	12,738	13,197	12,738

See accompanying notes to consolidated financial statements.

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

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

(1) Background

General

We are an international facilities-based technology communications provider (that is, a provider that owns or leases a substantial portion of the property, plant and equipment necessary to provide our services) of a broad range of integrated communications services. We created our communications network by constructing our own assets and through a combination of purchasing other companies and purchasing or leasing facilities from others. We designed our network to provide communications services that employ and take advantage of rapidly improving underlying optical, Internet Protocol, computing and storage technologies.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2020, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). However, in our opinion, the disclosures made therein are adequate to make the information presented not misleading. We believe these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020.

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. Due to exchange restrictions and other conditions, effective at the end of the third quarter of 2015 we deconsolidated our Venezuelan subsidiary and began accounting for our investment in our Venezuelan subsidiary using the cost method of accounting. The factors that led to our conclusions at the end of the third quarter of 2015 continued to exist through the third quarter of 2021.

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 income for any period.

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 \$243 million and \$83 million as of September 30, 2021 and December 31, 2020, respectively. Additionally, current operating lease liabilities included the current portion of affiliate operating lease liabilities of \$67 million and \$31 million as of September 30, 2021 and December 31, 2020, respectively, and operating lease liabilities included the noncurrent portion of affiliate operating lease liabilities of \$187 million and \$65 million as of September 30, 2021 and December 31, 2020, respectively.

Segments

Our operations are integrated into and reported as part of Lumen Technologies. Lumen's chief operating decision maker ("CODM") is our CODM, but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the SEC. Consequently, we do not provide our discrete financial information to the CODM on a regular basis. As such, we have determined that 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, 2020.

Assets Held for Sale

We classify assets and related liabilities as held for sale when: (i) management has committed to a plan to sell the assets, (ii) the net assets are available for immediate sale, (iii) there is an active program to locate a buyer and (iv) the sale and transfer of the net assets is probable within one year. Assets and liabilities held for sale are presented separately on our consolidated balance sheets with a valuation allowance, if necessary, to recognize the net carrying amount at the lower of cost or fair value, less costs to sell. Depreciation of property, plant and equipment and amortization of finite-lived intangible assets and right-of-use assets are not recorded while these assets are classified as held for sale. For each period that assets are classified as being held for sale, they are tested for recoverability. Unless otherwise specified, the amounts and information in the notes presented do not include assets and liabilities that have been reclassified as held for sale as of September 30, 2021. See Note 2—Planned Divestiture of the Latin American Business for additional information.

Recently Adopted Accounting Pronouncements

Debt

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

Investments

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

Income Taxes

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

Measurement of Credit Losses on Financial Instruments

We adopted ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") on January 1, 2020 and recognized a cumulative adjustment to our accumulated deficit as of the date of adoption of \$3 million, net of tax effect of \$2 million. Please refer to Note 6—Credit Losses on Financial Instruments for more information.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04" or "Reference Rate Reform"), designed to ease the burden of accounting for contract modifications related to the global market-wide reference rate transition period. Subject to certain criteria, ASU 2020-04 provides qualifying entities the option to apply expedients and exceptions to contract modifications and hedging accounting relationships made until December 31, 2022. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. ASU 2020-04 provides optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. Based on our review of our key material contracts through September 30, 2021, we do not expect ASU 2020-04 to have any material impact on the consolidated financial statements.

(2) Planned Divestiture of the Latin American Business

On July 25, 2021, affiliates of Level 3 Parent, LLC executed a definitive agreement to divest our Latin American business to an affiliate of a fund advised by Stonepeak Partners LP in exchange for \$2.7 billion cash, subject to certain working capital and other purchase price adjustments and related transaction expenses (estimated to be approximately \$50 million). We expect to close the transaction in the first half of 2022, upon receipt of all requisite regulatory approvals in the U.S. and certain countries where the Latin American 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 there are changes in other assumptions that impact our estimates.

We do not believe this divestiture transaction represents a strategic shift for Level 3. Therefore, the Latin American business does not meet the criteria to be classified as a discontinued operation. As a result, we will continue to report our operating results for the Latin American business in our consolidated operating results until the transaction is closed. The pre-tax net income of the Latin American business is estimated to be as follows in the table below:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Low	High	Low	High	Low	High	Low	High
	(Dollars in millions)							
Pre-tax net income	\$ 59	72	36	45	\$ 131	160	108	131

As of September 30, 2021 in the accompanying consolidated balance sheets, the assets and liabilities of our Latin American business (the "disposal group") are classified as held for sale and are 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 July 25, 2021, depreciation of property, plant and equipment and amortization of finite-lived intangible assets and right-of-use assets are not recorded while these assets are classified as held for sale. We estimate that we would have recorded an additional \$26 million of depreciation, intangible amortization, and amortization of right-of use assets for the three and nine months ended September 30, 2021 if the Latin American business did not meet the held for sale criteria.

As a result of our evaluation of 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, we did not record any estimated loss on disposal during the nine months ended September 30, 2021. The recoverability of the disposal group will be evaluated each reporting period until the closing of the transaction.

The principal components of the held for sale assets and liabilities as of September 30, 2021 are as follows:

	September 30, 2021
	(Dollars in millions)
Assets held for sale	
Cash and cash equivalents	\$ 36
Accounts receivable, less allowance of \$3	83
Other current assets	75
Property, plant and equipment, net accumulated depreciation of \$445	1,545
Goodwill ⁽¹⁾	718
Customer relationships and other intangibles, net	129
Other non-current assets	71
Total assets held for sale	\$ 2,657
Liabilities held for sale	
Accounts payable	\$ 76
Salaries and benefits	22
Income and other taxes	32
Current portion of deferred revenue	28
Other current liabilities	10
Deferred income taxes, net	116
Other non-current liabilities	128
Total liabilities held for sale	\$ 412

⁽¹⁾ The assignment of goodwill was based on the relative fair value of the disposal group compared to the fair value of the total Company prior to being reclassified as held for sale.

(3) Goodwill, Customer Relationships and Other Intangible Assets

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

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Goodwill	\$ 6,667	7,405
Customer relationships, less accumulated amortization of \$2,617 and \$2,246	\$ 5,487	6,156
Capitalized software, less accumulated amortization of \$322 and \$256	387	401
Trade names, less accumulated amortization of \$98 and \$83	33	48
Total other intangible assets, net	\$ 5,907	6,605

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

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

The reclassification of held for sale assets, as described in Note 2—Planned Divestiture of the Latin American Business, was considered an event or change in circumstance which required an assessment of our goodwill for impairment as of July 31, 2021. We performed a pre-reclassification goodwill impairment test to determine whether there was an impairment prior to the reclassification and to determine the July 31, 2021 fair values to be utilized for goodwill allocation to the disposal group to be reclassified as assets held for sale. We concluded it is more likely than not that the fair value of our reporting unit exceeded the carrying value of equity of our reporting unit at July 31, 2021. We also performed a post-reclassification goodwill impairment test using our estimated post-divestiture cash flows and carrying value of equity to evaluate whether the fair value of our reporting unit that will remain following the divestiture exceeds the carrying value of the equity of the reporting unit after reclassification of assets held for sale.

At July 31, 2021, we estimated the fair value of equity by considering both a market approach and a discounted cash flow methodology. The market approach includes the use of comparable multiples of publicly traded companies whose services are comparable to ours. The discounted cash flow methodology is based on the present value of projected cash flows and a terminal value equal to the present value of all normalized cash flows after the projection period. As of July 31, 2021, based on our assessment performed, the estimated fair value of our equity exceeded our carrying value of equity by approximately 17%. We concluded that we did not have any impairment as of July 31, 2021.

The following table shows the rollforward of goodwill from December 31, 2020 through September 30, 2021:

	(Dollars in millions)
As of December 31, 2020 ⁽¹⁾	\$ 7,405
Reclassified as held for sale ⁽²⁾	(718)
Effect of foreign currency exchange rate changes	(20)
As of September 30, 2021 ⁽¹⁾	\$ 6,667

⁽¹⁾ Goodwill at September 30, 2021 and December 31, 2020 is net of accumulated impairment loss of \$3.6 billion and \$3.7 billion, respectively. The change in accumulated impairment losses at September 30, 2021 is a result of amounts reclassified to held for sale related to our planned divestiture.

⁽²⁾ Represents the amount of goodwill, net of accumulated impairment loss reclassified as held for sale related to our planned divestiture. See Note 2—Planned Divestiture of the Latin American Business.

Total amortization expense for intangible assets for both the three months ended September 30, 2021 and 2020 totaled \$210 million, and for the nine months ended September 30, 2021 and 2020 totaled \$637 million and \$626 million, respectively. As of September 30, 2021, the gross carrying amount of goodwill, customer relationships, capitalized software, indefinite-life and other intangible assets was \$15.6 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2021 through 2025 will be as provided in the table below. As a result of reclassifying our disposal group as being held for sale on our September 30, 2021 consolidated balance sheet, the amounts presented below do not include the future amortization of the intangible assets for the disposal group. See Note 2—Planned Divestiture of the Latin American Business for more information.

	(Dollars in millions)
2021 (remaining three months)	\$ 200
2022	736
2023	708
2024	704
2025	689

(4) Revenue Recognition

Beginning in the first quarter of 2021, we categorize our products, services and revenue among the following categories:

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

Disaggregated Revenue by Service Offering

The following tables provide disaggregation of revenue from contracts with customers based on service offering for the three and nine months ended September 30, 2021 and 2020. It also shows the amount of revenue that is not subject to ASC 606, "Revenue from Contracts with Customers" ("ASC 606"), but is instead governed by other accounting standards:

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
	(Dollars in millions)					
Compute and Application Services	\$ 287	(126)	161	274	(124)	150
IP and Data Services	890	—	890	878	—	878
Fiber Infrastructure Services	412	(56)	356	379	(55)	324
Voice and Other	345	(3)	342	387	(2)	385
Affiliate Services	56	(56)	—	53	(53)	—
Total revenue	\$ 1,990	(241)	1,749	1,971	(234)	1,737

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers (Dollars in millions)	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
Compute and Application Services	\$ 850	(380)	470	814	(371)	443
IP and Data Services	2,659	—	2,659	2,639	—	2,639
Fiber Infrastructure Services	1,210	(164)	1,046	1,116	(157)	959
Voice and Other	1,078	(8)	1,070	1,213	(6)	1,207
Affiliate Services	167	(167)	—	153	(153)	—
Total revenue	\$ 5,964	(719)	5,245	5,935	(687)	5,248

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

Operating Lease Income

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

For the three months ended September 30, 2021 and 2020, our gross rental income was \$202 million and \$197 million, respectively, which represents approximately 10% of our operating revenue for both periods. For the nine months ended September 30, 2021 and 2020, our gross rental income was \$601 million and \$565 million, respectively, which represents 10% of our operating revenue for both periods.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities, net of amounts reclassified as held for sale as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Customer receivables ^{(1) (2)}	\$ 618	683
Contract assets ⁽³⁾	32	38
Contract liabilities ⁽⁴⁾	259	385

(1) Reflects gross customer receivables of \$657 million and \$728 million, net of allowance for credit losses of \$39 million and \$45 million, at September 30, 2021 and December 31, 2020, respectively.

(2) As of September 30, 2021, amount excludes customer receivables reclassified as held for sale of \$82 million.

(3) As of September 30, 2021, no amounts have been reclassified as held for sale.

(4) As of September 30, 2021, amount excludes contract liabilities reclassified as held for sale of \$62 million.

Contract liabilities are consideration we have received from our customers or billed in advance of providing the goods or services promised in the future. We defer recognizing this consideration until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which typically ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue and liabilities held for sale in our consolidated balance sheets. During the three and nine months ended September 30, 2021, we recognized \$30 million and \$151 million, respectively, of revenue that was included in contract liabilities as of January 1, 2021. During the three and nine months ended September 30, 2020, we recognized \$29 million and \$158 million, respectively, of revenue that was included in contract liabilities as of January 1, 2020.

Performance Obligations

As of September 30, 2021, our estimated revenue expected to be recognized in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied is approximately \$3.6 billion. We expect to recognize approximately 85% of this revenue through 2023, with the balance recognized thereafter.

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

Contract Costs

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

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 75	124	77	122
Costs incurred	15	22	14	21
Amortization	(14)	(21)	(15)	(22)
Reclassified as held for sale ⁽¹⁾	—	(27)	—	—
End of period balance	\$ 76	98	76	121

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 78	122	79	121
Costs incurred	44	68	44	65
Amortization	(46)	(65)	(47)	(65)
Reclassified as held for sale ⁽¹⁾	—	(27)	—	—
End of period balance	\$ 76	98	76	121

⁽¹⁾ Represents the amounts reclassified as held for sale related to our planned divestiture. See Note 2—Planned Divestiture of the Latin American Business.

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 customer life of approximately 30 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 an annual basis.

(5) Leases

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

During the third quarter of 2021, we rationalized our lease footprint and ceased using 13 leased property locations that were underutilized. We determined that we no longer needed the leased space and, due to the limited remaining term on the contracts, concluded that we had neither the intent nor ability to sublease the properties. For the both the three and nine month periods ending September 30, 2021, we incurred accelerated lease costs of approximately \$15 million. In conjunction with our plans to continue to reduce costs, we expect to continue our real estate rationalization efforts and may incur additional costs in future periods.

(6) Credit Losses on Financial Instruments

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

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 use of historical loss experience as a percentage of accounts receivable. We measure our historical loss period based on the average days to recognize accounts receivable as credit losses. When asset specific characteristics and current conditions change from those in the historical period, due to changes in our credit and collections strategy, certain classes of aged balances, or credit loss and recovery policies, we perform a qualitative and quantitative assessment to 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 a deterioration of a customer's financial condition or if future default rates in general differ from currently anticipated default rates (including changes caused by COVID-19), we may need to adjust the allowance for credit losses, which would affect earnings in the period that adjustments are made.

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

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

	(Dollars in millions)
Beginning balance at December 31, 2020	\$ 45
Provision for expected losses	14
Write-offs charged against the allowance	(21)
Recoveries collected	4
Reclassified as held for sale ⁽¹⁾	(3)
Ending balance at September 30, 2021	\$ 39

⁽¹⁾ Represents the amounts reclassified as held for sale related to our planned divestiture. See Note 2—Planned Divestiture of the Latin American Business.

(7) Long-Term Debt

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

	Interest Rates ⁽¹⁾	Maturities ⁽¹⁾	September 30, 2021	December 31, 2020
	(Dollars in millions)			
Level 3 Financing, Inc.				
Senior Secured Debt: ⁽²⁾				
Senior notes	3.400% - 3.875%	2027 - 2029	\$ 1,500	1,500
Tranche B 2027 Term Loan ^{(3) (5)}	LIBOR + 1.75%	2027	3,111	3,111
Senior Notes and other debt:				
Senior notes ⁽⁴⁾	3.625% - 5.375%	2025 - 2029	5,515	5,515
Finance leases and other obligations	Various	Various	323	255
Unamortized premiums, net			36	60
Unamortized debt issuance costs			(59)	(54)
Total long-term debt			10,426	10,387
Less current maturities			(24)	(14)
Long-term debt, excluding current maturities			\$ 10,402	10,373

⁽¹⁾ As of September 30, 2021.

⁽²⁾ See Note 6—Long-Term Debt in our Annual Report on Form 10-K for the year ended December 31, 2020 for a description of certain parent or subsidiary guarantees and liens securing this debt.

⁽³⁾ The Tranche B 2027 Term Loan had an interest rate of 1.835% at September 30, 2021 and 1.897% at December 31, 2020.

⁽⁴⁾ This debt is fully and unconditionally guaranteed by certain affiliates of Level 3 Financing, Inc., including Level 3 Parent, LLC and Level 3 Communications, LLC.

⁽⁵⁾ See Note 1—Background for our considerations of the impact of Reference Rate Reform on our debt subject to rate reference changes from LIBOR.

New Issuances

On January 13, 2021, Level 3 Financing, Inc. issued \$900 million aggregate principal amounts of its 3.750% Sustainability-Linked Senior Notes due 2029 (the "Sustainability-Linked Notes"). The net proceeds were used, together with cash on hand, to redeem certain of its outstanding senior note indebtedness. See "—Redemption of Senior Notes" below. The Sustainability-Linked Notes are guaranteed by Level 3 Parent, LLC and Level 3 Communications, LLC.

Redemption of Senior Notes

On February 12, 2021, Level 3 Financing, Inc. redeemed all \$900 million aggregate principal amount of its outstanding 5.375% Senior Notes due 2024. This transaction resulted in a gain of \$16 million.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of September 30, 2021 (excluding unamortized premiums, net, and unamortized debt issuance costs), maturing during the following years.

	(Dollars in millions)
2021 (remaining three months)	\$ 7
2022	24
2023	27
2024	32
2025	837
2026 and thereafter	9,522
Total long-term debt	\$ 10,449

Covenants

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

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

Compliance

As of September 30, 2021, we believe we were in compliance with the provisions and financial covenants contained in our material debt agreements in all material respects.

(8) Property, Plant and Equipment

Net property, plant and equipment is composed of the following:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Land	\$ 305	320
Fiber conduit and other outside plant ⁽¹⁾	5,495	6,186
Central office and other network electronics ⁽²⁾	3,185	3,388
Support assets ⁽³⁾	2,480	2,722
Construction-in-progress ⁽⁴⁾	544	720
Gross property, plant and equipment	12,009	13,336
Accumulated depreciation	(2,998)	(2,818)
Net property, plant and equipment	\$ 9,011	10,518

(1) Fiber, conduit and other outside plant consists of fiber and metallic cable, conduit, poles and other supporting structures.

(2) Central office and other network electronics consists of circuit and packet switches, routers, transmission electronics and electronics providing service to customers.

(3) Support assets consist of buildings, data centers, computers and other administrative and support equipment.

(4) Construction in progress includes construction and property of the aforementioned categories that has not been placed in service as it is still under construction.

As of September 30, 2021, we classified certain property, plant and equipment as held for sale and discontinued recording depreciation on the disposal group. See Note 2—Planned Divestiture of the Latin American Business for more information.

We recorded depreciation expense of \$221 million and \$667 million for the three and nine months ended September 30, 2021 and \$219 million and \$624 million for the three and nine months ended September 30, 2020.

(9) 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 lease and other 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.

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 long-term debt, excluding finance leases, as well as the input level used to determine the fair values indicated below:

	Input Level	September 30, 2021		December 31, 2020	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding finance leases	2	\$ 10,103	10,208	10,132	10,340

(10) Commitments, Contingencies and Other Items

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

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at September 30, 2021 aggregated to approximately \$40 million and are included in other current liabilities, other liabilities, and liabilities held for sale in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

Peruvian Tax Litigation

In 2005, the Peruvian tax authorities ("SUNAT") issued tax assessments against one of our Peruvian subsidiaries asserting \$26 million of additional income tax withholding and value-added taxes ("VAT"), penalties and interest for calendar years 2001 and 2002 on the basis that the Peruvian subsidiary incorrectly documented its importations. In May 2021, the Company paid the remaining amount on the fractioning regimes entered into by the Company to pay the amount assessed while it was appealed.

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

In October 2013, the Tribunal decided the central issue underlying the 2001 assessments in SUNAT's favor. We appealed that decision to the first judicial level in Peru, which decided the central issue in favor of SUNAT. In June 2017, we filed an appeal with the court of appeal. In November 2017, the court of appeals issued a decision affirming the first judicial level and we filed an appeal of the decision to the Supreme Court of Justice. Oral argument was held before the Supreme Court of Justice in June 2019. In May 2021, the Company was served with a favorable and final decision from the Supreme Court of Justice. The Company expects an order for SUNAT to comply with the Supreme Court of Justice's decision.

Brazilian Tax Claims

The São Paulo and Rio de Janeiro state tax authorities have issued tax assessments against our Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS"), mainly with respect to revenue from leasing certain assets and revenue from the provision of Internet access services by treating such activities as the provision of communications services, to which the ICMS tax applies. We filed objections to these assessments in both states, arguing, among other things that neither the lease of assets nor the provision of Internet access qualifies as "communication services" subject to ICMS.

We have appealed to the respective state judicial courts the decisions by the respective state administrative courts that rejected our objections to these assessments. In cases in which state lower courts ruled partially in our favor finding that the lease assets are not subject to ICMS in connection, the State appealed those rulings. In other cases, the assessment was affirmed at the first administrative level and our appeal to the second administrative level is pending. Other assessments are still pending state judicial decisions.

We are vigorously contesting all such assessments in both states and view the assessment of ICMS on revenue from equipment leasing and Internet access to be without merit. These assessments, if upheld, could result in a loss of up to \$47 million as of September 30, 2021, in excess of the reserved accruals established for these matters.

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 during the fourth quarter of 2021 or during 2022 if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are subject to various foreign, federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none individually is reasonably expected to exceed \$300,000 in fines and penalties.

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

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 16—Commitments, Contingencies and Other Items to the financial statements included in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. 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.

(11) Accumulated Other Comprehensive Loss

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

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

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

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2019	\$ 2	(181)	(179)
Other comprehensive loss, net of tax	—	(179)	(179)
Net other comprehensive loss	—	(179)	(179)
Balance at September 30, 2020	\$ 2	(360)	(358)

During the three and nine month periods ended September 30, 2021 and 2020, there were no reclassifications out of accumulated other comprehensive income (loss) in our statements of operations.

(12) Other Financial Information

Other Current Assets

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

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Prepaid expenses	\$ 108	106
Contract fulfillment costs	48	63
Contract acquisition costs	44	47
Contract assets	29	34
Other	9	47
Total other current assets	\$ 238	297

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

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

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

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

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2020, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first nine months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

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

On July 25, 2021, affiliates of Level 3 Parent, LLC entered into a definitive agreement to divest our Latin American business to an affiliate of a fund advised by Stonepeak Partners LP in exchange for \$2.7 billion cash, subject to certain working capital and other purchase price adjustments and related transaction expenses (estimated to be approximately \$50 million). For more information, see (i) Note 2—Planned Divestiture of the Latin American Business to our consolidated financial statements in Item 1 of Part I of this report and (ii) the risk factors included in Item 1A of Part II of this report.

Impact of COVID-19 Pandemic

As previously outlined in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020, in response to the safety and economic challenges arising out of the COVID-19 pandemic and in a continued attempt to mitigate the negative impact on our stakeholders, we have taken a variety of steps to ensure the availability of our network infrastructure, to promote the safety of our employees and customers, to enable us to continue to adapt and provide our products and services worldwide to our customers, and to strengthen our communities. As vaccination rates increase, we expect to continue revising our responses to the pandemic or take additional steps necessary to adjust to changed circumstances.

As discussed in further detail in our prior reports, the pandemic resulted in (i) increases in certain revenue streams and decreases in others, (ii) increases in allowances for credit losses through the end of 2020, (iii) increases in overtime expenses, (iv) delays in our cost transformation initiatives and (v) an acceleration of our real estate rationalization efforts and the incurrence of related costs. We believe we are also experiencing delayed decision-making by certain of our customers in the current environment. These changes did not materially impact our financial performance or financial position during 2020, and, barring any substantial deterioration in prevailing health or economic conditions, are not expected to materially impact us in the near term.

Effective December 8, 2021, we plan to comply with President Biden's September 2021 Executive Order requiring covered employees of federal contractors to be vaccinated against COVID-19. For additional information, see "Risk Factors" in Item 1A of Part II of this report.

Products, Services and Revenue

Beginning in the first quarter of 2021, we categorize our products, services and revenue among the following categories:

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

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

Results of Operations

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2021 and September 30, 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
Operating revenue	\$ 1,990	1,971	5,964	5,935
Operating expenses	1,749	1,687	5,173	5,069
Operating income	241	284	791	866
Other expense, net	(83)	(45)	(222)	(233)
Income before income taxes	158	239	569	633
Income tax expense	37	42	150	147
Net income	\$ 121	197	419	486

For a discussion of certain trends that impact our business, see the MD&A discussion of trends impacting Lumen's non-mass markets business included in Lumen's reports filed with the SEC, including its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021.

Operating Revenue

The following tables summarize our consolidated operating revenue recorded under our above-described revenue categories:

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Compute and Application Services	\$ 287	274	5 %
IP and Data Services	890	878	1 %
Fiber Infrastructure Services	412	379	9 %
Voice and Other	345	387	(11) %
Affiliate Services	56	53	6 %
Total operating revenue	\$ 1,990	1,971	1 %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Compute and Application Services	\$ 850	814	4 %
IP and Data Services	2,659	2,639	1 %
Fiber Infrastructure Services	1,210	1,116	8 %
Voice and Other	1,078	1,213	(11) %
Affiliate Services	167	153	9 %
Total operating revenue	\$ 5,964	5,935	— %

Our total operating revenue increased by \$19 million and \$29 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020 primarily due to increases in IP, dark fiber and wavelength services, and managed security, which were partially offset by declines in voice and other, CDN services, IT solutions, VPN data network, and ethernet services.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 897	857	5 %
Selling, general and administrative	305	300	2 %
Operating expenses - affiliates	116	101	15 %
Depreciation and amortization	431	429	— %
Total operating expenses	\$ 1,749	1,687	4 %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,643	2,623	1 %
Selling, general and administrative	872	922	(5) %
Operating expenses - affiliates	354	274	29 %
Depreciation and amortization	1,304	1,250	4 %
Total operating expenses	\$ 5,173	5,069	2 %

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

Cost of services and products (exclusive of depreciation and amortization) increased by \$40 million and \$20 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020, primarily due to higher customer premise equipment expenses, higher network expenses, and accelerated lease costs as part of our real estate rationalization during the third quarter of 2021. These increases were partially offset by lower employee-related expenses resulting from lower headcount and lower facility costs due to lower voice usage.

Selling, General and Administrative

Selling, general and administrative increased by \$5 million for the three months ended September 30, 2021, as compared to the three months ended September 30, 2020 primarily due to a gain on sale of assets in the third quarter of 2020 that did not recur in the third quarter of 2021. The increase was partially offset by lower bad debt expenses, reduced salaries and wages, and lower allocated corporate expenses. Selling, general and administrative decreased by \$50 million for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020 due primarily to a reduction in salaries and wages and employee-related benefits, lower bad debt expense and lower insurance costs. These reductions were partially offset by a lower gain on sale of assets in 2021 compared to 2020, and higher professional fees and external commissions.

Operating Expenses - Affiliates

Operating expenses - affiliates increased by \$15 million and \$80 million for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020, primarily due to higher affiliate lease expenses for circuits and colocation facilities. The increase for the nine months ended was also partially due to transferring certain employees to other affiliates, which results in expenses being allocated back to us through operating expenses - affiliates rather than included in selling, general and administrative expenses.

Depreciation and Amortization

The following tables provide detail regarding depreciation and amortization expense:

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Depreciation	\$ 221	219	1 %
Amortization	210	210	— %
Total depreciation and amortization	\$ 431	429	— %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Depreciation	\$ 667	624	7 %
Amortization	637	626	2 %
Total depreciation and amortization	\$ 1,304	1,250	4 %

Depreciation expense increased by \$2 million and \$43 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020. The increases were primarily due to increases of \$19 million and \$55 million, respectively, resulting from the net growth in depreciable assets and increases of \$2 million and \$7 million, respectively due to foreign currency exchange rate impacts. The increases are partially offset by a decrease of \$20 million for both periods due to discontinuing the depreciation of the tangible assets reclassified as held for sale of our Latin American business upon entering into our divestiture agreement.

Amortization expense was unchanged and increased by \$11 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020. For the three and nine months ended September 30, 2021, amortization expense increased by \$2 million and \$6 million, respectively, associated with the net growth in amortizable assets and increased by \$3 million and \$6 million, respectively, due to the accelerated amortization of decommissioned applications. Amortization expense for the nine month comparative period also increased by \$3 million due to foreign currency exchange rate impacts. These increases in amortization expense are partially offset by a decrease of \$5 million for both periods due to discontinuing the amortization of the intangible assets reclassified as held for sale of our Latin American business upon entering into our divestiture agreement.

Goodwill Impairment

The reclassification of held for sale assets, as described in Note 2—Planned Divestiture of the Latin American Business, was considered a change in event or circumstance which required an assessment of our goodwill for impairment as of July 31, 2021. We performed a pre-reclassification goodwill impairment test using our estimated post-divestiture cash flows and carrying value of equity to determine whether there was an impairment prior to the reclassification of these assets to held for sale and to determine the July 31, 2021 fair values to be utilized for goodwill allocation regarding the disposal group to be reclassified as assets held for sale. We concluded it is more likely than not that the fair value of our reporting unit exceeded the carrying value of equity of our reporting unit at July 31, 2021.

We also performed a post-reclassification goodwill impairment test using our estimated post-divestiture cash flows and carrying value of equity to determine whether the fair value of our reporting unit that will remain following the divestiture exceeds the carrying value of the equity of the reporting unit after reclassification of assets held for sale. At July 31, 2021, we estimated the fair value of our remaining reporting unit by considering both a market approach and a discounted cash flow methodology. Based on our assessment performed, we concluded it was more likely than not that the fair value of our remaining reporting unit exceeded the carrying value of equity of our remaining reporting unit at July 31, 2021. Therefore, we concluded we did not have any impairment as of our assessment date.

Note 3—Goodwill, Customer Relationships and Other Intangible Assets for further details on these tests and impairment charges.

Other Consolidated Results

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

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Interest income - affiliate	\$ 16	13	23 %
Interest expense	(90)	(99)	(9) %
Other (expense) income, net	(9)	41	nm
Total other expense, net	\$ (83)	(45)	84 %
Income tax expense	\$ 37	42	(12) %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Interest income - affiliate	\$ 49	39	26 %
Interest expense	(272)	(301)	(10) %
Other income, net	1	29	nm
Total other expense, net	\$ (222)	(233)	(5) %
Income tax expense	\$ 150	147	2 %

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

Interest Income - Affiliate

Interest income - affiliate increased by \$3 million and \$10 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020 primarily due to an increase in the average interest rate associated with our note receivable - affiliate balance.

Interest Expense

Interest expense decreased by \$9 million and \$29 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020 primarily due to (i) a decrease in our average long-term debt from \$11.0 billion to \$10.4 billion and a decrease in the average interest rate from 3.85% to 3.53% for the three months ended September 30, 2021 as compared to the three months ended September 30, 2020, and (ii) a decrease in the average interest rate from 4.08% to 3.60% for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020.

Other (Expense) Income, Net

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

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Gain on extinguishment of debt	\$ —	27	nm
Foreign currency (loss) gain	(11)	15	nm
Other	2	(1)	nm
Total other (expense) income, net	<u>\$ (9)</u>	<u>41</u>	nm

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Gain on extinguishment of debt	\$ 16	27	(41) %
Foreign currency (loss) gain	(14)	7	nm
Interest income	—	1	nm
Other	(1)	(6)	(83) %
Total other income, net	<u>\$ 1</u>	<u>29</u>	(97) %

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

Income Tax Expense

For the three months ended September 30, 2021 and 2020, our effective income tax rate was 23.4% and 17.6%, respectively. For the nine months ended September 30, 2021 and 2020, our effective income tax rate was 26.4% and 23.2%, respectively.

Liquidity and Capital Resources

Overview

As of September 30, 2021, we held cash and cash equivalents, including cash and cash equivalents classified as held for sale, of \$251 million, of which \$67 million were held in foreign bank accounts for funding our foreign operations. Due to various factors, our access to foreign cash is generally more restricted than our access to domestic cash.

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

Impact of Planned Divestiture of our Latin American Business

As discussed in Note 2—Planned Divestiture of the Latin American Business to our consolidated financial statements in Item 1 of Part 1 of this report, we executed a definitive agreement to divest our Latin American business on July 25, 2021.

Debt and Other Financing Arrangements

As of September 30, 2021 and December 31, 2020, our long-term debt (including current maturities and finance leases) totaled \$10.4 billion for both periods. See Note 7—Long-Term Debt.

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

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

Our credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future changes in the senior unsecured or secured debt ratings of Level 3 Financing, Inc. could impact our access to debt capital or adjust our borrowing costs. 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, 2020.

See Note 7—Long-Term Debt for additional information about our long-term debt.

Letters of Credit

It is customary for us to use various financial instruments in the normal course of business. These instruments include letters of credit. Letters of credit are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of September 30, 2021, we had outstanding letters of credit or other similar obligations, of approximately \$9 million, of which \$5 million was collateralized by restricted cash. We do not believe exposure to loss related to our letters of credit is material.

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, 2020.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		\$ Change
	2021	2020	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 941	1,944	(1,003)
Net cash used in investing activities	\$ (822)	(897)	(75)
Net cash used in financing activities	\$ (67)	(1,115)	(1,048)

Operating Activities

Net cash provided by operating activities decreased by \$1.0 billion for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020, primarily due to a decrease in the contribution from working capital related to a reduction in advances from affiliates and a decrease in net income adjusted for non-cash items. 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 \$75 million for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020 primarily due to a decrease in capital expenditures. The decrease was partially offset by lower collections on affiliate notes receivable and a decrease in proceeds from the sale of property, plant and equipment.

Financing Activities

Net cash used in financing activities decreased by \$1.0 billion for the nine months ended September 30, 2021, as compared to the nine months ended September 30, 2020 primarily due to a decrease in repayments of long-term debt and a decrease in distributions paid, which was partially offset by a decrease in net proceeds from issuance of long-term debt.

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 10—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.

As part of its proposed infrastructure plan, the Biden Administration has proposed investing substantial sums to expand internet access in the United States. The Administration seeks several other changes that could impact Lumen or us, including proposals designed to increase competition among broadband providers, lower broadband costs and re-adopt "net neutrality" rules similar to those adopted under the Obama Administration. Proposed legislation or regulations, if enacted or adopted, could impact us or the scope of our services. Currently, we believe it is premature to speculate on the potential impact of these proposals on Lumen or us.

Summarized Financial Information

Level 3 Financing, Inc., our wholly owned subsidiary, has registered two series of currently outstanding Senior Notes that are fully and unconditionally and jointly and severally guaranteed on an unsubordinated unsecured basis by Level 3 Parent, LLC and Level 3 Communications, LLC. Level 3 Financing, Inc., Level 3 Parent, LLC and Level 3 Communications, LLC are collectively referred to as the “Obligor Group.”

In conjunction with the registration of those Level 3 Financing, Inc. Senior Notes under the Securities Act of 1933, we have presented below the accompanying summarized financial information pursuant to SEC Regulation S-X Rule 13-01 “Guarantors and issuers of guaranteed securities registered or being registered.”

The summarized financial information set forth below excludes subsidiaries that are not within the Obligor Group and presents transactions between the Obligor Group and the subsidiaries that do not guarantee the Senior Notes (the “Non-Guarantor Subsidiaries”). Investment in and equity in earnings of subsidiaries have been excluded from the summarized financial information.

The following tables present summarized financial information specified in Rule 1-02(bb)(1) of Regulation S-X for the nine months ended September 30, 2021:

	Nine Months Ended September 30, 2021		
	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC
	(Dollars in millions)		
Operating revenue	\$ —	—	3,088
Operating revenue-affiliates	—	—	177
Operating expenses	(76)	1	2,954
Operating expenses-affiliates	—	—	284
Operating income (loss)	76	(1)	27
Net income (loss)	3,365	(66)	(3,380)

The following tables present summarized financial information reflected in our consolidated balance sheet as of September 30, 2021 and December 31, 2020, respectively:

September 30, 2021			
	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC
	(Dollars in millions)		
Advances to affiliates	\$ 23,280	29,908	—
Note receivable-affiliate	1,468	—	—
Other current assets	35	—	490
Operating lease assets - affiliates	—	—	703
Other noncurrent assets	294	1,663	8,751
Accounts payable-affiliates	74	64	274
Current operating lease liabilities-affiliates	—	—	172
Due to affiliates	—	—	59,655
Other current liabilities	1	63	753
Non-current operating lease liabilities-affiliates	—	—	541
Other noncurrent liabilities	89	10,106	2,637

December 31, 2020			
	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC
	(Dollars in millions)		
Advances to affiliates	\$ 19,985	30,062	—
Note receivable-affiliate	1,468	—	—
Other current assets	18	—	432
Operating lease assets - affiliates	—	—	472
Other noncurrent assets	271	1,595	8,811
Accounts payable-affiliates	85	21	773
Current operating lease liabilities-affiliates	—	—	107
Due to affiliates	—	—	55,114
Other current liabilities	1	101	774
Non-current operating lease liabilities-affiliates	—	—	377
Other noncurrent liabilities	83	10,131	2,636

Market Risk

At September 30, 2021, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

As of September 30, 2021, we had approximately \$10.1 billion (excluding unamortized premiums, net unamortized debt issuance costs and finance leases) of long-term debt outstanding, 69% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We also held \$3.1 billion of floating rate debt exposed to changes in the LIBOR. A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$31 million. Additionally, our credit agreements contain language about a possible change from LIBOR to an alternative index.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, including the British Pound, the Euro, the Brazilian Real and the Argentinian Peso. Although the percentages of our consolidated revenue and costs that are denominated in these currencies are immaterial, our consolidated results of operations could be adversely impacted by volatility in exchange rates or an increase in the number of foreign currency transactions.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those presented above if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at September 30, 2021.

Other Information

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H(2).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or furnish under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure this information is accumulated and communicated to our senior management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Indraneel Dev, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of September 30, 2021, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

Other than the implementation of controls over reporting for the assets and liabilities to be sold through our previously announced divestiture, there have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the third quarter of 2021 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 10—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 10 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Legal and Regulatory Risks—Our pending legal proceedings could have a material adverse impact on us” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. We urge you to carefully consider (i) the other information set forth in this report and (ii) the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, as supplemented by the following additional risk factors.

We may not be able to complete our pending divestiture of our Latin American business or realize the benefits of this transaction.

On July 25, 2021, certain of our affiliates agreed to sell our Latin American business and enter into various post-closing commercial agreements with the purchaser designed to ensure the continuity of services to customers. The completion of this divestiture is subject to receipt of several regulatory approvals and other customary closing conditions, the satisfaction of which is not assured. The pendency of this divestiture could impact us in several ways, including impacting relationships with our customers, vendors and employees, restricting our operations and diverting management's attention from operating our business in the ordinary course. Even if we successfully complete the divestiture, we may (i) incur greater tax or costs or realize fewer benefits than anticipated under the purchase agreement and the post-closing commercial agreements that we plan to enter into with the purchaser and (ii) experience operational difficulties segregating the divested assets from our retained assets. Moreover, the divestiture will reduce our future cash flows.

COVID-19 vaccination requirements could potentially result in personnel shortages or disruptions.

Effective December 8, 2021, we plan to comply with President Biden's September 2021 Executive Order requiring covered employees of federal contractors to be vaccinated against COVID-19. This mandate will require all of our domestic employees to be vaccinated against COVID-19 or face termination, unless a religious or medical exemption applies. This requirement could make it more difficult to retain or attract employees who oppose vaccination mandates and are ineligible for an exemption. In addition, certain of our contractors and vendors may also be subject to this Executive Order. It is possible that any resulting personnel shortages could have a material adverse impact on our operating results or financial condition.

ITEM 5. OTHER INFORMATION

The following disclosure is being made under Section 13(r) of the Exchange Act out of an abundance of caution:

We are required to engage on a regular basis with the Russian Federal Security Service (“FSB”) in the FSB's official capacity of regulating our use of technology in Russia in connection with providing commercial services therein through our local subsidiary. On March 2, 2021, the U.S. Secretary of State designated the FSB as a party subject to the provisions of U.S. Executive Order No. 13382 issued in 2005. We do not derive any gross revenues or net profits directly associated with any such dealings by us with the FSB and all such dealings are explicitly authorized by General License 1B issued by the U.S. Department of the Treasury's Office of Foreign Assets Control. We plan to continue these activities as required to continue to provide commercial services in Russia.

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.

- 22.1* [Guaranteed Securities](#)
- 31.1* [Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2* [Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1* [Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2* [Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101* The following materials from the Quarterly Report on Form 10-Q of Level 3 Parent, LLC for the quarter ended September 30, 2021, formatted in Inline XBRL (eXtensible Business Reporting Language); (i) Consolidated Statements of Operations, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Balance Sheets, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Member's Equity and (vi) Notes to Consolidated Financial Statements.
- 104* Cover page formatted as Inline XBRL and contained in Exhibit 101.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 4, 2021.

LEVEL 3 PARENT, LLC

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

GUARANTEED SECURITIES

Set forth below are (i) securities issued by Level 3 Financing, Inc., a wholly-owned subsidiary of Level 3 Parent, LLC, and registered under the Securities Act of 1933, as amended, and (ii) the guarantors of each of such registered security:

5.375% Senior Notes due 2025 issued under the Indenture dated as of April 28, 2015:

- Level 3 Parent, LLC (parent)
- Level 3 Communications, LLC (subsidiary)

5.25% Senior Notes due 2026 issued under the Indenture dated as of March 22, 2016:

- Level 3 Parent, LLC (parent)
- Level 3 Communications, LLC (subsidiary)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: November 4, 2021

 /s/ Jeff K. Storey
 Jeff K. Storey
 Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

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

Date: November 4, 2021

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer

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

I, Jeff K. Storey, Chief Executive Officer of Level 3 Parent, LLC ("Level 3"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Level 3 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Level 3 as of the dates and for the periods covered by such report.

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

Date: November 4, 2021

/s/ Jeff K. Storey
Jeff K. Storey
Chief Executive Officer

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

I, Indraneel Dev, Chief Financial Officer of Level 3 Parent, LLC ("Level 3"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Level 3 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Level 3 as of the dates and for the periods covered by such report.

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

Date: November 4, 2021

/s/ Indraneel Dev
Indraneel Dev
Executive Vice President and Chief
Financial Officer