

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2018
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission file number 001-35134

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

Delaware
(State of Incorporation)

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

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

80021-8869
(Zip Code)

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

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

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

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

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

Large accelerated filer ☒
Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Accelerated filer ☐
Smaller reporting company ☐

Emerging growth company ☐

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

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

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

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

Special Note Regarding Forward-Looking Statements

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are “forward-looking” statements, as defined by (and subject to the “safe harbor” protections under) the federal securities laws. When used herein, the words “anticipates,” “expects,” “believes,” “seeks,” “hopes,” “intends,” “plans,” “projects,” “will” and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. These forward-looking statements, and the assumptions on which they are based, (i) are not guarantees of future events, (ii) are inherently speculative and (iii) are subject to significant risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. All of our forward-looking statements are qualified in their entirety by reference to our discussion of certain important factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward-looking statements. Factors that could cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, universal service, broadband deployment, data protection and net neutrality;
- the ability of our parent company, CenturyLink, Inc. (“CenturyLink”) to timely realize the anticipated benefits of its recently-completed combination with us, including its ability to attain anticipated cost savings, to use our net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;

- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of CenturyLink's health or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn impact our business and liquidity;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and our other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates (including CenturyLink);
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including potential future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
- other risks identified in our "Risk Factors" disclosures included in our annual report on Form 10-K for the year ended December 31, 2017.

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

PART I-FINANCIAL INFORMATION

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

ITEM 1. FINANCIAL STATEMENTS

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

	Successor		Predecessor	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
	June 30, 2018	June 30, 2018	June 30, 2017	June 30, 2017
(Dollars in millions)				
OPERATING REVENUES				
Operating revenues	\$ 2,025	4,087	2,062	4,110
Operating revenues - affiliates	27	52	—	—
Total operating revenues	2,052	4,139	2,062	4,110
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	980	1,978	1,035	2,086
Selling, general and administrative	388	732	367	731
Operating expenses - affiliates	55	108	—	—
Depreciation and amortization	433	864	307	603
Total operating expenses	1,856	3,682	1,709	3,420
OPERATING INCOME	196	457	353	690
OTHER INCOME (EXPENSE)				
Interest income	—	1	3	5
Interest income - affiliate	16	32	—	—
Interest expense	(124)	(244)	(131)	(265)
Loss on modification and extinguishment of debt	—	—	—	(44)
Other (expense) income, net	(4)	2	(2)	2
Total other expense, net	(112)	(209)	(130)	(302)
INCOME BEFORE INCOME TAX EXPENSE	84	248	223	388
Income tax expense	(44)	(146)	(69)	(139)
NET INCOME	\$ 40	102	154	249

See accompanying notes to consolidated financial statements.

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

	Successor		Predecessor	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(Dollars in millions)				
NET INCOME	\$ 40	102	154	249
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustments, net of \$44, \$30, (\$29) and (\$37) tax	(235)	(163)	42	62
Defined benefit pension plan adjustments, net of \$0, \$0, \$0 and \$0 tax	—	—	(1)	—
Other comprehensive (loss) income, net of tax	(235)	(163)	41	62
COMPREHENSIVE (LOSS) INCOME	<u>\$ (195)</u>	<u>(61)</u>	<u>195</u>	<u>311</u>

See accompanying notes to consolidated financial statements.

LEVEL 3 PARENT, LLC
CONSOLIDATED BALANCE SHEETS

	Successor	Successor
	June 30, 2018	December 31, 2017
	(Unaudited)	
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 282	297
Restricted cash and securities	5	5
Assets held for sale	15	140
Accounts receivable, less allowance of \$9 and \$3	744	748
Accounts receivable - affiliate	4	13
Note receivable - affiliate	1,825	1,825
Other	201	117
Total current assets	3,076	3,145
Property, plant and equipment, net of accumulated depreciation of \$609 and \$143	9,396	9,412
Restricted cash and securities	25	29
GOODWILL AND OTHER ASSETS		
Goodwill	11,078	10,837
Customer relationships, net	7,990	8,845
Other intangibles, net	396	378
Deferred tax assets	483	426
Other, net	108	63
Total goodwill and other assets	20,055	20,549
TOTAL ASSETS	\$ 32,552	33,135
<u>LIABILITIES AND MEMBER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 13	8
Accounts payable	581	695
Accounts payable - affiliate	106	41
Accrued expenses and other liabilities		
Income and other taxes	81	100
Salaries and benefits	199	136
Interest	94	109
Current portion of deferred revenue	285	260
Other	45	57
Total current liabilities	1,404	1,406
LONG-TERM DEBT	10,857	10,882
DEFERRED REVENUE AND OTHER LIABILITIES		
Deferred revenue	1,138	1,099
Deferred income taxes	202	212
Other	341	264
Total deferred revenue and other liabilities	1,681	1,575
COMMITMENTS AND CONTINGENCIES (Note 9)		
MEMBER'S EQUITY		
Member's equity	18,749	19,254
Accumulated other comprehensive (loss) income	(139)	18
Total member's equity	18,610	19,272

TOTAL LIABILITIES AND MEMBER'S EQUITY	\$	32,552	33,135
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See accompanying notes to consolidated financial statements.

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

	Successor	Predecessor
	Six Months Ended	Six Months Ended
	June 30, 2018	June 30, 2017
(Dollars in millions)		
OPERATING ACTIVITIES		
Net income	\$ 102	249
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	864	603
Deferred income taxes	140	119
Share-based compensation	57	87
Loss on modification and extinguishment of debt	—	44
Net long-term debt issuance costs and premium amortization	(22)	9
Accrued interest on long-term debt, net	(15)	(32)
Other, net	6	(7)
Changes in current assets and liabilities:		
Accounts receivable	(5)	16
Accounts payable	(100)	(17)
Deferred revenue	27	50
Other assets and liabilities	(53)	(21)
Other assets and liabilities, affiliate	17	—
Net cash provided by operating activities	1,018	1,100
INVESTING ACTIVITIES		
Capital expenditures	(546)	(696)
Proceeds from sale of property, plant and equipment and other assets	119	—
Purchase of marketable securities	—	(1,127)
Net cash used in investing activities	(427)	(1,823)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	—	4,569
Payments of long-term debt	(3)	(4,615)
Distributions	(605)	—
Net cash used in financing activities	(608)	(46)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	(2)	2
Net decrease in cash, cash equivalents and restricted cash and securities	(19)	(767)
Cash, cash equivalents and restricted cash and securities at beginning of period	331	1,857
Cash, cash equivalents and restricted cash and securities at end of period	\$ 312	1,090
Supplemental cash flow information		
Interest paid	\$ 270	282
Income taxes paid, net	\$ 19	32

See accompanying notes to consolidated financial statements.

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

	Successor	Predecessor
	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(Dollars in millions)	
MEMBER'S EQUITY		
Balance at beginning of period	\$ 19,254	—
Net income	102	—
Cumulative net effect of adoption of ASU 2014-09, <i>Revenue from Contracts with Customers</i>	9	—
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	(6)	—
Purchase price accounting adjustments	(5)	—
Distributions to CenturyLink	(605)	—
Balance at end of period	18,749	—
COMMON STOCK		
Balance at beginning of period	—	4
Balance at end of period	—	4
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	—	19,800
Common stock issued under employee stock benefit plans and other	—	19
Share-based compensation	—	68
Balance at end of period	—	19,887
ACCUMULATED OTHER COMPREHENSIVE (INCOME) LOSS		
Balance at beginning of period	18	(387)
Other comprehensive (loss) income	(163)	62
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	6	—
Balance at end of period	(139)	(325)
ACCUMULATED DEFICIT		
Balance at beginning of period	—	(8,500)
Net income	—	249
Balance at end of period	—	(8,251)
TOTAL MEMBER'S/STOCKHOLDERS' EQUITY	\$ 18,610	11,315

See accompanying notes to consolidated financial statements.

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

(1) Background

General

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

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

Basis of Presentation

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

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

In conjunction with our acquisition on November 1, 2017, we changed the definitions we use to classify expenses as cost of services and products and selling, general and administrative, and as a result, we reclassified previously reported amounts to conform to the current period presentation. We revised our definitions so that our expense classifications are more consistent with the expense classifications used by our new ultimate parent company, CenturyLink. These revisions resulted in the reclassification of \$47 million from depreciation and amortization to cost of services and products for the predecessor six months ended June 30, 2017 . Although we continued as a surviving corporation and legal entity after the acquisition, the accompanying consolidated statements of operations, comprehensive income, member's/stockholders' equity and cash flows are presented for two periods: predecessor and successor, which relates to the period preceding the acquisition and the period succeeding the acquisition. Our current definitions are as follows:

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

Segments

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

Income Taxes

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

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

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, introduced further limitations on the deductibility of interest expense, made certain changes to capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Tax Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income ("GILTI") and the Base-Erosion Anti-Abuse Tax ("BEAT"). As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax assets at December 31, 2017 and recognized a tax expense of approximately \$195 million in our consolidated statement of operations for the year ended December 31, 2017. During the first six months of 2018, we increased the tax expense from tax reform by \$76 million due to changes in certain purchase accounting adjustments related to CenturyLink's acquisition of us.

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

Because of our net operating loss carryforwards, we do not expect to experience a further material immediate reduction in the amount of cash income taxes paid by us. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Recently Adopted Accounting Pronouncements

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

Each of these is described further below.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09 which replaces virtually all existing generally accepted accounting principles on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs.

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

Under ASU 2014-09, we are now deferring (i.e. capitalizing) incremental contract acquisition and fulfillment costs and are recognizing (i.e. amortizing) such costs over either the initial contract (plus and anticipated renewal contracts to which the costs relate) or the average customer life. Our deferred contract acquisition and fulfillment costs for our customers have average amortization periods of approximately 12 months to 60 months and are monitored every period to reflect any significant change in assumptions.

We have material obligations to our customers in our indefeasible right of use arrangements, including certain long-term prepaid customer capacity arrangements. The majority of our indefeasible right of use arrangements are accounted for as operating leases.

See Note 4 - Revenue Recognition for additional information.

Comprehensive Income

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

Income Taxes

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

Recently Issued Accounting Pronouncements

Goodwill Impairment

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

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

Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, " *Measurement of Credit Losses on Financial Instruments* " ("ASU 2016-13"). The primary impact of ASU 2016-13 for us is a change in the model for the recognition of credit losses related to our financial instruments from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires our management team to estimate the total credit losses expected on the portfolio of financial instruments. We are currently reviewing the requirements of the standard and evaluating the impact on our consolidated financial statements.

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

Leases

On February 25, 2016, the FASB issued ASU 2016-02, " *Leases* " ("ASU 2016-02"). The core principle of ASU 2016-02 will require lessees to present right-of-use assets and lease liabilities on their balance sheets for operating leases, which are currently not reflected on their balance sheets.

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

On January 25, 2018, the FASB issued ASU 2018-01, " *Leases: Land Easement Practical Expedient for Transition to ASU 2016-02* " . ASU 2018-01 permits the election of an optional transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of ASU 2016-02 and that were not previously accounted for as leases. We plan to adopt ASU 2018-01 at the same time we adopt ASU 2016-02.

On July 30, 2018, the FASB issued ASU 2018-11, " *Leases: Targeted Improvements* " . ("ASU 2018-11") provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have not yet determined whether we will use the newly permitted adoption method.

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

(2) CenturyLink Merger

On November 1, 2017 , CenturyLink acquired us through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as CenturyLink's indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC.

As of June 30, 2018 , the preliminary estimated amount of aggregate consideration was \$19.628 billion .

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

On January 22, 2018, we entered into an agreement to sell certain intangible assets for \$68 million . During the second quarter of 2018, we sold network assets in Boise, Idaho and Albuquerque, New Mexico that we were required to divest as a condition of the merger. The proceeds from these sales were included in the proceeds from sale of property, plant and equipment in our consolidated statements of cash flows. No gain or loss was recognized with these transactions. All of the metro network assets were classified as assets held for sale on our consolidated balance sheet as of December 31, 2017 . The Tucson, Arizona assets continue to be classified as assets held for sale on our consolidated balance sheet as of June 30, 2018 .

Our results of operations have been included in the consolidated results of operations of CenturyLink beginning November 1, 2017. CenturyLink recognized our assets and liabilities based on CenturyLink's preliminary estimates of the fair value of the acquired tangible and intangible assets and assumed liabilities of us as of November 1, 2017, the consummation date of the acquisition, with the excess aggregate consideration recorded as goodwill. The final determination of the allocation of the aggregate consideration paid by CenturyLink in the combination will be based on the fair value of such assets and liabilities as of the acquisition date with any excess aggregate consideration to be recorded as goodwill. The estimation of such fair values and the estimation of lives of depreciable tangible assets and amortizable intangible assets require significant judgment. CenturyLink is reviewing its valuation analysis and calculations of the estimates of the fair value of our assets acquired and liabilities assumed, along with the related allocation to goodwill. CenturyLink expects to complete the final fair value determinations prior to the anniversary date of the acquisition. CenturyLink's final fair value determinations may be different than those reflected in our consolidated financial statements at June 30, 2018 . The recognition of assets and liabilities at fair value are reflected in our financial statements and result in a new basis of accounting for the "successor period" beginning on November 1, 2017. This new basis of accounting means that our financial statements for the successor periods will not be comparable to our previously reported financial statements, including the financial statements in this report.

Based solely on CenturyLink's preliminary estimates through June 30, 2018 , the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities by \$11.143 billion , which we have recognized as goodwill. The goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that CenturyLink expects to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

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

	Adjusted November 1, 2017 Balance as of December 31, 2017	Purchase Price Adjustments ⁽³⁾	Adjusted November 1, 2017 Balance as of June 30, 2018
(Dollars in millions)			
Cash, accounts receivable and other current assets ⁽¹⁾	\$ 3,317	(14)	3,303
Property, plant and equipment	9,311	113	9,424
Identifiable intangible assets ⁽²⁾			
Customer relationships	8,964	(476)	8,488
Other	391	(13)	378
Other noncurrent assets	782	184	966
Current liabilities, excluding current maturities of long-term debt	(1,461)	(20)	(1,481)
Current maturities of long-term debt	(7)	—	(7)
Long-term debt	(10,888)	—	(10,888)
Deferred revenue and other liabilities	(1,613)	(85)	(1,698)
Goodwill	10,837	306	11,143
Total estimated aggregate consideration	\$ 19,633	(5)	19,628

(1) Includes a preliminary estimated fair value of \$861 million for accounts receivable, which had a gross contractual value of \$884 million on November 1, 2017. The \$23 million difference between the gross contractual value and the preliminary estimated fair value assigned represents our best estimate as of November 1, 2017 of contractual cash flows that will not be collected.

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

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

Acquisition-Related Expenses

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

	Successor		Predecessor	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(Dollars in millions)				
Transaction-related expenses	\$ —	—	2	5
Integration-related expenses	59	77	20	38
Total acquisition-related expenses	\$ 59	77	22	43

(3) Goodwill, Customer Relationships and Other Intangible Assets

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

	June 30, 2018	December 31, 2017
	(Dollars in millions)	
Goodwill	\$ 11,078	10,837
Customer relationships, less accumulated amortization of \$477 and \$126	\$ 7,990	8,845
Other intangible assets subject to amortization:		
Trade names, less accumulated amortization of \$17 and \$4	113	126
Developed technology, less accumulated amortization of \$37 and \$9	283	252
Total other intangible assets, net	\$ 396	378

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

Total amortization expense for intangible assets for the successor three and six months ended June 30, 2018 was \$202 million and \$396 million, respectively, and the predecessor three and six months ended June 30, 2017 was \$52 million and \$97 million, respectively. As of the successor date of June 30, 2018, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$20 billion.

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

	(Dollars in millions)
2018 (remaining six months)	\$ 402
2019	805
2020	805
2021	805
2022	792

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

	(Dollars in millions)
As of December 31, 2017	\$ 10,837
Purchase accounting and other adjustments	306
Effect of foreign currency rate change	(65)
As of June 30, 2018	\$ 11,078

(4) Revenue Recognition

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

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

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

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

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

Under ASC 606, we recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include certain activation and certain installation charges. If the activation and installation charges are separate performance obligations, we recognize them as revenue over the actual or expected contract term using historical experience, which ranges from one year to seven years depending on the service.

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

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

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

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

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

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

Comparative Results

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

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	(Dollars in millions)					
	Reported Balances as of June 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances	Reported Balances as of June 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Operating revenues	\$ 2,052	—	2,052	4,139	—	4,139
Cost of services and products (exclusive of depreciation and amortization)	980	—	980	1,978	—	1,978
Selling, general and administrative	388	7	395	732	20	752
Income tax expense	44	(2)	42	146	(5)	141
Net income	40	(5)	35	102	(15)	87

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

	June 30, 2018		
	(Dollars in millions)		
	Reported Balances as of June 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Other current assets	\$ 201	(16)	185
Deferred income tax assets, net	281	9	290
Other long-term assets, net	108	(18)	90
Member's equity	18,749	(25)	18,724

Disaggregated Revenue by Service Offering

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

	Successor			Successor		
	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	(Dollars in millions)			(Dollars in millions)		
	Total Revenues	Adjustments ⁽⁷⁾	Total Revenue from Contracts with Customers	Total Revenues	Adjustments ⁽⁷⁾	Total Revenue from Contracts with Customers
IP & Data Services ⁽⁴⁾	\$ 987	—	987	1,990	—	1,990
Transport & Infrastructure ⁽³⁾	673	(52)	621	1,348	(94)	1,254
Voice & Collaboration ⁽¹⁾	363	—	363	744	—	744
IT and Managed Services ⁽²⁾	1	—	1	2	—	2
Other revenues ⁽⁵⁾	1	(1)	—	3	(3)	—
Affiliate revenues ⁽⁶⁾	27	(27)	—	52	(52)	—
Total revenues	\$ 2,052	(80)	1,972	4,139	(149)	3,990

Timing of revenue			
Goods transferred at a point in time	\$	—	\$ —
Services performed over time		1,972	3,990
Total revenue from contracts with customers	\$	1,972	\$ 3,990

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

(2) Includes IT services and managed services revenues.

(3) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

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

(5) Includes sublease rental income.

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

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

Customer Receivables and Contract Balances

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

	Successor	
	June 30, 2018	January 1, 2018
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 744	748
Contract liabilities	392	353

(1) Gross customer receivables of \$753 and \$751, net of allowance for doubtful accounts of \$9 and \$3, at June 30, 2018 and January 1, 2018, respectively.

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

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

	Successor		
	Three Months Ended March 31, 2018	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(Dollars in millions)		
Revenue recognized in the period from:			
Amounts included in contract liability at the beginning of the period (January 1, 2018)	\$ 97	16	113
Performance obligations satisfied in previous periods	—	—	—

Performance Obligations

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

As of June 30, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts (including affiliates) that are unsatisfied (or partially satisfied) is approximately \$6.5 billion. We expect to recognize approximately 51% of this revenue through 2019, with the balance recognized thereafter.

We do not disclose the amount of unsatisfied performance obligations for contracts under which we are contractually entitled to bill pre-determined amounts for future services (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), or contracts that are classified as leasing arrangements that are not subject to ASC 606.

Contract Costs

The following table provides changes in our contract acquisition costs and fulfillment costs for the three and six months ended June 30, 2018 :

	Successor			
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	(Dollars in millions)			
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
Beginning of period balance	\$ 26	35	13	14
Costs incurred	11	24	26	47
Amortization	(3)	(7)	(5)	(9)
End of period balance	\$ 34	52	34	52

Acquisition costs include commission fees paid to employees as a result of obtaining contracts. Fulfillment costs include third party and internal costs associated with the provision, installation and activation of telecommunications services to customers, including labor and materials consumed for these activities. Acquisition and fulfillment costs are amortized based on the transfer of services to which the assets relate which typically range from 12 months to 60 months and are included in cost of services and products and selling, general and administrative expenses in our consolidated statement of operations. A portion of these costs are amortized on a portfolio basis using an average expected contract term of 30 months. The amount of these capitalized costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. We recognize incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is less than one year. Deferred acquisition and fulfillment costs are assessed for impairment on a quarterly basis.

(5) Long-Term Debt

The following table summarizes our long-term debt:

	Interest Rates	Maturities	June 30, 2018	December 31, 2017
(Dollars in millions)				
Level 3 Parent, LLC				
Senior notes ⁽¹⁾	5.750%	2022	\$ 600	600
Subsidiaries				
Level 3 Financing, Inc.				
Senior notes ⁽²⁾	5.125% - 6.125%	2021 - 2026	5,315	5,315
Term loan ⁽³⁾	LIBOR + 2.25%	2024	4,611	4,611
Capital leases	Various	Various	174	179
Total long-term debt, excluding unamortized premiums			10,700	10,705
Unamortized premiums, net			170	185
Total long-term debt			10,870	10,890
Less current maturities			(13)	(8)
Long-term debt, excluding current maturities			\$ 10,857	10,882

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

(2) The notes are fully and unconditionally guaranteed on an unsubordinated unsecured basis by Level 3 Parent, LLC and Level 3 Communications, LLC.

(3) The Tranche B 2024 Term Loan is a secured obligation and is guaranteed by Level 3 Parent, LLC and certain other subsidiaries. The Tranche B 2024 Term Loan had an interest rate of 4.334% as of June 30, 2018 and 3.557% as of December 31, 2017. The interest rate on the Tranche B 2024 Term Loan is set with a minimum London Interbank Offered Rate ("LIBOR") of zero percent.

Long-Term Debt Maturities

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

	(Dollars in millions)
2018 (remaining six months)	\$ 7
2019	8
2020	10
2021	651
2022	1,726
2023 and thereafter	8,298
Total long-term debt	\$ 10,700

Covenants

The senior notes of Level 3 Parent, LLC and term loan and senior notes of Level 3 Financing, Inc. contain extensive affirmative and negative covenants. Such covenants include, among other things and subject to certain significant exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates including CenturyLink and its other subsidiaries, dispose of assets and merge or consolidate with any other person. Also, Level 3 Parent, LLC, as well as Level 3 Financing, Inc., will be required to offer to purchase certain of its long-term debt securities under certain circumstances in connection with a "change of control" of Level 3 Parent, LLC.

Certain of CenturyLink's and our debt instruments contain cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

Compliance

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

For additional information on our long-term debt, see Note 4 — Long-Term Debt to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017.

(6) Severance and Restructuring Costs

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

	Successor	
	Severance	Restructuring
	(Dollars in millions)	
Balance at January 1, 2018	\$ 5	4
Accrued to expense	12	46
Payments, net	(12)	(1)
Balance at June 30, 2018	\$ 5	49

(7) Products and Services Revenues

We are an integrated communications company engaged primarily in providing an array of communications services, including local voice, broadband, private line (including business data services), Ethernet, network access, information technology and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

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

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services) and other ancillary services;
- *Voice and collaboration*, which includes primarily local voice, including wholesale voice, and other ancillary services;

- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- Other, which includes sublease rental income; and
- *Affiliates services*, we provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

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

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

	Successor		Predecessor	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(Dollars in millions)				
IP and data services	\$ 987	1,990	986	1,958
Transport and infrastructure	673	1,348	688	1,366
Voice and collaboration	363	744	386	782
IT and managed services	1	2	—	—
Other	1	3	2	4
Affiliate	27	52	—	—
Total revenues	\$ 2,052	4,139	2,062	4,110

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated \$98 million and \$100 million for the successor three months ended June 30, 2018 and the predecessor three months ended June 30, 2017, respectively, and \$205 million and \$198 million for the successor six months ended June 30, 2018 and the predecessor six months ended June 30, 2017, respectively. These USF surcharges are assigned to the products and services categories based on the underlying revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

(8) Fair Value of Financial Instruments

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

	Input Level	June 30, 2018		December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding capital lease and other obligations	2	\$ 10,696	10,413	10,711	10,528

(9) Commitments, Contingencies and Other Items

We are subject to various claims, legal proceedings and other contingent liabilities, including the matters described below, that 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 such contingencies at June 30, 2018 aggregate to approximately \$76 million and are included in "Other" current liabilities and "Other Liabilities" in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter.

Peruvian Tax Litigation

In 2005, the Peruvian tax authorities ("SUNAT") issued tax assessments against one of our Peruvian subsidiaries asserting \$26 million of additional income tax withholding and value-added taxes ("VAT"), penalties and interest for calendar years 2001 and 2002 on the basis that the Peruvian subsidiary incorrectly documented its importations. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, the total amount of exposure is \$13 million at June 30, 2018 .

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

In October 2013, the Tribunal decided the central issue underlying the 2001 assessments in SUNAT's favor. We appealed that decision to the first judicial level in Peru, which decided the central issue in favor of SUNAT. In June 2017, we filed an appeal with the court of appeal. In November 2017, the court of appeals issued a decision affirming the first judicial level and we filed an appeal of the decision to the Supreme Court of Justice. That appeal is pending.

Employee Severance and Contractor Termination Disputes

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

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authorities issued tax assessments against one of our Brazilian subsidiaries for the Tax on Distribution of Goods and Services (“ICMS”) with respect to revenue from leasing certain assets (in the case of the December 2004, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues.

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

We are vigorously contesting all such assessments in both states and, in particular, view the assessment of ICMS on revenue from equipment leasing to be without merit. These assessments, if upheld, could result in a loss of up to \$35 million at June 30, 2018 in excess of the accruals established for these matters.

Other Matters

We were notified in late 2017 of a qui tam action pending against Level 3 Communications, Inc., certain former employees and others in the United States District Court for the Eastern District of Virginia, captioned United States of America ex rel., Stephen Bishop v. Level 3 Communications, Inc. et al. The original qui tam complaint was filed under seal on November 26, 2013, and an amended complaint was filed under seal on June 16, 2014. The court unsealed the complaints on October 26, 2017.

The amended complaint alleges that we, principally through two former employees, submitted false claims and made false statements to the government in connection with two government contracts. The relator seeks damages in this lawsuit of approximately \$50 million, subject to trebling, plus statutory penalties, pre-and-post judgment interest, and attorney’s fees. The case is currently stayed.

We are evaluating our defenses to the claims. At this time, we do not believe it is probable we will incur a material loss. If, contrary to our expectations, the plaintiff prevails in this matter and proves damages at or near \$50 million, and is successful in having those damages trebled, the outcome could have a material adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

The two former Level 3 employees named in the qui tam amended complaint and others were also indicted in the United States District Court for the Eastern District of Virginia on October 3, 2017, and charged with, among other things, accepting kickbacks from a subcontractor, who was also indicted, for work to be performed under a prime government contract. We are fully cooperating in the government’s investigations in this matter.

Letters of Credit

It is customary for us to use various financial instruments in the normal course of business. These instruments include letters of credit which are conditional commitments issued on our behalf in accordance with specified terms and conditions. As of both June 30, 2018, we had outstanding letters of credit or other similar obligations of approximately \$32 million, of which \$26 million are collateralized by cash that is reflected on the consolidated balance sheets as restricted cash and securities.

Other Proceedings, Disputes and Contingencies

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings or proceedings of state public utility commissions relating primarily to our rates or services, actions relating to employee claims, various tax issues, environmental law issues, grievance hearings before labor regulatory agencies and miscellaneous third-party tort actions.

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities, many of which are seeking substantial recoveries. These cases have progressed to various stages and one or more may go to trial in the coming 24 months if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are subject to various foreign, federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none is reasonably expected to exceed \$100,000 in fines and penalties.

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows.

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, See Note 14 to the financial statements included in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017.

(10) Other Financial Information**Other Current Assets**

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

	Successor	
	June 30, 2018	December 31, 2017
	(Dollars in millions)	
Prepaid expenses	\$ 90	68
Material, supplies and inventory	4	3
Deferred activation and installation charges	19	17
Deferred commissions	16	—
Other	72	29
Total other current assets	<u>\$ 201</u>	<u>117</u>

Other Current Liabilities

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

	Successor	
	June 30, 2018	December 31, 2017
	(Dollars in millions)	
Self-insurance	\$ 12	11
Legal and tax reserves	13	31
Other	20	15
Total other current liabilities	\$ 45	57

(11) Accumulated Other Comprehensive Loss

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

	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)	
Balance at December 31, 2017	\$ 18	18
Other comprehensive loss before reclassifications, net of tax	(163)	(163)
Cumulative effect of adoption of ASU 2018-02, <i>Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income</i>	6	6
Net other comprehensive loss	(157)	(157)
Balance at June 30, 2018	\$ (139)	(139)

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

	Pension Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)		
Balance at December 31, 2016	\$ (34)	(353)	(387)
Other comprehensive income before reclassifications, net of tax	1	62	63
Amounts reclassified from accumulated other comprehensive loss	(1)	—	(1)
Net other comprehensive income	—	62	62
Balance at June 30, 2017	\$ (34)	(291)	(325)

(12) Condensed Consolidating Financial Information

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

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

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

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

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	977	1,091	(43)	2,025
Operating revenues - affiliate	—	—	6	21	—	27
Total operating revenues	—	—	983	1,112	(43)	2,052
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	600	423	(43)	980
Selling, general and administrative	—	2	286	100	—	388
Operating expenses - affiliates	—	—	37	18	—	55
Depreciation and amortization	—	—	174	259	—	433
Total operating expenses	—	2	1,097	800	(43)	1,856
OPERATING INCOME (LOSS)	—	(2)	(114)	312	—	196
OTHER INCOME (EXPENSE)						
Interest income	—	—	1	—	(1)	—
Interest income - affiliate	16	—	—	—	—	16
Interest expense	(8)	(113)	—	(4)	1	(124)
Interest income (expense) - intercompany, net	348	604	(878)	(74)	—	—
Equity in net earnings (losses) of subsidiaries	(316)	(832)	—	—	1,148	—
Other income, net	—	—	2	(6)	—	(4)
Total other income (expense)	40	(341)	(875)	(84)	1,148	(112)
INCOME (LOSS) BEFORE INCOME TAXES	40	(343)	(989)	228	1,148	84
Income tax benefit (expense)	—	27	13	(84)	—	(44)
NET INCOME (LOSS)	40	(316)	(976)	144	1,148	40
Other comprehensive income (loss), net of income taxes	(235)	—	—	(235)	235	(235)
COMPREHENSIVE INCOME (LOSS)	\$ (195)	\$ (316)	\$ (976)	\$ (91)	\$ 1,383	\$ (195)

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

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	1,933	2,237	(83)	4,087
Operating revenues - affiliate	—	—	31	21	—	52
Total operating revenues	—	—	1,964	2,258	(83)	4,139
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	1,189	872	(83)	1,978
Selling, general and administrative	—	3	545	184	—	732
Operating expenses - affiliate	—	—	90	18	—	108
Depreciation and amortization	—	—	344	520	—	864
Total operating expenses	—	3	2,168	1,594	(83)	3,682
OPERATING INCOME (LOSS)	—	(3)	(204)	664	—	457
OTHER INCOME (EXPENSE)						
Interest income	—	—	1	1	(1)	1
Interest income - affiliate	32	—	—	—	—	32
Interest expense	(16)	(221)	(1)	(7)	1	(244)
Interest income (expense) - intercompany, net	703	1,212	(1,759)	(156)	—	—
Equity in net earnings (losses) of subsidiaries	(631)	(1,671)	(1)	—	2,303	—
Other income, net	—	—	3	(1)	—	2
Total other income (expense)	88	(680)	(1,757)	(163)	2,303	(209)
INCOME (LOSS) BEFORE INCOME TAXES	88	(683)	(1,961)	501	2,303	248
Income tax benefit (expense)	14	52	(34)	(178)	—	(146)
NET INCOME (LOSS)	102	(631)	(1,995)	323	2,303	102
Other comprehensive income (loss), net of income taxes	(163)	—	—	(163)	163	(163)
COMPREHENSIVE INCOME (LOSS)	\$ (61)	(631)	(1,995)	160	2,466	(61)

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

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	934	1,174	(46)	2,062
Operating revenues - affiliate	—	—	—	—	—	—
Total operating revenues	—	—	934	1,174	(46)	2,062
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	602	479	(46)	1,035
Selling, general and administrative expenses	1	1	294	71	—	367
Operating expenses - affiliate	—	—	—	—	—	—
Depreciation and amortization	—	—	92	215	—	307
Total operating expenses	1	1	988	765	(46)	1,709
OPERATING INCOME (LOSS)	(1)	(1)	(54)	409	—	353
OTHER INCOME (EXPENSE)						
Interest income	—	—	3	—	—	3
Interest income - affiliate	—	—	—	—	—	—
Interest expense	(9)	(117)	(1)	(4)	—	(131)
Interest income (expense) - intercompany, net	378	567	(868)	(77)	—	—
Equity in net earnings (losses) of subsidiaries	(216)	(632)	200	—	648	—
Other income, net	—	—	(2)	—	—	(2)
Total other income (expense)	153	(182)	(668)	(81)	648	(130)
INCOME (LOSS) BEFORE INCOME TAXES	152	(183)	(722)	328	648	223
Income tax benefit (expense)	2	(33)	(1)	(37)	—	(69)
NET INCOME (LOSS)	154	(216)	(723)	291	648	154
Other comprehensive income (loss), net of income taxes	41	—	—	41	(41)	41
COMPREHENSIVE INCOME (LOSS)	\$ 195	(216)	(723)	332	607	195

Condensed Consolidating Statements of Comprehensive Income (Loss)
Six Months Ended June 30, 2017 (Predecessor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING REVENUES						
Operating revenues	\$ —	—	1,854	2,331	(75)	4,110
Operating revenues - affiliate	—	—	—	—	—	—
Total operating revenues	—	—	1,854	2,331	(75)	4,110
OPERATING EXPENSES						
Cost of services and products (exclusive of depreciation and amortization)	—	—	1,185	976	(75)	2,086
Selling, general and administrative expenses	2	2	571	156	—	731
Operating expenses - affiliate	—	—	—	—	—	—
Depreciation and amortization	—	—	179	424	—	603
Total operating expenses	2	2	1,935	1,556	(75)	3,420
OPERATING INCOME (LOSS)	(2)	(2)	(81)	775	—	690
OTHER INCOME (EXPENSE)						
Interest income	—	—	5	—	—	5
Interest income - affiliate	—	—	—	—	—	—
Interest expense	(18)	(237)	(2)	(8)	—	(265)
Interest income (expense) - intercompany, net	755	1,141	(1,737)	(159)	—	—
Equity in net earnings (losses) of subsidiaries	(491)	(1,278)	403	—	1,366	—
Loss on modification and extinguishment of debt	—	(44)	—	—	—	(44)
Other income, net	—	—	3	(1)	—	2
Total other income (expense)	246	(418)	(1,328)	(168)	1,366	(302)
INCOME (LOSS) BEFORE INCOME TAXES	244	(420)	(1,409)	607	1,366	388
Income tax benefit (expense)	5	(71)	(2)	(71)	—	(139)
NET INCOME (LOSS)	249	(491)	(1,411)	536	1,366	249
Other comprehensive income (loss), net of income taxes	62	—	—	62	(62)	62
COMPREHENSIVE INCOME (LOSS)	\$ 311	(491)	(1,411)	598	1,304	311

Condensed Consolidating Balance Sheets
June 30, 2018 (Successor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 21	—	180	81	—	282
Restricted cash and securities	—	—	2	3	—	5
Assets held for sale	—	—	1	14	—	15
Accounts receivable	—	—	65	679	—	744
Accounts receivable - affiliate	—	—	4	31	(31)	4
Intercompany advances	16,727	23,346	—	4,303	(44,376)	—
Note receivable - affiliate	1,825	—	—	—	—	1,825
Other	—	3	101	97	—	201
Total current assets	18,573	23,349	353	5,208	(44,407)	3,076
Property, plant, and equipment, net	—	—	3,147	6,249	—	9,396
Restricted cash and securities	15	—	10	—	—	25
GOODWILL AND OTHER ASSETS						
Goodwill	—	—	9,423	1,655	—	11,078
Customer relationships, net	—	—	3,897	4,093	—	7,990
Other intangible assets, net	—	—	396	—	—	396
Investment in subsidiaries	16,955	19,501	3,605	—	(40,061)	—
Deferred tax assets	281	1,868	167	—	(1,833)	483
Other, net	—	3	62	43	—	108
Total goodwill and other assets	17,236	21,372	17,550	5,791	(41,894)	20,055
TOTAL ASSETS	\$ 35,824	44,721	21,060	17,248	(86,301)	32,552
LIABILITIES AND MEMBER'S EQUITY						
CURRENT LIABILITIES						
Current maturities of long-term debt	\$ —	—	2	11	—	13
Accounts payable	—	1	285	295	—	581
Accounts payable - affiliate	48	—	89	—	(31)	106
Income and other taxes	—	—	43	38	—	81
Salaries and benefits	—	—	162	37	—	199
Interest	11	77	—	6	—	94
Current portion of deferred revenue	—	—	153	132	—	285

Intercompany payables	—	—	44,376	—	(44,376)	—
Other	—	—	26	19	—	45
Total current liabilities	59	78	45,136	538	(44,407)	1,404
LONG-TERM DEBT	615	10,082	13	147	—	10,857
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenues	—	—	931	207	—	1,138
Deferred income taxes	651	14	839	531	(1,833)	202
Other	—	—	163	178	—	341
Total deferred revenue and other liabilities	651	14	1,933	916	(1,833)	1,681
COMMITMENTS AND CONTINGENCIES						
MEMBER'S EQUITY (DEFICIT)	34,499	34,547	(26,022)	15,647	(40,061)	18,610
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 35,824	44,721	21,060	17,248	(86,301)	32,552

Condensed Consolidating Balance Sheets
December 31, 2017 (Successor)

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

Current portion of deferred revenue	—	—	129	131	—	260
Intercompany payables	—	—	42,483	—	(42,483)	—
Other	16	—	23	18	—	57
Total current liabilities	38	92	43,124	686	(42,534)	1,406
LONG-TERM DEBT	616	10,096	13	157	—	10,882
DEFERRED REVENUE AND OTHER LIABILITIES						
Deferred revenues	—	—	846	253	—	1,099
Deferred income taxes	648	—	870	465	(1,771)	212
Other	1	1	98	164	—	264
Total deferred revenue and other liabilities	649	1	1,814	882	(1,771)	1,575
COMMITMENTS AND CONTINGENCIES						
MEMBER'S EQUITY (DEFICIT)	34,107	31,041	(31,833)	24,930	(38,973)	19,272
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 35,410	41,230	13,118	26,655	(83,278)	33,135

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

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING ACTIVITIES						
Net cash provided by (used in) operating activities	\$ (85)	—	899	204	—	1,018
INVESTING ACTIVITIES						
Capital expenditures	—	—	(289)	(257)	—	(546)
Proceeds from the sale of property, plant and equipment and other assets	68	—	—	51	—	119
Net cash provided by (used in) investing activities	68	—	(289)	(206)	—	(427)
FINANCING ACTIVITIES						
Payments of long-term debt	—	—	—	(3)	—	(3)
Distributions	(605)	—	—	—	—	(605)
Increase (decrease) due from/to affiliates, net	605	—	(605)	—	—	—
Net cash provided by (used in) financing activities	—	—	(605)	(3)	—	(608)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	—	—	—	(2)	—	(2)
Net increase (decrease) in cash, cash equivalents and restricted cash and securities	(17)	—	5	(7)	—	(19)
Cash, cash equivalents and restricted cash and securities and beginning of period	32	—	186	113	—	331
Cash, cash equivalents and restricted cash and securities and end of period	\$ 15	—	191	106	—	312

Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2017 (Predecessor)

	Level 3 Parent, LLC	Level 3 Financing, Inc.	Level 3 Communications, LLC	Other Non- Guarantor Subsidiaries	Eliminations	Total
(Dollars in millions)						
OPERATING ACTIVITIES						
Net Cash Provided by (Used in) Operating Activities	\$ (14)	(267)	352	1,029	—	1,100
INVESTING ACTIVITIES						
Capital expenditures	—	—	(427)	(269)	—	(696)
Purchase of marketable securities	—	—	(1,127)	—	—	(1,127)
Net cash provided by (used in) investing activities	—	—	(1,554)	(269)	—	(1,823)
FINANCING ACTIVITIES						
Net proceeds from issuance of long-term debt	—	4,569	—	—	—	4,569
Payments of long-term debt	—	(4,611)	(1)	(3)	—	(4,615)
Increase (decrease) due from/to affiliates, net	10	309	442	(761)	—	—
Net cash provided by (used in) financing activities	10	267	441	(764)	—	(46)
Effect of exchange rates on cash, cash equivalents and restricted cash and securities	—	—	—	2	—	2
Net increase (decrease) in cash, cash equivalents and restricted cash and securities	(4)	—	(761)	(2)	—	(767)
Cash, cash equivalents and restricted cash and securities and beginning of period	37	—	1,710	110	—	1,857
Cash, cash equivalents and restricted cash and securities and end of period	\$ 33	—	949	108	—	1,090

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

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

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

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

Certain statements in this report constitute forward-looking statements and information that are based on the beliefs of management as well as assumptions made by and information currently available to us. When used in this document, the words "anticipate", "believe", "plan", "estimate" and "expect" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this document. See the last paragraph of this Item 2 of Part I and "Risk Factors" in Item 1A of Part II of this report for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2017, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first six months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

We are a facilities-based provider of a broad range of communications services. Revenue for communications services is generally recognized monthly as these services are provided. For contracts involving private line, wavelength and the lease of dark fiber services, we may receive upfront payments for services to be delivered for a period of up to 25 years. In these situations, we defer the revenue and amortize it on a straight-line basis to earnings over the term of the contract.

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

Since November 1, 2017, our results of operations have been included in the consolidated results of operations of CenturyLink. CenturyLink has accounted for its acquisition of us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on preliminary estimates of their acquisition date fair values and have been updated through June 30, 2018. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. CenturyLink expects to complete its final fair value determinations no later than the fourth quarter of 2018. CenturyLink's final fair value determinations may be significantly different than those reflected in our consolidated financial statements as of and for the successor period ended June 30, 2018. The recognition of assets and liabilities at fair value is reflected in our financial statements and therefore has resulted in a new basis of accounting for the "successor period" beginning on November 1, 2017. This new basis of accounting means that our financial statements for the successor periods are not comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

We have recognized \$59 million and \$77 million of certain expenses associated with activities related to CenturyLink's acquisition of us during the successor three and six months ended June 30, 2018, respectively. These expenses were comprised of severance, retention bonuses, share-based compensation and system integration consulting. During the predecessor three and six months ended June 30, 2017, we recognized \$22 and \$43 million of expenses associated with our activities related to the acquisition, respectively. As part of the acquisition accounting, on November 1, 2017, we also included in our goodwill approximately \$1 million for certain restricted stock awards and \$47 million related to transaction costs, all of which were contingent on the completion of the acquisition and had no benefit to CenturyLink after the acquisition.

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

Results of Operations

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

	Successor		Predecessor	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
(Dollars in millions)				
Operating revenues	\$ 2,052	4,139	2,062	4,110
Operating expenses	1,856	3,682	1,709	3,420
Operating income	196	457	353	690
Other income (expense)	(112)	(209)	(130)	(302)
Income before income taxes	84	248	223	388
Income tax expense	(44)	(146)	(69)	(139)
Net income	\$ 40	102	154	249

Operating Revenues

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

- *IP and data services*, which includes primarily VPN data network, Ethernet, IP, video (including our Vyvx broadcast services) and ancillary services;
- *Transport and infrastructure*, which includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues;
- *Voice and collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary services;
- *IT and managed services*, which includes information technology services and managed services, which may be purchased in conjunction with our network services;
- *Other revenues*, which includes sublease rental income;
- *Affiliate*, which includes telecommunications and data services we bill to our affiliates.

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

	Successor Three Months Ended June 30, 2018	Predecessor Three Months Ended June 30, 2017	Increase/(Decrease)	% Change	Successor Six Months Ended June 30, 2018	Predecessor Six Months Ended June 30, 2017	Increase/(Decrease)	% Change
	(Dollars in millions)				(Dollars in millions)			
IP and data services	\$ 987	986	1	— %	1,990	1,958	32	2 %
Transport and infrastructure	673	688	(15)	(2)%	1,348	1,366	(18)	(1)%
Voice and collaboration	363	386	(23)	(6)%	744	782	(38)	(5)%
IT and managed services	1	—	1	nm	2	—	2	nm
Other revenues	1	2	(1)	(50)%	3	4	(1)	(25)%
Affiliate	27	—	27	nm	52	—	52	nm
Total revenues	\$ 2,052	2,062	(10)	— %	\$ 4,139	4,110	29	1 %

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

Our total operating revenues decreased by \$10 million, or less than 1%, for the successor three months ended June 30, 2018, as compared to the predecessor three months ended June 30, 2017. The decrease in our total operating revenues was primarily due to decreases in voice and collaboration of \$23 million and transport and infrastructure of \$15 million, partially offset by an increase in affiliate revenues of \$27 million.

Our total operating revenues increased by \$29 million, or 1%, for the successor six months ended June 30, 2018, as compared to the predecessor six months ended June 30, 2017. The increase in our total operating revenues was primarily due to increases in affiliate revenues of \$52 million and IP and data services of \$32 million, offset by decreases in voice and collaboration of \$38 million.

Voice and collaboration revenues decreased by \$23 million , or 6% , and by \$38 million , or 5% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The decrease in voice and collaboration revenues was primarily due to a decline in voice offset by an increase in VoIP revenues.

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

Transport and infrastructure revenues decreased \$15 million , or 2% , and by \$18 million , or 1% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The decrease in transport and infrastructure revenues was primarily due to a decrease in private line, partially offset by an increase in colocation and data center, dark fiber, wavelength, managed security and professional services.

IP and data services revenues increased \$1 million , or less than 1%, and by \$32 million , or 2% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The increase in IP and data services revenues was primarily due to an increase in CDN, partially offset by a decrease in Ethernet and Vvyx.

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

Affiliate revenues increased by \$27 million for the successor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 , and \$52 million for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The increase in affiliate revenues was due to our acquisition by CenturyLink on November 1, 2017. Since CenturyLink's acquisition of us, we have recorded revenues from telecommunications and data services we bill to CenturyLink and certain of its subsidiaries as affiliate revenues. In the predecessor periods, since they were not affiliates, revenue associated with CenturyLink and its subsidiaries was recorded in the other operating revenue categories.

Operating Expenses

The following tables summarize our consolidated operating expenses:

Successor		Predecessor		Successor		Predecessor		
Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Increase/(Decrease)	% Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Increase/(Decrease)	% Change	
(Dollars in millions)				(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 980	1,035	(55)	(5)%	1,978	2,086	(108)	(5)%
Selling, general and administrative	388	367	21	6 %	732	731	1	— %
Operating expenses - affiliate	55	—	55	nm	108	—	108	nm
Depreciation and amortization	433	307	126	41 %	864	603	261	43 %
Total operating expenses	\$ 1,856	1,709	147	9 %	\$ 3,682	3,420	262	8 %

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

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

Cost of services and products (exclusive of depreciation and amortization) decreased by \$55 million , or 5% , and by \$108 million , or 5% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The decrease in our cost of services and products for the successor period was primarily due to our acquisition by CenturyLink on November 1, 2017. In the predecessor period, since they were not an affiliate, the expense associated with CenturyLink and its subsidiaries was recorded as cost of services and products and selling, general and administrative expenses.

Selling, General and Administrative

Selling, general and administrative increased by \$21 million , or 6% , and by \$1 million , or less than 1% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The increase was primarily due to an increase in facilities based expenses primarily resulting from impaired leases, partially offset by a decrease in employee-related expense primarily due to lower retention bonuses and headcount, a decrease in stock-based compensation expense as a result of accelerated vesting for certain restricted stock awards associated with the CenturyLink acquisition as well as the vesting of performance restricted stock units, and a decrease in affiliate expenses which were included in selling, general and administrative during the predecessor period.

Operating Expenses - Affiliate

Operating expenses - affiliate increased by \$55 million , and by \$108 million for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . The increase in our operating expenses - affiliate was due to our acquisition by CenturyLink on November 1, 2017. In the predecessor period, since they were not affiliates, the expense associated with CenturyLink and its subsidiaries was recorded as cost of services and products and selling, general and administrative expenses.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense:

	Successor	Predecessor			Successor	Predecessor		
	Three Months	Three Months			Six Months	Six Months		
	Ended June 30,	Ended June 30,	Increase/(Decrease)	% Change	Ended June 30,	Ended June 30,	Increase/(Decrease)	% Change
	2018	2017			2018	2017		
	(Dollars in millions)				(Dollars in millions)			
Depreciation	\$ 231	255	(24)	(9)%	468	506	(38)	(8)%
Amortization	202	52	150	288 %	396	97	299	308 %
Total depreciation and amortization	\$ 433	307	126	41 %	864	603	261	43 %

Depreciation expense decreased by \$24 million , or 9% , and by \$38 million , or 8% , for the successor three and six months ended June 30, 2018 , as compared to the predecessor three and six months ended June 30, 2017 . As of November 1, 2017, our property, plant and equipment were recorded at preliminary fair value and as a result net property, plant and equipment decreased \$1 billion due to CenturyLink's acquisition of us. This decrease in asset value resulted in lower depreciation expense for the successor three and six months ended June 30, 2018 than would have been recorded had the acquisition not occurred. The accounting for CenturyLink's acquisition of us also resulted in an additional \$8.7 billion in amortizable intangible customer relationship assets, which resulted in additional amortization expense for the successor three and six months ended June 30, 2018. In addition, trade names and developed technology were recorded at a fair value of \$378 million, an increase of \$356 million, which resulted in an additional amortization expense for the successor three and six months ended June 30, 2018 .

Other Consolidated Results

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

	Successor	Predecessor			Successor	Predecessor		
	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Increase/(Decrease)	% Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Increase/(Decrease)	% Change
	(Dollars in millions)				(Dollars in millions)			
Interest income	\$ —	3	(3)	(100)%	1	5	(4)	(80)%
Interest income - affiliate	16	—	16	nm	32	—	32	nm
Interest expense	(124)	(131)	7	(5)%	(244)	(265)	21	(8)%
Gain (loss) on modification and extinguishment of debt, net	—	—	—	nm	—	(44)	44	(100)%
Other, net	(4)	(2)	(2)	100 %	2	2	—	— %
Total Other Expense	\$ (112)	(130)	18	(14)%	(209)	(302)	93	(31)%

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

Interest Income

Interest income decreased by \$ 3 million , or 100% , for the successor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 , and \$ 4 million , or 80% , for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The decrease in interest income was primarily due to the decrease in our cash and cash equivalents balance.

Interest Income - Affiliate

Interest income - affiliate increased by \$16 million for the successor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 , and \$32 million for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The increase in interest income - affiliate was due to the interest associated with our \$1.825 billion loan made to CenturyLink in connection with the closing of the Merger Agreement.

Interest Expense

Interest expense decreased by \$7 million , or 5% , for the successor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 , and \$21 million , or 8% , for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The decrease in interest expenses was primarily due to lower interest expense associated with the repayment of our \$300 million Floating rate Notes due in 2018, partially offset by a higher LIBOR on the \$4.611 billion Tranche B 2024 Term Loan.

Loss on Modification and Extinguishment of Debt

Loss on modification and extinguishment of debt decreased by \$44 million or 100% , for the s uccessor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The decrease in loss on modification and extinguishment of debt was due to the refinancing of all of our then outstanding \$4.611 billion senior secured term loans during the predecessor six months ended June 30, 2017 .

Other Income (Expense)

Other income (expense) decreased by \$ 2 million , or 100% , for the s uccessor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 and was flat, for the s uccessor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 . The decrease in other income (expense) was due to a decrease in foreign currency gain in the s uccessor three months ended June 30, 2018 , as compared to the predecessor three months ended June 30, 2017 .

Income Tax Expense

For the successor three months ended June 30, 2018 and the predecessor three months ended June 30, 2017 , our effective income tax rate was 52% and 31%, and was 59% and 36% for the successor six months ended June 30, 2018 and the predecessor six months ended June 30, 2017, respectively. The effective tax rate for the s uccessor three and six months ended June 30, 2018 was significantly impacted by purchase price adjustments as a result of the CenturyLink merger and the enactment of the Tax Cuts and Jobs Act legislation in December 2017 which resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate. See "Other Matters-Recent Tax Changes."

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

At June 30, 2018 , we held cash and cash equivalents of \$282 million . At June 30, 2018 , cash and cash equivalents of \$81 million were held in foreign bank accounts for funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

Impact of Merger with CenturyLink

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

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

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

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

Capital Expenditures

We incur capital expenditures on an ongoing basis to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink and we evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities and cash required for other purposes.

Debt and Other Financing Arrangements

As of June 30, 2018, our long-term debt (including current maturities and capital leases) totaled \$10.870 billion, compared to \$10.890 billion outstanding as of December 31, 2017.

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

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

Historical Information

The following table summarizes our consolidated cash flow activities:

	Successor	Predecessor	
	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Increase/ (Decrease)
			(Dollars in millions)
Net cash provided by operating activities	\$ 1,018	1,100	(82)
Net cash used in investing activities	\$ (427)	(1,823)	(1,396)
Net cash used in financing activities	\$ (608)	(46)	562

Operating Activities

Net cash provided by operating activities decreased \$82 million for the successor six months ended June 30, 2018, as compared to the predecessor six months ended June 30, 2017, primarily due to the change in accounts payable. Cash provided by operating activities is subject to variability period over period because of the timing of the collection of receivables and payments related to interest expense, accounts payable, and bonuses.

Investing Activities

Net cash used in investing activities decreased \$1,396 million for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 primarily due to the purchase of marketable securities of \$1,127 million in the predecessor six months ended June 30, 2017, a decrease in capital expenditures of \$150 million in the successor six months ended June 30, 2018 , and by \$119 million of proceeds received on assets held for sale in the successor six months ended June 30, 2018 .

Financing Activities

Net cash used in financing activities increased \$562 million for the successor six months ended June 30, 2018 , as compared to the predecessor six months ended June 30, 2017 primarily due to the \$605 million of distributions we made to CenturyLink in the successor six months ended June 30, 2018 , partially offset by the \$46 million of cash used for the refinancing of debt in the predecessor six months ended June 30, 2017 .

Other Matters

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

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

Recent Tax Changes

As of June 30, 2018 , we had not completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act") which was signed into law and in late December 2017. To complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the FASB, and other standard-setting and regulatory bodies. New guidance or interpretations may materially impact our provision for income taxes in future periods.

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

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, introduced further limitations on the deductibility of interest expense, made certain changes to capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Tax Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income ("GILTI") and the Base-Erosion Anti-Abuse Tax ("BEAT"). Because of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax assets at December 31, 2017 and recognized a tax expense of approximately \$195 million in our consolidated statement of operations for the year ended December 31, 2017. During the first six months of 2018, we increased the tax expense from tax reform by \$76 million due to changes in certain purchase accounting adjustments related to CenturyLink's acquisition of us, which was reflected in income tax expense.

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

Because of our net operating loss carryforwards, we do not expect to experience a further material immediate reduction in the amount of cash income taxes paid by us. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Certain Matters Related to the Merger with CenturyLink

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

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

In accounting for the CenturyLink's acquisition of us, we recorded our debt securities at their preliminary estimated fair values, which totaled \$10.716 billion as of November 1, 2017. Our acquisition date fair value estimates were based primarily on inputs other than quoted market prices in active markets that are either directly or indirectly observable. The fair value of our debt securities exceeded their stated principal balances on the acquisition date by \$190 million, which is being recognized as a reduction to interest expense over the remaining terms of the debt.

Market Risk

At June 30, 2018, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

As of the successor date of June 30, 2018, we have approximately \$10.526 billion (excluding capital lease and other obligations) of long-term debt outstanding, 56% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We also held \$4.611 billion of floating rate debt exposed to changes in the London Interbank Offered Rate ("LIBOR"). A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$46 million.

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

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at June 30, 2018 .

Off-Balance Sheet Arrangements

As of June 30, 2018 , we have had no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we did not engage in leasing, hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 14-Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

CenturyLink's and our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. From time to time, we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Chief Financial Officer, Sunit S. Patel, evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2018. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective, as of June 30, 2018, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

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

Changes in Internal Control Over Financial Reporting

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

CenturyLink completed the acquisition of Level 3, Inc. on November 1, 2017. The Company is currently integrating policies, processes, people, technology, and operations of the combined company. Management will continue to evaluate the Company’s internal controls over financial reporting as it continues the integration of Level 3. Other than the internal controls related to the adoption of ASC 606 referenced above there were no changes in the Company’s internal control over financial reporting that occurred during the second quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II-OTHER INFORMATION

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

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 9 - Commitments, Contingencies and Other Items , included in Item 1 of Part I of this quarterly report on Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 . There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2017 .

ITEM 6. EXHIBITS

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

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 9, 2018 .

LEVEL 3 PARENT, LLC

/s/ Eric J. Mortensen

Eric J. Mortensen

Senior Vice President - Controller

(Principal Accounting Officer)

LEVEL 3 PARENT, LLC
Statement Regarding Computation of Ratio of Earnings to Fixed Charges
(Unaudited)

	Successor	Predecessor	Successor	Predecessor	Predecessor			
	Six Months Ended June 30,		Two Months Ended December 31,	Ten Months Ended October 31,	Year Ended December 31,			
	2018	2017	2017	2017	2016	2015	2014	2013
(Dollars in millions)								
Income (Loss) from Continuing Operations Before Income Taxes	\$ 248	388	93	693	842	283	238	(71)
Interest on Debt, Net of Capitalized Interest	244	266	80	441	544	640	652	649
Amortization of Capitalized Interest	—	—	—	—	—	—	—	—
Portion of rents deemed representative of the interest factor (1/3)	59	58	19	95	115	119	104	101
Earnings Available for Fixed Charges	\$ 551	712	192	1,229	1,501	1,042	994	679
Interest on Debt	244	266	80	441	544	640	652	649
Preferred Dividends	—	—	—	—	—	—	—	—
Interest Expense Portion of Rental Expense	59	58	19	95	115	119	104	101
Total Fixed Charges	303	324	99	536	659	759	756	750
Ratio of Earnings to Fixed Charges	1.8	2.2	1.9	2.3	2.3	1.4	1.3	—
Deficiency	\$ —	—	—	—	—	—	—	(71)

CERTIFICATIONS*

I, Jeff K. Storey, certify that:

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

Date: August 9, 2018

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

CERTIFICATIONS*

I, Sunit S. Patel, certify that:

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

Date: August 9, 2018

/s/ Sunit S. Patel

Sunit S. Patel

Executive Vice President and Chief Financial Officer

* Provide a separate certification for each principal executive officer and principal financial officer of the registrant. See Rules 13a-14(a) and 15d-14(a).

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of Level 3 Parent, LLC ("Level 3"), certifies that, to his knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 of Level 3 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Level 3 as of the dates and for the periods covered by such report.

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

Dated: August 9, 2018

/s/ Jeff K. Storey

Jeff K. Storey

Chief Executive Officer

/s/ Sunit S. Patel

Sunit S. Patel

Executive Vice President and Chief
Financial Officer