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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2019
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission File No. 001-03040

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana

(Address of principal executive offices)

84-0273800

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

71203

(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

THE REGISTRANT, A WHOLLY OWNED INDIRECT 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 FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐
Emerging growth company ☐

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|----------------------------|--------------------------|--------------------------------------------------|
| 6.125% Notes Due 2053 | CTY | New York Stock Exchange |
| 6.875% Notes Due 2054 | CTV | New York Stock Exchange |
| 6.625% Notes Due 2055 | CTZ | New York Stock Exchange |
| 7.00% Notes Due 2056 | CTAA | New York Stock Exchange |
| 6.5% Notes Due 2056 | CTBB | New York Stock Exchange |
| 6.75% Notes Due 2057 | CTDD | New York Stock Exchange |

On August 9, 2019 , there was one share of common stock outstanding.

TABLE OF CONTENTS

| | | |
|---------------------------|-------------------------------------------------------------------------------------------------------|--------------------|
| Part I. | Financial Information | |
| | Special Note Regarding Forward-Looking Statements | 4 |
| Item 1. | Financial Statements | |
| | Consolidated Statements of Operations (Unaudited) | 6 |
| | Consolidated Balance Sheets (Unaudited) | 7 |
| | Consolidated Statements of Cash Flows (Unaudited) | 8 |
| | Consolidated Statements of Stockholder's Equity (Unaudited) | 9 |
| | Notes to Consolidated Financial Statements (Unaudited) * | 10 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 34 |
| Item 4. | Controls and Procedures | 34 |
| Part II. | Other Information | |
| Item 1. | Legal Proceedings | 35 |
| Item 1A. | Risk Factors | 35 |
| Item 6. | Exhibits | 36 |
| Signature | | 37 |

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

Special Note Regarding Forward-Looking Statements

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

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

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

- the effects of competition from a wide variety of competitive providers, including 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;
- our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection and net neutrality;
- our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments and dividends;

- changes in our operating plans, corporate strategies, or capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- the negative impact of increases in the costs of CenturyLink's pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which could affect 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, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords, lenders and financial institutions;
- 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, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions;
- adverse effects of material weaknesses or any other significant deficiencies identified in our internal controls over financial reporting; and
- other risks referenced in this report or other of our filings with the SEC.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our 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

ITEM 1. FINANCIAL STATEMENTS

QWEST CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------------------------------------------------|-----------------------------|-------|---------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| (Dollars in millions) | | | | |
| OPERATING REVENUE | | | | |
| Operating revenue | \$ 1,331 | 1,393 | 2,664 | 2,812 |
| Operating revenue - affiliates | 720 | 708 | 1,442 | 1,419 |
| Total operating revenue | 2,051 | 2,101 | 4,106 | 4,231 |
| OPERATING EXPENSES | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 588 | 702 | 1,195 | 1,409 |
| Selling, general and administrative | 157 | 215 | 314 | 430 |
| Operating expenses - affiliates | 219 | 197 | 414 | 413 |
| Depreciation and amortization | 337 | 361 | 673 | 721 |
| Total operating expenses | 1,301 | 1,475 | 2,596 | 2,973 |
| OPERATING INCOME | 750 | 626 | 1,510 | 1,258 |
| OTHER (EXPENSE) INCOME | | | | |
| Interest expense | (96) | (120) | (191) | (238) |
| Interest expense - affiliates, net | (15) | (14) | (31) | (27) |
| Other income, net | 5 | 16 | 14 | 25 |
| Total other expense, net | (106) | (118) | (208) | (240) |
| INCOME BEFORE INCOME TAXES | 644 | 508 | 1,302 | 1,018 |
| Income tax expense | 167 | 81 | 338 | 211 |
| NET INCOME | \$ 477 | 427 | 964 | 807 |

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS

| | June 30, 2019 (Unaudited) | December 31, 2018 |
|---------------------------------------------------------------------------------------|------------------------------|-------------------|
| | (Dollars in millions) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7 | 5 |
| Accounts receivable, less allowance of \$41 and \$41 | 526 | 546 |
| Advances to affiliates | 1,451 | 1,148 |
| Other | 148 | 147 |
| Total current assets | 2,132 | 1,846 |
| Property, plant and equipment, net of accumulated depreciation of \$7,328 and \$6,951 | 8,034 | 8,077 |
| GOODWILL AND OTHER ASSETS | | |
| Goodwill | 9,360 | 9,360 |
| Operating lease assets | 111 | — |
| Customer relationships, net | 675 | 893 |
| Other intangible assets, net | 338 | 311 |
| Other, net | 93 | 96 |
| Total goodwill and other assets | 10,577 | 10,660 |
| TOTAL ASSETS | \$ 20,743 | 20,583 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 9 | 11 |
| Accounts payable | 345 | 441 |
| Note payable - affiliate | 1,038 | 1,008 |
| Accrued expenses and other liabilities | | |
| Salaries and benefits | 186 | 251 |
| Income and other taxes | 143 | 140 |
| Interest | 55 | 55 |
| Other | 102 | 75 |
| Current affiliate obligations, net | 74 | 79 |
| Current portion of deferred revenue | 223 | 212 |
| Total current liabilities | 2,175 | 2,272 |
| LONG-TERM DEBT | 5,946 | 5,948 |
| DEFERRED CREDITS AND OTHER LIABILITIES | | |
| Deferred revenue | 94 | 91 |
| Deferred income taxes, net | 1,033 | 1,098 |
| Noncurrent operating lease liabilities | 86 | — |
| Affiliate obligations, net | 720 | 759 |
| Other | 557 | 547 |
| Total deferred credits and other liabilities | 2,490 | 2,495 |
| COMMITMENTS AND CONTINGENCIES (Note 8) | | |
| STOCKHOLDER'S EQUITY | | |
| Common stock - one share without par value, owned by Qwest Services Corporation | 10,050 | 10,050 |
| Retained earnings (accumulated deficit) | 82 | (182) |
| Total stockholder's equity | 10,132 | 9,868 |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ 20,743 | 20,583 |

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, | |
|-----------------------------------------------------------------------------------|---------------------------|---------|
| | 2019 | 2018 |
| | (Dollars in millions) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 964 | 807 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 673 | 721 |
| Deferred income taxes | (65) | (4) |
| Provision for uncollectible accounts | 27 | 39 |
| Accrued interest on affiliate note | 30 | 16 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (7) | 45 |
| Accounts payable | (32) | 2 |
| Accrued income and other taxes | 3 | (29) |
| Other current assets and liabilities, net | (60) | (78) |
| Other current assets and liabilities - affiliates, net | 1 | 5 |
| Changes in other noncurrent assets and liabilities, net | 18 | 271 |
| Changes in affiliate obligations, net | (44) | (44) |
| Other, net | (3) | — |
| Net cash provided by operating activities | 1,505 | 1,751 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (517) | (510) |
| Changes in advances to affiliates | (303) | (650) |
| Proceeds from sale of property, plant and equipment and other assets | 23 | 2 |
| Net cash used in investing activities | (797) | (1,158) |
| FINANCING ACTIVITIES | | |
| Payments of long-term debt | (6) | (8) |
| Dividends paid to Qwest Services Corporation | (700) | (575) |
| Net cash used in financing activities | (706) | (583) |
| Net increase in cash, cash equivalents and restricted cash | 2 | 10 |
| Cash, cash equivalents and restricted cash at beginning of period | 7 | 3 |
| Cash, cash equivalents and restricted cash at end of period | \$ 9 | 13 |
| Supplemental cash flow information: | | |
| Income taxes paid, net | \$ (391) | (42) |
| Interest paid (net of capitalized interest of \$13 and \$13) | \$ (189) | (237) |
| Cash, cash equivalents and restricted cash: | | |
| Cash and cash equivalents | \$ 7 | 11 |
| Restricted cash included in other noncurrent assets | 2 | 2 |
| Total | \$ 9 | 13 |

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------|--------|---------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| (Dollars in millions) | | | | |
| COMMON STOCK | | | | |
| Balance at beginning of period | \$ 10,050 | 10,050 | 10,050 | 10,050 |
| Balance at end of period | 10,050 | 10,050 | 10,050 | 10,050 |
| RETAINED EARNINGS (ACCUMULATED DEFICIT) | | | | |
| Balance at beginning of period | (45) | (505) | (182) | (713) |
| Net income | 477 | 427 | 964 | 807 |
| Cumulative net effect of adoption of ASU 2014-09, <i>Revenue from Contracts with Customers, net of (\$43) taxes</i> | — | — | — | 128 |
| Dividends declared to Qwest Services Corporation | (350) | (275) | (700) | (575) |
| Balance at end of period | 82 | (353) | 82 | (353) |
| TOTAL STOCKHOLDER'S EQUITY | \$ 10,132 | 9,697 | 10,132 | 9,697 |

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Unless the context requires otherwise, references in this report to "QC" refer to Qwest Corporation, references to "Qwest," "we," "us," and "our" refer to Qwest Corporation and its consolidated subsidiaries, references to "QSC" refer to our direct parent company, Qwest Services Corporation and its consolidated subsidiaries, and references to "CenturyLink" refer to our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries including Level 3 Parent, LLC, referred to as "Level 3".

(1) Background

General

We are an integrated communications company engaged primarily in providing an array of communications services to our residential and business customers. Our specific products and services are detailed in Note 7—Products and Services Revenue of this report.

We generate the majority of our total consolidated operating revenue from services provided in the 14 -state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming . We refer to this region as our local service area.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2018 , which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first six months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2018 .

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated. Transactions with our non-consolidated affiliates (referred to herein as affiliates) have not been eliminated.

We reclassified certain prior period amounts to conform to the current period presentation. See Note 7—Products and Services Revenue for additional information. These changes had no impact on total operating revenue, total operating expenses or net income for any period.

Segments

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

Recently Adopted Accounting Pronouncements

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

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

Adoption of the new standard resulted in the recording of additional operating lease assets and operating lease liabilities of approximately \$126 million and \$133 million, respectively, as of January 1, 2019. The standard did not materially impact our consolidated net earnings and had no impact on cash flows. Financial position for reporting periods beginning on or after January 1, 2019 is presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with previous guidance.

Recently Issued Accounting Pronouncements

Financial Instruments

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

We are required to adopt the provisions of ASU 2016-13 no later than January 1, 2020. We expect to adopt ASU 2016-13 on January 1, 2020 and recognize the impacts through a cumulative adjustment to retained earnings as of the date of adoption.

(2) Goodwill, Customer Relationships and Other Intangible Assets

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

| | June 30, 2019 | December 31, 2018 |
|-------------------------------------------------------------------------------|-----------------------|-------------------|
| | (Dollars in millions) | |
| Goodwill | \$ 9,360 | 9,360 |
| Customer relationships, less accumulated amortization of \$5,024 and \$4,806 | \$ 675 | 893 |
| Other intangible assets, less accumulated amortization of \$1,736 and \$1,712 | \$ 338 | 311 |

As of June 30, 2019, the gross carrying amount of goodwill, customer relationships and other intangible assets was \$17.1 billion. The total amortization expense for intangible assets for the three months ended June 30, 2019 and 2018 totaled \$134 million and \$147 million, respectively, and for the six months ended June 30, 2019 and 2018 totaled \$271 million and \$296 million, respectively.

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

| | (Dollars in millions) |
|-----------------------------|-----------------------|
| 2019 (remaining six months) | \$ 252 |
| 2020 | 478 |
| 2021 | 161 |
| 2022 | 52 |
| 2023 | 36 |

(3) Revenue Recognition

Refer to the Revenue Recognition section of Note 1—Background and Summary of Significant Accounting Policies and Note 3—Revenue Recognition in our annual report on Form 10-K for the year ended December 31, 2018 for further information regarding our application of ASC 606, “Revenue from Contracts with Customers”, including practical expedients and judgments applied in determining the amounts and timing of revenue from contracts with customers.

Reconciliation of Total Revenue to Revenue from Contracts with Customers

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------------------------|-----------------------------|-------|---------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| (Dollars in millions) | | | | |
| Total revenue | \$ 2,051 | 2,101 | 4,106 | 4,231 |
| Adjustments for non-ASC 606 revenue ⁽¹⁾ | (125) | (80) | (252) | (157) |
| Total revenue from contracts with customers | \$ 1,926 | 2,021 | 3,854 | 4,074 |

⁽¹⁾ Includes regulatory revenue, lease revenue, sublease rental income and revenue from fiber capacity lease arrangements which are not within the scope of ASC 606.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of June 30, 2019 and December 31, 2018 :

| | June 30, 2019 | December 31, 2018 |
|-------------------------------------|---------------|-------------------|
| (Dollars in millions) | | |
| Customer receivables ⁽¹⁾ | \$ 505 | 518 |
| Contract liabilities | 331 | 207 |
| Contract assets | 70 | 64 |

(1) Gross customer receivables of \$540 million and \$554 million , net of allowance for doubtful accounts of \$35 million and \$36 million , at June 30, 2019 and December 31, 2018 , respectively.

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------------------------------------------------------------------------------------------|-----------------------------|------|---------------------------|------|
| | 2019 | 2018 | 2019 | 2018 |
| (Dollars in millions) | | | | |
| Revenue recognized in the period from: | | | | |
| Amounts included in contract liability at the beginning of the period (January 1, 2019 and 2018, respectively) | \$ 4 | 11 | 265 | 280 |
| Performance obligations satisfied in previous periods | — | — | — | — |

Performance Obligations

As of June 30, 2019 , our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially satisfied) is approximately \$232 million . We expect to recognize approximately 97% of this revenue through 2021 , with the balance recognized thereafter.

We do not disclose the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), 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:

| | Three Months Ended June 30, 2019 | | Three Months Ended June 30, 2018 | |
|-----------------------------|----------------------------------|-------------------|----------------------------------|-------------------|
| | Acquisition Costs | Fulfillment Costs | Acquisition Costs | Fulfillment Costs |
| | (Dollars in millions) | | | |
| Beginning of period balance | \$ 90 | 57 | 90 | 60 |
| Costs incurred | 13 | 15 | 14 | 3 |
| Amortization | (16) | (12) | (16) | (5) |
| End of period balance | <u>\$ 87</u> | <u>60</u> | <u>88</u> | <u>58</u> |

| | Six Months Ended June 30, 2019 | | Six Months Ended June 30, 2018 | |
|-----------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | Acquisition Costs | Fulfillment Costs | Acquisition Costs | Fulfillment Costs |
| | (Dollars in millions) | | | |
| Beginning of period balance | \$ 90 | 57 | 91 | 61 |
| Costs incurred | 29 | 19 | 28 | 7 |
| Amortization | (32) | (16) | (31) | (10) |
| End of period balance | <u>\$ 87</u> | <u>60</u> | <u>88</u> | <u>58</u> |

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

Deferred acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months for consumer customers and up to 49 months for business customers. Amortized fulfillment costs are included in cost of services products and amortized acquisition costs are included in selling, general and administrative expenses in our consolidated statements of operations. The amount of these deferred costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. The amount of deferred costs expected to be amortized beyond the next twelve months is included in other non-current assets on our consolidated balance sheets. Deferred acquisition and fulfillment costs are assessed for impairment on an annual basis.

(4) Leases

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

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

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

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

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

Lease expense consisted of the following:

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|-------------------------------------|-------------------------------------|-----------------------------------|
| | (Dollars in millions) | |
| Operating and short-term lease cost | \$ 8 | 16 |
| Finance lease cost: | | |
| Amortization of right-of-use assets | 2 | 5 |
| Total finance lease cost | 2 | 5 |
| Total lease cost | \$ 10 | 21 |

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

| Leases (millions) | Classification on the Balance Sheet | As of June 30, 2019 |
|------------------------------------------------------|----------------------------------------------------------------|---------------------|
| Assets | | |
| Operating lease assets | Operating lease assets | \$ 111 |
| Finance lease assets | Property, plant and equipment, net of accumulated depreciation | 19 |
| Total leased assets | | \$ 130 |
| Liabilities | | |
| Current | | |
| Operating | Other current liabilities | \$ 32 |
| Finance | Current portion of long-term debt | 9 |
| Non-current | | |
| Operating | Noncurrent operating lease liabilities | 86 |
| Finance | Long-term debt | 6 |
| Total lease liabilities | | \$ 133 |
| Weighted-average remaining lease term (years) | | |
| Operating leases | | 5.3 |
| Finance leases | | 4.3 |
| Weighted-average discount rate | | |
| Operating leases | | 7.52% |
| Finance leases | | 4.73% |

Supplemental unaudited consolidated cash flow statement information related to leases:

| | Six Months Ended June 30, 2019 |
|--------------------------------------------------------------------------------|--------------------------------|
| | (Dollars in millions) |
| Cash paid for amounts included in the measurement of lease liabilities: | |
| Operating cash flows from operating leases | 18 |
| Financing cash flows from finance leases | 4 |

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

| | Operating Leases | Finance Leases |
|-----------------------------|-----------------------|----------------|
| | (Dollars in millions) | |
| 2019 (remaining six months) | \$ 17 | 5 |
| 2020 | 30 | 5 |
| 2021 | 28 | 1 |
| 2022 | 24 | 1 |
| 2023 | 20 | 1 |
| Thereafter | 33 | 4 |
| Total lease payments | 152 | 17 |
| Less: interest | (34) | (2) |
| Total | 118 | 15 |
| Less: current portion | (32) | (9) |
| Long-term portion | \$ 86 | 6 |

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

Operating Lease Income

Qwest leases various data transmission capacity, office facilities, switching facilities and other network sites to third parties under operating leases. Lease and sublease income is included in operating revenue in the consolidated statements of operations.

For the three and six months ended June 30, 2019 , our gross rental income was \$82 million and \$163 million , respectively, which represents 4% and 4% , respectively of our operating revenue for the three and six months ended June 30, 2019 . For the three and six months ended June 30, 2018 , our gross rental income was \$81 million and \$166 million , respectively which represents 4% and 4% , respectively of our operating revenue for the three and six months ended June 30, 2018 .

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

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

| | Future Minimum Payments |
|--------------------------------------------------------|--------------------------------|
| | (Dollars in millions) |
| Capital lease obligations: | |
| 2019 | \$ 10 |
| 2020 | 6 |
| 2021 | 2 |
| 2022 | 1 |
| 2023 | 1 |
| 2024 and thereafter | 4 |
| Total minimum payments | 24 |
| Less: amount representing interest and executory costs | (5) |
| Present value of minimum payments | 19 |
| Less: current portion | (12) |
| Long-term portion | \$ 7 |

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

| | Operating Leases |
|----------------------------------------------|------------------------------|
| | (Dollars in millions) |
| 2019 | \$ 35 |
| 2020 | 28 |
| 2021 | 27 |
| 2022 | 23 |
| 2023 | 19 |
| 2024 and thereafter | 32 |
| Total future minimum payments ⁽¹⁾ | \$ 164 |

(1) Minimum payments have not been reduced by minimum sublease rentals of \$22 million due in the future under non-cancelable subleases.

(5) Long-Term Debt and Revolving Promissory Note

The following chart reflects (i) the consolidated long-term debt of Qwest Corporation and its subsidiaries, including unamortized discounts and premiums, unamortized debt issuance costs and (ii) note payable - affiliate:

| | Interest Rates | Maturities | June 30, 2019 | December 31, 2018 |
|----------------------------------------------|-----------------|-------------|---------------|-------------------|
| (Dollars in millions) | | | | |
| Senior notes | 6.125% - 7.750% | 2021 - 2057 | \$ 5,956 | 5,956 |
| Term loan | 4.410% | 2025 | 100 | 100 |
| Finance lease and other obligations | Various | Various | 15 | 21 |
| Unamortized (discounts) premiums, net | | | (1) | (1) |
| Unamortized debt issuance costs | | | (115) | (117) |
| Total long-term debt | | | 5,955 | 5,959 |
| Less current maturities | | | (9) | (11) |
| Long-term debt, excluding current maturities | | | \$ 5,946 | 5,948 |
| Note payable - affiliate | 5.945% | 2022 | \$ 1,038 | 1,008 |

Note Payable - Affiliate

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance owed by Qwest Corporation under this revolving promissory note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of June 30, 2019, the amended and restated revolving promissory note had an outstanding balance of \$1.038 billion and bore interest at a weighted-average interest rate of 5.945%. As of June 30, 2019 and December 31, 2018, the amended and restated revolving promissory note is reflected on our consolidated balance sheets as a current liability under "Note payable - affiliate". In accordance with the terms of the amended and restated revolving promissory note, interest shall be assessed on June 30th and December 31st (an "Interest Period"). Any assessed interest for an Interest Period that remains unpaid on the last day of the subsequent Interest Period is to be capitalized on such date and is to begin accruing interest. Through June 30, 2019, \$73 million of such interest has been capitalized. As of June 30, 2019, \$31 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Aggregate Maturities of Long-Term Debt

Set forth below is the aggregate principal amount of our long-term debt (excluding unamortized premiums and discounts and unamortized debt issuance costs and excluding note payable-affiliate) maturing during the following years:

| | (Dollars in millions) |
|-----------------------------|-----------------------|
| 2019 (remaining six months) | \$ 5 |
| 2020 | 5 |
| 2021 | 951 |
| 2022 | — |
| 2023 | 1 |
| 2024 and thereafter | 5,109 |
| Total long-term debt | \$ 6,071 |

Compliance

As of June 30, 2019, we believe we were in compliance with the financial covenants contained in our material debt agreements in all material respects.

Other

For additional information on our long-term debt and credit facilities, see Note 4—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2018.

(6) Fair Value Disclosure

The Fair Value Measurement and Disclosure framework provides a three-tiered fair value hierarchy based on the reliability of the inputs used to determine fair value. Input Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Input Level 2 refers to fair values estimated using significant other observable inputs and Input Level 3 includes fair values estimated using significant unobservable inputs.

Due to their short-term nature, the carrying amounts of our cash, cash equivalents and restricted cash, accounts receivable and accounts payable approximate their fair values.

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

| | | June 30, 2019 | | December 31, 2018 | |
|----------------------------------------------------------------------------|-------------|-----------------|------------|-------------------|------------|
| | Input Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (Dollars in millions) | | | | | |
| Liabilities—Long-term debt (excluding finance lease and other obligations) | 2 | \$ 5,940 | 6,003 | 5,938 | 5,118 |

(7) Products and Services Revenue

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 revenue 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;

- *Regulatory Revenue*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenue. We receive federal support payments from both federal and state USF programs and from the federal CAF program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and
- *Affiliate 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 revenue for our products and services consisted of the following categories:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------|-----------------------------|-------|---------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Dollars in millions) | | | |
| IP and Data Services | \$ 151 | 154 | 298 | 305 |
| Transport and Infrastructure | 709 | 732 | 1,424 | 1,476 |
| Voice and Collaboration | 423 | 453 | 845 | 920 |
| IT and Managed Services | 1 | 2 | 2 | 3 |
| Regulatory Revenue | 47 | 52 | 95 | 108 |
| Affiliate Services | 720 | 708 | 1,442 | 1,419 |
| Total operating revenue | \$ 2,051 | 2,101 | 4,106 | 4,231 |

We recognize revenue in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenue aggregated \$28 million and \$31 million for the three months ended June 30, 2019 and June 30, 2018, respectively, and \$58 million and \$65 million for the six months ended June 30, 2019 and June 30, 2018, respectively. These USF surcharges are assigned to the products and services categories based on the underlying revenue. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

(8) Commitments, Contingencies and Other Items

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

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at June 30, 2019 aggregated to approximately \$22 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.

Switched Access Disputes

Subsidiaries of CenturyLink, Inc., including us, are among hundreds of companies involved in an industry-wide dispute, raised in nearly 100 federal lawsuits (filed between 2014 and 2016) that have been consolidated in the United States District Court for the Northern District of Texas for pretrial procedures. The disputes relate to switched access charges that local exchange carriers ("LECs") collect from interexchange carriers ("IXCs") for IXCs' use of LEC's access services. In the lawsuits, IXCs, including Sprint Communications Company L.P. ("Sprint") and various affiliates of Verizon Communications Inc. ("Verizon"), assert that federal and state laws bar LECs from collecting access charges when IXCs exchange certain types of calls between mobile and wireline devices that are routed through an IXC. Some of these IXCs have asserted claims seeking refunds of payments for access charges previously paid and relief from future access charges.

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges, and also allowed the IXCs to refile state-law claims. Since then, many of the LECs and IXCs have filed revised pleadings and additional motions, which remain pending. Separately, some of the defendants, including us, have petitioned the FCC to address these issues on an industry-wide basis.

The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, are currently not predictable.

Billing Practices Suits

In June 2017, a former employee of CenturyLink filed an employment lawsuit against CenturyLink claiming that she was wrongfully terminated for alleging that CenturyLink charged some of its retail customers for products and services they did not authorize. Starting shortly thereafter and continuing since then, and based in part on the allegations made by the former employee, several legal proceedings have been filed.

In June 2017, *McLeod v. CenturyLink*, a putative consumer class action, was filed against CenturyLink in the U.S. District Court for the Central District of California alleging that it charged some of its retail customers for products and services they did not authorize. A number of other complaints asserting similar claims have been filed in other federal and state courts, as well. The lawsuits assert claims including fraud, unfair competition, and unjust enrichment. Also, in June 2017, *Craig v. CenturyLink, Inc., et al.*, a putative securities investor class action, was filed in U.S. District Court for the Southern District of New York, alleging that it failed to disclose material information regarding improper sales practices, and asserting federal securities law claims. A number of other cases asserting similar claims have also been filed.

Beginning June 2017, CenturyLink received several shareholder derivative demands addressing related topics. In August 2017, CenturyLink's Board of Directors formed a special litigation committee of outside directors to address the allegations of impropriety contained in the shareholder derivative demands. In April 2018, the special litigation committee concluded its review of the derivative demands and declined to take further action. Since then, derivative cases were filed. Two of these cases, *Castagna v. Post* and *Pinsly v. Post*, were filed in Louisiana state court in the Fourth Judicial District Court for the Parish of Ouachita. The remaining derivative cases were filed in federal court in Louisiana and Minnesota. These cases have been brought on behalf of CenturyLink against certain current and former officers and directors of the Company and seek damages for alleged breaches of fiduciary duties.

The consumer putative class actions, the securities investor putative class actions, and the federal derivative actions have been transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings as *In Re: CenturyLink Sales Practices and Securities Litigation*. Subject to confirmatory discovery and court approval, CenturyLink agreed to settle the consumer putative class actions for payments of \$15.5 million to compensate class members and of up to \$3.5 million for administrative costs. CenturyLink has accrued a contingent liability for those amounts.

In July 2017, the Minnesota state attorney general filed *State of Minnesota v. CenturyTel Broadband Services LLC, et al.* in the Anoka County Minnesota District Court, alleging claims of fraud and deceptive trade practices relating to improper consumer sales practices. The suit seeks an order of restitution on behalf of all CenturyLink customers, civil penalties, injunctive relief, and costs and fees. Additionally, CenturyLink has received and responded to information requests and inquiries from other states.

Locate Service Investigations

In June 2019, Minnesota and Arizona initiated investigations related to the timeliness of responses by certain of our vendors to requests for marking the location of underground telecommunications facilities. We, along with CenturyLink and its other subsidiaries are cooperating with the investigations.

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

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 15—Commitments, Contingencies and Other Items to the financial statements included in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2018. The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us.

(9) Dividends

From time to time we may declare and pay dividends to our direct parent company, Qwest Services Corporation ("QSC"), sometimes in excess of our earnings to the extent permitted by applicable law. Our debt covenants do not currently limit the amount of dividends we can pay to QSC.

During the six months ended June 30, 2019 and 2018, we declared and paid dividends of \$700 million and \$575 million, respectively, to QSC. Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

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

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

| | June 30, 2019 | December 31, 2018 |
|-----------------------------------|------------------------------|--------------------------|
| | (Dollars in millions) | |
| Prepaid expenses | \$ 51 | 37 |
| Contract acquisition costs | 51 | 52 |
| Contract fulfillment costs | 27 | 27 |
| Other | 19 | 31 |
| Total other current assets | \$ 148 | 147 |

(11) Labor Union Contracts

As of June 30, 2019 , approximately 43% of our employees were represented by the Communication Workers of America or the International Brotherhood of Electrical Workers. We believe relations with our employees continue to be generally good. Approximately 7,900 , or 100% , of our union-represented employees are subject to collective bargaining agreements that are scheduled to expire over the next 12 months.

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

Unless the context requires otherwise, references in this report to "QC" refer to Qwest Corporation, and references to "Qwest," "we," "us" and "our" refer to Qwest Corporation and its consolidated subsidiaries.

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

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018 for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2018, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations for the first six months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of communications services to our residential and business customers. Our specific products and services are detailed in Note 7—Products and Services Revenue of this report.

Our ultimate parent company, CenturyLink, Inc. ("CenturyLink"), has cash management arrangements between certain of its subsidiaries that include lines of credit, affiliate obligations, capital contributions and dividends. As part of these cash management arrangements, affiliates provide lines of credit to certain other affiliates. Amounts outstanding under these lines of credit and intercompany obligations vary from time to time. Under these arrangements, the majority of our cash balance is advanced on a daily basis for centralized management by CenturyLink. From time to time we may declare and pay dividends to Qwest Services Corporation ("QSC"), our direct parent, using cash owed to us under these advances, which has the net effect of reducing the amount of these advances. We report the balance of these transfers on our consolidated balance sheet as advances to affiliates.

At June 30, 2019, we served 3.1 million broadband subscribers. Our methodology for counting broadband subscribers may not be comparable to those of other companies.

For the reasons noted in Note 1—Background to our consolidated financial statements in Item 1 of Part I of this report, we believe we have one reportable segment.

We categorize our products, services and revenue 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 service;
- *IT and Managed Services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory Revenue*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenue. We receive federal support payments from both federal and state USF programs and from the federal CAF program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and

- *Affiliate Services*, we provide 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.

The following analysis is organized to provide the information we believe will be useful for understanding material trends affecting our business.

Results of Operations

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------|-----------------------------|-------|---------------------------|-------|
| | 2019 | 2018 | 2019 | 2018 |
| | (Dollars in millions) | | | |
| Operating revenue | \$ 2,051 | 2,101 | 4,106 | 4,231 |
| Operating expenses | 1,301 | 1,475 | 2,596 | 2,973 |
| Operating income | 750 | 626 | 1,510 | 1,258 |
| Total other expense, net | (106) | (118) | (208) | (240) |
| Income tax expense | 167 | 81 | 338 | 211 |
| Net income | \$ 477 | 427 | 964 | 807 |

Operating Revenue

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

| | Three Months Ended June 30, | | Increase/ (Decrease) | % Change |
|------------------------------|-----------------------------|-------|-------------------------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| IP and Data Services | \$ 151 | 154 | (3) | (2)% |
| Transport and Infrastructure | 709 | 732 | (23) | (3)% |
| Voice and Collaboration | 423 | 453 | (30) | (7)% |
| IT and Managed Services | 1 | 2 | (1) | (50)% |
| Regulatory Revenue | 47 | 52 | (5) | (10)% |
| Affiliate Services | 720 | 708 | 12 | 2 % |
| Total operating revenue | \$ 2,051 | 2,101 | (50) | (2)% |

| | Six Months Ended June 30, | | Increase/ (Decrease) | % Change |
|------------------------------|---------------------------|-------|-------------------------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| IP and Data Services | \$ 298 | 305 | (7) | (2)% |
| Transport and Infrastructure | 1,424 | 1,476 | (52) | (4)% |
| Voice and Collaboration | 845 | 920 | (75) | (8)% |
| IT and Managed Services | 2 | 3 | (1) | (33)% |
| Regulatory Revenue | 95 | 108 | (13) | (12)% |
| Affiliate Services | 1,442 | 1,419 | 23 | 2 % |
| Total operating revenue | \$ 4,106 | 4,231 | (125) | (3)% |

Total operating revenue decreased by \$50 million , or 2% , and \$125 million , or 3% , for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The change in operating revenue for both periods was primarily due to decreases in voice and collaboration, transport and infrastructure and regulatory revenue, partially offset by increases in affiliate services. The decrease in voice and collaboration was due to a continued decline in revenue services from our local voice services. The reduction in transport and infrastructure was attributable to a continued decline in private line (including business data services) and broadband.

Operating Expenses

The following tables summarize our consolidated operating expenses:

| | Three Months Ended June 30, | | Increase/ (Decrease) | % Change |
|----------------------------------------------------------------------------|-----------------------------|-------|-------------------------|----------|
| | 2019 | 2018 | | |
| (Dollars in millions) | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | \$ 588 | 702 | (114) | (16)% |
| Selling, general and administrative | 157 | 215 | (58) | (27)% |
| Operating expenses - affiliates | 219 | 197 | 22 | 11 % |
| Depreciation and amortization | 337 | 361 | (24) | (7)% |
| Total operating expenses | \$ 1,301 | 1,475 | (174) | (12)% |

| | Six Months Ended June 30, | | Increase/ (Decrease) | % Change |
|----------------------------------------------------------------------------|---------------------------|-------|-------------------------|----------|
| | 2019 | 2018 | | |
| (Dollars in millions) | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | \$ 1,195 | 1,409 | (214) | (15)% |
| Selling, general and administrative | 314 | 430 | (116) | (27)% |
| Operating expenses - affiliates | 414 | 413 | 1 | — % |
| Depreciation and amortization | 673 | 721 | (48) | (7)% |
| Total operating expenses | \$ 2,596 | 2,973 | (377) | (13)% |

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

Cost of services and products (exclusive of depreciation and amortization) decreased \$114 million , or 16% , and \$214 million , or 15% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The decrease in our cost of services and products (exclusive of depreciation and amortization) for both periods was primarily due to lower salaries and wages and employee related expenses from lower headcount, reduced network expenses and voice usage costs and reduced customer premises equipment from lower sales, which were slightly offset by higher right of way and dark fiber expenses.

Selling, General and Administrative

Selling, general and administrative expenses decreased by \$58 million , or 27% , and \$116 million , or 27% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The decrease in our selling, general and administrative expenses for both periods was primarily due to lower salaries and wages and employee related expenses from lower headcount, lower contract labor costs and declines in internal commissions, professional fees, marketing and advertising, hardware and software expenses and bad debt.

Operating Expenses - Affiliates

Operating expenses - affiliates increased by \$22 million , or 11% , and \$1 million , or less than 1%, respectively, for the three and six month ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The change in operating expenses - affiliates for the three months ended June 30, 2019 as compared to the three months ended June 30, 2018 was primarily due to an increase in the level of services provided to us by our affiliates. Operating expenses - affiliates remained substantially unchanged for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018 .

Depreciation and Amortization

The following tables provide details of our depreciation and amortization expense:

| | Three Months Ended June 30, | | Increase/ (Decrease) | % Change |
|-------------------------------------|-----------------------------|------|-------------------------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| Depreciation | \$ 203 | 214 | (11) | (5)% |
| Amortization | 134 | 147 | (13) | (9)% |
| Total depreciation and amortization | \$ 337 | 361 | (24) | (7)% |

| | Six Months Ended June 30, | | Increase/ (Decrease) | % Change |
|-------------------------------------|---------------------------|------|-------------------------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| Depreciation | \$ 402 | 425 | (23) | (5)% |
| Amortization | 271 | 296 | (25) | (8)% |
| Total depreciation and amortization | \$ 673 | 721 | (48) | (7)% |

Depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets and the addition of new plant. Depreciation expense decreased by \$ 11 million , or 5% , and \$23 million , or 5% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The decline in depreciation expense for both periods was primarily due to the impact of annual rate depreciable life changes partially offset by a net increase in depreciable assets.

Amortization expense decreased by \$ 13 million , or 9% , and \$25 million , or 8% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The decrease in amortization expense for both periods was primarily due to the effect of using an accelerated amortization method resulting in an incremental decline in expense each period as the intangible assets amortize.

Other Consolidated Results

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

| | Three Months Ended June 30, | | Change | % Change |
|------------------------------------|-----------------------------|-------|--------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| Interest expense | \$ (96) | (120) | (24) | (20)% |
| Interest expense - affiliates, net | (15) | (14) | 1 | 7 % |
| Other income, net | 5 | 16 | (11) | (69)% |
| Total other expense, net | \$ (106) | (118) | (12) | (10)% |
| Income tax expense | \$ 167 | 81 | 86 | 106 % |

| | Six Months Ended June 30, | | Change | % Change |
|------------------------------------|---------------------------|-------|--------|----------|
| | 2019 | 2018 | | |
| | (Dollars in millions) | | | |
| Interest expense | \$ (191) | (238) | (47) | (20)% |
| Interest expense - affiliates, net | (31) | (27) | 4 | 15 % |
| Other income, net | 14 | 25 | (11) | (44)% |
| Total other expense, net | \$ (208) | (240) | (32) | (13)% |
| Income tax expense | \$ 338 | 211 | 127 | 60 % |

Interest Expense

Interest expense decreased by \$24 million , or 20% , and \$47 million , or 20% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 due to the redemption of approximately \$1.3 billion of senior notes in the third quarter of 2018. See Note 5—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 1 of Part I of this report and Liquidity and Capital Resources below for additional information about our debt.

Interest Expense - Affiliates, Net

Affiliate interest expense increased by \$1 million , or 7% , and \$4 million , or 15% , respectively, for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The increase in affiliate interest expense for both periods was primarily due to an increase in the weighted average interest rate from 5.466% in the second quarter of 2018 to 5.945% in the second quarter of 2019.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including interest income, gains and losses from non-operating asset dispositions and components of net periodic pension and post-retirement benefit costs. Other income, net decreased by \$11 million , or 69% , and \$11 million , or 44% for the three and six months ended June 30, 2019 as compared to the three and six months ended June 30, 2018 . The decrease in other income, net for both periods was primarily due to favorable foreign currency exchange rates in the three months ended June 30, 2018.

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2019 was \$167 million and \$338 million , or effective tax rates of 25.9% and 26.0% , respectively, compared to \$81 million and \$211 million , or effective tax rates of 15.9% and 20.7% , respectively, for the three and six months ended June 30, 2018 .

Liquidity and Capital Resources

Overview of Sources of Uses of Cash

We are an indirectly 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.

CenturyLink has cash management arrangements between certain of its subsidiaries that include lines of credit, affiliate advances and obligations, capital contributions and dividends. As part of these cash management arrangements, affiliates provide lines of credit to certain other affiliates. Amounts outstanding under these lines of credit and intercompany obligations vary from time to time. Under these arrangements, the majority of our cash balance is advanced on a daily basis for centralized management by CenturyLink. From time to time we may declare and pay dividends to our stockholder, QSC, sometimes in excess of our earnings to the extent permitted by applicable law, using cash owed to us under these advances, which has the net effect of reducing the amount of these advances. Our debt covenants do not currently limit the amount of dividends we can pay to QSC. Given our cash management arrangement with our ultimate parent, CenturyLink, and the resulting amounts due to us from CenturyLink, a significant component of our liquidity is dependent upon CenturyLink's ability to repay its obligation to us.

We anticipate that our future liquidity needs will be met through (i) our cash provided by our operating activities, (ii) amounts due to us from CenturyLink, (iii) our ability to refinance QC's debt securities 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 available funds that they are willing and able to contribute, advance or loan.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand and improve our service offerings. CenturyLink evaluates 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, cash required for other purposes and regulatory considerations (such as CenturyLink's CAF II infrastructure buildout requirements). For more information on CenturyLink's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018 .

Debt and Other Financing Arrangements

Subject to market conditions, and to the extent feasible, we expect to continue to issue debt securities, under Qwest Corporation, from time to time in the future to refinance a substantial portion of our maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to Qwest Corporation by credit rating agencies, among other factors. We have no debt maturities due in 2019.

As of the date of this report, the credit ratings for Qwest Corporation's senior unsecured debt were as follows:

| Agency | Credit Ratings |
|---------------------------------|----------------|
| Standard & Poor's | BBB- |
| Moody's Investors Service, Inc. | Ba2 |
| Fitch Ratings | BB+ |

CenturyLink, Inc.'s and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies. For additional information regarding CenturyLink's and Qwest Corporation's funding arrangements, see "Risk Factors—Risk Related to CenturyLink's Recently-Completed Acquisition of Level 3" and "Risks Affecting Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018 .

Term Loan

In 2015, we entered into a term loan in the amount of \$100 million with CoBank, ACB. The outstanding unpaid principal amount of this term loan plus any accrued and unpaid interest is due on February 20, 2025. Interest is paid monthly based upon either the London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. At both June 30, 2019 and December 31, 2018 , the outstanding principal balance on this term loan was \$100 million .

Revolving Promissory Note

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance owed by us under this revolving promissory note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of June 30, 2019 , the weighted average interest rate was 5.945% . As of June 30, 2019 and December 31, 2018 , the amended and restated revolving promissory note and the original revolving promissory note, respectively, are reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of June 30, 2019 , \$31 million of accrued interest is reflected in other current liabilities on our consolidated balance sheets.

Dividends

We periodically pay dividends to our direct parent company. See Note 9—Dividends and the discussion above under the heading "Overview".

Pension and Post-retirement Benefit Obligations

CenturyLink is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2018 , the accounting unfunded status of CenturyLink's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was approximately \$1.6 billion and approximately \$3.0 billion , respectively. For additional information about CenturyLink's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pensions and Post-Retirement Benefits" in Item 7 of CenturyLink's annual report on Form 10-K for the year ended December 31, 2018 and see Note 10—Employee Benefits to the consolidated financial statements in Item 8 of Part II of the same report.

A substantial portion of our active and retired employees participate in CenturyLink's qualified pension plan and post-retirement benefit plans. On December 31, 2014, the Qwest Communications International Inc. ("QCII") pension plan and a pension plan of an affiliate were merged into the CenturyLink Retirement Plan, which was renamed the CenturyLink Combined Pension Plan. Our contributions are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of our affiliates. Prior to the pension plan merger, the above-noted employees participated in the QCII pension plan.

Benefits paid by CenturyLink's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, CenturyLink does not expect any contributions to be required for their qualified pension plan during 2019. The amount of required contributions to CenturyLink's qualified pension plan in 2020 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. CenturyLink occasionally makes voluntary contributions in addition to required contributions. CenturyLink does not currently expect to make a voluntary contribution to the trust for its qualified pension plan in 2019.

Substantially all of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2018, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$18 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited CenturyLink's ability to continue paying benefits from the trusts; however, CenturyLink will continue to pay certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by CenturyLink with available cash.

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expenses, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the six months ended June 30, 2019, we made settlement payments of \$38 million to QCII in accordance with the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows. For 2019, we expect to make aggregate settlement payments of \$79 million to QCII under the plan.

For 2019, CenturyLink's estimated annual long-term rates of return, net of administrative costs, are 6.5% and 4.0% for the pension plan trust assets and post-retirement plans trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources—Adverse changes in the value of assets or obligations associated with CenturyLink's qualified pension plan could negatively impact CenturyLink's liquidity, which may in turn affect our business and liquidity" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2018.

Connect America Fund

As a result of accepting CAF II support payments, we must meet certain specified infrastructure buildout requirements in 13 states over the next several years. In order to meet these specified infrastructure buildout requirements, we anticipate making substantial capital expenditures. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2018 and see "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018.

Historical Information

The following table summarizes our consolidated cash flow activities:

| | Six Months Ended June 30, | | Change |
|-------------------------------------------|---------------------------|---------|--------|
| | 2019 | 2018 | |
| | (Dollars in millions) | | |
| Net cash provided by operating activities | \$ 1,505 | 1,751 | (246) |
| Net cash used in investing activities | (797) | (1,158) | (361) |
| Net cash used in financing activities | (706) | (583) | 123 |

Operating Activities

Net cash provided by operating activities decreased by \$246 million for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018 primarily due to a decrease in deferred revenue and other long-term liabilities partially offset by an increase in other assets. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable and bonuses.

Investing Activities

Net cash used in investing activities decreased by \$361 million for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018 primarily due to a reduction in advances to affiliates.

Financing Activities

Net cash used in financing activities increased by \$123 million for the six months ended June 30, 2019 as compared to the six months ended June 30, 2018 primarily due to an increase in dividends paid to QSC.

See Note 5—Long-Term Debt and Revolving Promissory Note , for additional information on our outstanding debt securities and financing activities.

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 8—Commitments, Contingencies and Other Items for additional information.

Market Risk

As of June 30, 2019 , we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations, amended and restated revolving promissory note 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.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2019 , we had no such instruments outstanding nor held or issued derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the six months ended June 30, 2019 , when compared to the disclosures provided in our annual report on Form 10-K for the year ended December 31, 2018 .

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, 2019 .

Off-Balance Sheet Arrangements

As of June 30, 2019 , we 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 15—Commitments, Contingencies and Other Items to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2018 , or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H(2).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Indraneel Dev, evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2019. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective, as of June 30, 2019, due to the material weakness in internal control over financial reporting that was disclosed in our Annual Report on Form 10-K for the fiscal year ended in December 31, 2018 related to the existence and accuracy of our revenue transactions.

Remediation Plans

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we began implementing remediation plans to address the material weakness mentioned above. The material weakness will not be considered remediated until we have designed and implemented sufficient process level controls and the applicable controls operate for a sufficient period of time such that management has concluded, through testing, that these controls are operating effectively. Based on our progress to date, we expect that the remediation of the material weakness will be completed prior to the end of fiscal 2019.

Changes in Internal Control Over Financial Reporting

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

Inherent Limitations of Internal Controls

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 8—Commitments, Contingencies and Other Items included in Item 1 of Part I of this report is incorporated herein by reference. The ultimate outcome of the matters described in Note 8 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Risks Relating to Legal and Regulatory Matters—Our pending legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets” in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2018 .

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2018 .

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1* | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 . |
| 31.2* | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 . |
| 32.1* | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 . |
| 32.2* | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 . |
| 101* | Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended June 30, 2019, formatted in Inline XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements. |

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 9, 2019 .

QWEST CORPORATION

/s/ Eric J. Mortensen

By:

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeff K. Storey, certify that:

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

Date: August 9, 2019

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Indraneel Dev, certify that:

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

Date: August 9, 2019

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief Financial Officer

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

I Jeff K. Storey, Chief Executive Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Qwest 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 Qwest as of the dates and for the periods covered by such report.

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

Date: August 9, 2019

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

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

I Indraneel Dev, Chief Financial Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of Qwest 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 Qwest as of the dates and for the periods covered by such report.

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

Date: August 9, 2019

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer