

**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, 2011

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. 1-03040

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)

N/A
(Former name and former fiscal year, if changed since last report)

1801 California Street, Denver, Colorado 80202
(Former address, if changed since last report)

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

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

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

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

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

(Do not check if a smaller
reporting company)

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

As of August 1, 2011, there was one share of common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

Qwest Corporation
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	<u>Successor</u>		<u>Predecessor</u>		
	Three months ended		Three months ended	Three months ended	Six months ended
	June 30, 2011		March 31, 2011	June 30, 2010	June 30, 2010
			(Dollars in millions)		
OPERATING REVENUES					
Operating revenues	\$ 1,816		1,870	1,927	3,886
Operating revenues— affiliates	415		398	386	774
Total operating revenues	2,231		2,268	2,313	4,660
OPERATING EXPENSES					
Cost of services and products (exclusive of depreciation and amortization)	591		626	630	1,281
Selling, general and administrative	574		501	523	1,045
Operating expenses— affiliates	73		52	44	92
Depreciation and amortization	623		451	467	932
Total operating expenses	1,861		1,630	1,664	3,350
OPERATING INCOME	370		638	649	1,310
OTHER (EXPENSE) INCOME					
Interest expense	(88)		(150)	(159)	(315)
Other (expense) income, net	(1)		2	1	1
Total other (expense) income	(89)		(148)	(158)	(314)
INCOME BEFORE INCOME TAX EXPENSE	281		490	491	996
Income tax expense	116		191	187	440
NET INCOME	\$ 165		299	304	556

See accompanying notes to consolidated financial statements.

Qwest Corporation

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)**

	Successor	Predecessor		
	Three months ended	Three months ended	Three months ended	Six months ended
	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2010
(Dollars in millions)				
NET INCOME	\$ 165	299	304	556
OTHER COMPREHENSIVE INCOME				
Unrealized gain on investments and other, net of tax	—	1	8	2
Other comprehensive income	—	1	8	2
COMPREHENSIVE INCOME	\$ 165	300	312	558

See accompanying notes to consolidated financial statements.

Qwest Corporation

**CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

	Successor	Predecessor
	June 30,	December 31,
	2011	2010
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 12	192
Accounts receivable, less allowance of \$16 and \$48	691	720
Accounts receivable—affiliates, net	123	—
Deferred income tax asset	166	159
Other	84	181
Total current assets	1,076	1,252
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	7,693	44,205
Accumulated depreciation	(302)	(34,045)
Net property, plant and equipment	7,391	10,160
GOODWILL AND OTHER ASSETS		
Goodwill	9,283	—
Customer relationships, net	5,850	—
Capitalized software, net	1,631	888
Other	162	270
Total goodwill and other assets	16,926	1,158
TOTAL ASSETS	\$ 25,393	12,570
LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,554	871
Accounts payable	629	679
Accounts payable—affiliates, net	—	205
Dividends payable—Qwest Services Corporation	510	140
Accrued expenses and other liabilities		
Salaries and benefits	305	326
Other taxes	206	193
Interest	107	126
Other	49	44
Advance billings and customer deposits	255	372
Total current liabilities	3,615	2,956
LONG-TERM DEBT	6,886	7,141
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,883	1,327
Affiliates obligations, net	1,613	1,602
Other	286	375
Total deferred credits and other liabilities	4,782	3,304
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDER'S EQUITY (DEFICIT)		
Common stock—one share without par value, owned by Qwest Services Corporation	9,973	11,425
Retained earnings (accumulated deficit)	137	(12,256)
Total stockholder's equity (deficit)	10,110	(831)
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)	\$ 25,393	12,570

See accompanying notes to consolidated financial statements.

Qwest Corporation

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Three months ended</u>	<u>Three months ended</u>	<u>Six months ended</u>
	<u>June 30, 2011</u>	<u>March 31, 2011</u>	<u>June 30, 2010</u>
OPERATING ACTIVITIES			
Net income	\$ 165	299	556
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	623	451	932
Deferred income taxes	73	76	(29)
Provision for uncollectible accounts	17	17	31
Changes in current assets and current liabilities:			
Receivables	(20)	18	(16)
Accounts payable	(35)	(20)	25
Affiliates receivables or payable, net	(193)	93	(23)
Accrued income and other taxes	(52)	50	(35)
Other current assets and other current liabilities, net	54	(89)	16
Changes in other noncurrent assets and liabilities	43	(36)	(15)
Changes in other noncurrent assets and liabilities—affiliates	(7)	—	2
Other, net	(58)	10	5
Net cash provided by operating activities	<u>610</u>	<u>869</u>	<u>1,449</u>
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(300)	(341)	(608)
Changes in interest in investments managed by Qwest Services Corporation	—	4	(112)
Changes in short-term affiliate loans	(191)	—	—
Other, net	<u>1</u>	<u>2</u>	<u>—</u>
Net cash used in investing activities	<u>(490)</u>	<u>(335)</u>	<u>(720)</u>
FINANCING ACTIVITIES			
Payments of long-term debt	(839)	(14)	(511)
Net proceeds from issuance of long-term debt	643	—	—
Dividends paid to Qwest Services Corporation	(100)	(530)	(1,000)
Other, net	<u>(13)</u>	<u>19</u>	<u>(7)</u>
Net cash used in financing activities	<u>(309)</u>	<u>(525)</u>	<u>(1,518)</u>
Net (decrease) increase in cash and cash equivalents	(189)	9	(789)
Cash and cash equivalents at beginning of period	201	192	1,014
Cash and cash equivalents at end of period	<u>\$ 12</u>	<u>201</u>	<u>225</u>
Supplemental cash flow information:			
Income taxes (paid) refunded (to) from Qwest Services Corporation, net	\$ (237)	116	(442)
Interest paid (net of capitalized interest of \$3, \$3 and \$5)	\$ (162)	(149)	(315)

See accompanying notes to consolidated financial statements.

Qwest Corporation

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(UNAUDITED)

	<u>Successor</u>	<u>Predecessor</u>	
	<u>Three months ended</u>	<u>Three months ended</u>	<u>Six months ended</u>
	<u>June 30, 2011</u>	<u>March 31, 2011</u>	<u>June 30, 2010</u>
(Dollars in millions)			
COMMON STOCK			
Balance at beginning of period	\$ 9,973	11,425	11,346
Asset transfers	—	—	22
Balance at end of period	9,973	11,425	11,368
RETAINED EARNINGS (ACCUMULATED DEFICIT)			
Balance at beginning of period	—	(12,256)	(11,034)
Net income	165	299	556
Dividends declared	(28)	(1,000)	(1,200)
Change in other comprehensive income	—	1	2
Balance at end of period	137	(12,956)	(11,676)
TOTAL STOCKHOLDER'S EQUITY (DEFICIT)	<u>\$ 10,110</u>	<u>(1,531)</u>	<u>(308)</u>

See accompanying notes to consolidated financial statements.

Qwest Corporation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2011
(UNAUDITED)

Unless the context requires otherwise, references in this report to “QC” refer to Qwest Corporation, references to “Qwest,” “we,” “us,” the “Company” 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, references to “QCII” refer to QSC’s direct parent company and our indirect parent company, Qwest Communications International Inc., and its consolidated subsidiaries, and references to “CenturyLink” refer to QCII’s direct parent company and our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries.

(1) Basis of Presentation

On April 1, 2011, our indirect parent QCII became a wholly owned subsidiary of CenturyLink, Inc. (“CenturyLink”) in a tax-free, stock-for-stock transaction. Although we continued as a surviving corporation and legal entity after the acquisition, the accompanying consolidated statements of operations, comprehensive income, cash flows and stockholders’ equity (deficit) are presented for two periods: predecessor and successor, which relate to the period preceding the acquisition and the period succeeding the acquisition, respectively. The recognition of assets and liabilities at fair value has been reflected in our financial statements and therefore has resulted in a new basis of accounting for the “successor period” beginning on April 1, 2011. This new basis of accounting means that our financial statements for the successor periods will not be comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

Our consolidated balance sheet as of December 31, 2010, predecessor, which was derived from our audited 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 have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, in our opinion, the disclosures made are adequate to make the information presented not misleading. These consolidated financial statements 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, 2010.

Our consolidated financial statements for the successor three months ended June 30, 2011, predecessor three months ended March 31, 2011, predecessor three months ended June 30, 2010 and predecessor six months ended June 30, 2010 have not been audited by independent registered public accountants; however, in our opinion, all normal recurring adjustments necessary to present fairly the results of operations for the three and six-month periods have been included therein. The results of operations for the first six months of the year are not indicative of the results of operations which might be expected for the entire year.

During the first quarter of 2011, we changed the definitions we use to classify expenses as cost of services and products and selling, general and administrative, and as a result, we reclassified previously reported amounts to conform to the current period presentation. We made these changes so that our expense classifications are more consistent with the expense classifications used by our new ultimate parent company, CenturyLink. These changes resulted in the reclassification of \$227 million and \$470 million from selling, general and administrative to cost of services and products for the predecessor three and six months ended June 30, 2010, respectively. Our current definitions are as follows:

- *Cost of services and products (exclusive of depreciation and amortization)* are expenses incurred in providing products and services to our customers and affiliates. These expenses include: employee-related expenses directly attributable to operating and maintaining our network (such as salaries, wages, benefits and professional fees); rents and utilities expenses; equipment sales expenses (such as modem

expenses); charges for universal service funds (“USF”) (which are federal and state funds that are established to promote the availability of telecommunications services to all consumers at reasonable and affordable rates, among other things, and to which we are often required to contribute); and other expenses directly related to our network operations.

- *Selling, general and administrative expenses* are expenses incurred in selling products and services to our customers, corporate overhead and other operating expenses. These expenses include: employee-related expenses (such as salaries, wages, internal commissions, benefits and professional fees) directly attributable to selling products or services and employee-related expenses for administrative functions; marketing and advertising; taxes (such as property and other taxes) and fees external commissions; bad debt expense; and other selling, general and administrative expenses.

These expense classifications may not be comparable to those of other companies. These changes had no impact on total operating expenses or net income for any period.

We have reclassified certain prior year balance sheet amounts presented in our Annual Report on Form 10-K for the year ended December 31, 2010. We made these changes so that the classifications of our assets and liabilities are more consistent with the asset and liability classifications used by our new ultimate parent company CenturyLink. These reclassifications primarily included combining \$899 million non-current prepaid pension asset—affiliates and \$2.501 billion non-current post-retirement, other post-employment benefits and other—affiliates into \$1.602 billion non-current affiliates obligations, net. We also combined \$193 million accounts receivable—affiliates, \$180 million current portion of post-retirement, other post-employment benefits and other—affiliates into accounts payable—affiliates, net. We reclassified \$220 million from accrued expenses and other current liabilities to accounts payable. In addition, we reclassified \$25 million from capitalized software, net into net property, plant and equipment. These asset and liability classifications may not be comparable to those of other companies.

Recent accounting pronouncements. In September 2009, the Financial Accounting Standards Board (the “FASB”) updated the accounting standard regarding revenue recognition for multiple deliverable arrangements, such as the service bundles we offer to customers. This update requires the use of the relative selling price method when allocating revenue in these types of arrangements. This method requires a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update was effective for us on January 1, 2011 and we have adopted it prospectively for revenue arrangements entered into or materially modified after January 1, 2011. This standard update has not and will not have a material impact on our consolidated financial statements.

(2) CenturyLink’s Acquisition of QCII

On April 1, 2011, our indirect parent QCII became a wholly owned subsidiary of CenturyLink.

Since April 1, 2011, our results of operations have been included in the consolidated results of operations of CenturyLink. CenturyLink has accounted for its acquisition of QCII and us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on preliminary estimates of their acquisition date fair values. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. We expect to complete our final determinations no later than the first quarter of 2012. Our final determinations may be significantly different than those reflected in our consolidated financial statements as of June 30, 2011. Based on our preliminary estimate, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities of us by \$9.283 billion, which has been recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect CenturyLink and its consolidated subsidiaries, including us, to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes. Our aggregate consideration allocation is based on our preliminary estimate of enterprise value of \$18.661 billion less the fair value of our debt of \$8.688 billion.

The following is our preliminary assignment of the aggregate consideration of us based on currently available information (dollars in millions).

	April 1, 2011
Cash, accounts receivable and other current assets	\$ 1,098
Property, plant and equipment	7,427
Identifiable intangible assets	
Customer relationships	6,052
Capitalized software	1,702
Other noncurrent assets	201
Current liabilities, excluding current maturities of long-term debt	(2,469)
Current maturities of long-term debt	(2,378)
Long-term debt	(6,310)
Deferred credits and other liabilities	(4,633)
Goodwill	9,283
Aggregate consideration	<u>\$ 9,973</u>

We have recognized certain expenses that were contingent on completion of the CenturyLink acquisition, including \$123 million of compensation expense comprised of severance, retention bonuses and share-based compensation allocated to us by QCII for the successor three months ended June 30, 2011. During the predecessor three months ended March 31, 2011, we had recognized \$2 million of expenses associated with our activities surrounding the acquisition. As of April 1, 2011, as part of acquisition accounting, we also included in our goodwill \$22 million for certain performance awards and \$14 million related to retention bonuses, both of which were contingent on the completion of the acquisition and had no benefit to CenturyLink after the acquisition.

CenturyLink has cash management arrangements between certain of its subsidiaries, including us, under which the majority of our cash balance is transferred on a daily basis to CenturyLink.

(3) Goodwill, Customer Relationships and Other Intangible Assets

Goodwill, customer relationships and other intangible assets as of June 30, 2011 and December 31, 2010 consisted of the following:

	<u>Successor</u> <u>June 30,</u> <u>2011</u>	<u>Predecessor</u> <u>December 31,</u> <u>2010</u>
	(Dollars in millions)	
Goodwill	<u>\$ 9,283</u>	<u>—</u>
Customer relationships, less accumulated amortization of \$202 and \$—	<u>\$ 5,850</u>	<u>—</u>
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$117 and \$1,741	<u>\$ 1,631</u>	<u>888</u>

At June 30, 2011, the gross carrying amounts of goodwill, customer relationships and other intangible assets were \$17,083 billion which were recorded at fair value on April 1, 2011 as a result of CenturyLink's indirect acquisition of us. We expect to complete the final determination of these estimates and related estimated lives for amortizable intangible assets no later than the first quarter of 2012.

Total amortization expense for intangible assets was \$319 million for the successor three months ended June 30, 2011. Total amortization expense for intangible assets for the predecessor three months ended March 31, 2011 was \$58 million. We amortize our customer relationships over an estimated life of 10 years, using the

sum-of-the-years-digits and straight-line methods, depending on the classification of the customer. We amortize our capitalized software using the straight-line method over estimated lives ranging up to seven years. We estimate that total successor amortization expense for the six months ending December 31, 2011 and the successor years ending December 31, 2012 through 2015 will be as follows (dollars in millions):

Six months ending December 31, 2011	\$	632
Year ending December 31,		
2012	\$	1,137
2013	\$	1,052
2014	\$	965
2015	\$	846

We periodically review the estimated lives and methods used to amortize our intangible assets. The actual amounts of amortization expense may differ materially from our estimates, depending on the results of our periodic reviews and our final determinations of value related to our intangible assets.

(4) Long-term Debt

On June 8, 2011, we issued 7.375% Notes due June 1, 2051 in the aggregate principal amount of \$661 million in exchange for net proceeds, after deducting underwriting discounts and expenses, of approximately \$643 million. The notes are unsecured obligations and may be redeemed, in whole or in part, on or after June 1, 2016 at a redemption price of 100%. We used the net proceeds, together with available cash balances, to redeem \$825 million aggregate principal amount of our 7.875% Notes due 2011, and to pay related fees and expenses.

At June 30, 2011, we were in compliance with the provisions and covenants contained in our debt agreements.

(5) Severance

We have announced reductions in our workforce in prior periods and have accrued liabilities for related severance costs. These workforce reductions resulted primarily from progression of merger integration plans, increased competitive pressures and the loss of access lines.

We report severance liabilities in salaries and benefits within accrued expenses and other liabilities in our consolidated balance sheets and report severance expenses in selling, general and administrative expenses and cost of services and products in our consolidated statements of operations.

Changes in our severance for the three months ended June 30, 2011 and the predecessor three months ended March 31, 2011 were as follows:

	Severance
	(Dollars in millions)
Balance at December 31, 2010 (Predecessor)	\$ 28
Accrued to expense	2
Payments, net	(11)
Balance at March 31, 2011 (Predecessor)	19
Balance at April 1, 2011 (Successor)	19
Accrued to expense	96
Payments, net	(64)
Balance at June 30, 2011 (Successor)	\$ 51

Our severance expenses for the successor three months ended June 30, 2011 also included \$11 million of share based compensation associated with the accelerated vesting of stock awards that occurred in connection with workforce reductions relating to CenturyLink's indirect acquisition of us.

(6) Fair Value Disclosure

At June 30, 2011, successor, and December 31, 2010, predecessor, our financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable and long-term debt excluding capital lease obligations. The carrying amounts of our cash and cash equivalents, accounts receivable, accounts receivable—affiliates, accounts payable and accounts payable—affiliates approximate their fair values.

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

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

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

During the second quarter of 2011, the rights to our auction rate securities were assigned to our ultimate parent CenturyLink. Upon assignment, the fair market value of these securities was \$42 million.

The following table presents the carrying amounts and estimated fair values of our investment securities, which are reported in noncurrent other assets, and long-term debt excluding capital lease obligations, as well as the input levels used to determine the fair values as of the successor date of June 30, 2011 and the predecessor date of December 31, 2010:

	Input Level	Successor June 30, 2011		Predecessor December 31, 2010	
		Carrying Amount	Fair Value (Dollars in millions)	Carrying Amount	Fair Value
Assets - Investment securities	3	\$ —	—	52	52
Long-term debt excluding capital lease obligations	2	\$ 8,262	8,212	7,828	8,482

The table below presents a rollforward of our auction rate securities valued using Level 3 inputs for the predecessor three months ended March 31, 2011 and the successor three months ended June 30, 2011:

	Auction Rate Securities (Dollars in millions)
Balance at December 31, 2010 (Predecessor)	\$ 52
Dispositions and settlements	(4)
Included in other (expense) income	1
Balance at March 31, 2011 (Predecessor)	\$ 49
Fair value adjustment	(7)
Balance at April 1, 2011 (Successor)	42
Assignments to CenturyLink	(42)
Balance at June 30, 2011 (Successor)	\$ —

(7) Income Taxes

In connection with CenturyLink's indirect acquisition of us on April 1, 2011, we recorded a \$1.4 billion deferred tax liability under the acquisition method of accounting. Our preliminary acquisition date assignment of deferred income taxes are subject to adjustment as discussed in Note 2—CenturyLink's Acquisition of QCII.

Included in income tax expense for the predecessor six months ended June 30, 2010 is a \$55 million charge related to the change in the tax treatment of the Medicare Part D subsidy as a result of the comprehensive health care reform legislation enacted in March 2010.

(8) Products and Services Revenues

We are an integrated communications company engaged primarily in providing an array of communications services in 14 states, including local voice, wholesale network access, broadband, other data services and video 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. Currently, we categorize our products and services into the following three categories:

- *Strategic services*, which include primarily private line (including special access), broadband, video services and Verizon Wireless services
- *Legacy services*, which include primarily local, access, integrated services digital network, or ISDN, services and traditional wide area network, or WAN, services; and
- *Affiliates and other services*, which consist primarily of services we provide to our affiliates and USF surcharges. We provide to our affiliates data, local services and billing and collections services that we also provide to external customers. In addition, we provide to our affiliates: marketing, sales and advertising services; computer system development and support services; network support and technical services; and other support services, such as legal, regulatory, finance and accounting, tax and human resources.

Since the April 1, 2011 closing of CenturyLink's indirect acquisition of us, our operations were integrated into and are reported as part of the segments of CenturyLink. CenturyLink's CODM has become our CODM, but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the SEC. Consequently, we will not provide our discrete financial information to the CODM on a regular basis.

Our operating revenues for our products and services consisted of the following categories for the successor three months ended June 30, 2011 and predecessor three months ended March 31, 2011 and predecessor three and six months ended June 30, 2010:

	Successor		Predecessor		
	Three months ended		Three months ended	Three months ended	Six months ended
	June 30, 2011		March 31, 2011	June 30, 2010	June 30, 2010
			(Dollars in millions)		
Strategic services	\$	800	793	756	1,507
Legacy services		945	1,001	1,087	2,211
Affiliates and other services		486	474	470	942
Total operating revenues	\$	<u>2,231</u>	<u>2,268</u>	<u>2,313</u>	<u>4,660</u>

Affiliates and other operating revenues include certain surcharges to our customers, including billings for our required contributions to several universal service fund (“USF”) programs. Such amounts are reflected on a gross basis in our statements of operations (included in both operating revenues and expenses) and aggregated approximately \$41 million for the successor three months ended June 30, 2011, \$43 million for the predecessor three months ended March 31, 2011, \$50 million for the predecessor three months ended June 30, 2010 and \$99 million for the predecessor six months ended June 30, 2010.

(9) Commitments and Contingencies

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

Qwest Corporation

**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, references to "Qwest," "we," "us," the "Company" 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, references to "QCII" refer to QSC's direct parent company and our indirect parent company, Qwest Communications International Inc., and its consolidated subsidiaries, and references to "CenturyLink" refer to QCII's direct parent company and our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries.

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, 2010. The results of operations for the successor three months ended June 30, 2011, the predecessor three months ended March 31, 2010, the combined six months ended June 30, 2011 and predecessor six months ended June 30, 2011 are not necessarily indicative of the results of operations which might be expected for the entire year.

On April 1, 2011, our indirect parent QCII became a wholly owned subsidiary of CenturyLink.

Since April 1, 2011, our results of operations have been included in the consolidated results of operations of CenturyLink. CenturyLink has accounted for its acquisition of QCII and us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on preliminary estimates of their acquisition date fair values. The determination of the fair values of the acquired assets and assumed liabilities (and the related determination of estimated lives of depreciable tangible and identifiable intangible assets) requires significant judgment. We expect to complete our final determinations no later than the first quarter of 2012. Our final determinations may be significantly different than those reflected in our consolidated financial statements as of June 30, 2011. Based on our preliminary estimate, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities of us by \$9.283 billion, which has been recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect CenturyLink and its consolidated subsidiaries, including us, to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes. The recognition of assets and liabilities at fair value is reflected in our financial statements and therefore has resulted in a new basis of accounting for the "successor period" beginning on April 1, 2011. This new basis of accounting means that our financial statements for the successor periods will not be comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

We have recognized certain expenses that were contingent on completion of the CenturyLink acquisition, primarily \$123 million of compensation expense comprised of severance, retention bonuses and share-based compensation allocated to us by QCII for the successor three months ended June 30, 2011. During the predecessor three months ended March 31, 2011, we had recognized \$2 million of expenses associated with our activities surrounding the acquisition. As of April 1, 2011, as part of acquisition accounting, we also included in our goodwill \$22 million for certain performance awards and \$14 million related to retention bonuses, both of which were contingent on the completion of the acquisition and had no benefit to CenturyLink after the acquisition.

CenturyLink has cash management arrangements between certain of its subsidiaries, including us, under which the majority of our cash balance is transferred on a daily basis to CenturyLink.

The discussion in this MD&A is presented on a combined basis of the predecessor and successor periods for 2011. The 2011 predecessor and successor results are presented but are not discussed separately. We believe that the discussion on a combined basis is more meaningful as it allows the results of operations to be analyzed to a comparable period in 2010.

We are an integrated communications company primarily engaged in providing an array of communications services to customers in 14 states, including local voice, wholesale network access, broadband, other data services and video services. In certain markets, we also provide fiber transport and services to competitive local exchange carriers and other communications, professional and business information services. We generate revenues 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 operate approximately 8.8 million access lines, which are telephone lines reaching from the customers' premises to a connection with the public switched telephone network. We also serve approximately 3.0 million broadband subscribers as of June 30, 2011. During the second quarter of 2011, we updated our methodology for counting our subscribers and access lines where we provide the services. We now count access lines when we install the service. Our access line methodology includes only those access lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. Our new methodology also excludes unbundled loops and includes stand alone broadband subscribers.

For certain products and services we provide, and for a variety of internal communications functions, we use parts of CenturyLink's telecommunications network to transport voice and data traffic.

During the second quarter of 2011, certain USF surcharges were reclassified from our legacy services to affiliates and other services revenues to better align with the classifications that our indirect parent, CenturyLink, uses. As a result, we reclassified previously reported amounts to conform to the current period presentation. This reclassification resulted in reduction of legacy service revenues and an increase to affiliates and other services revenues of approximately \$34 million for the predecessor three months ended March 31, 2011 and \$29 million and \$70 million for the predecessor three and six months ended June 30, 2010, respectively. We currently categorize our products and services among the following three categories:

- *Strategic services*, which include primarily private line (including special access), broadband, video services and Verizon Wireless services;
- *Legacy services*, which include primarily local, access, integrated services digital network, or ISDN, services and traditional wide area network, or WAN, services; and
- *Affiliates and other services*, which consists primarily of USF surcharges and services we provide to our affiliates. We provide to our affiliates data, local services and billing and collections services that we also provide to external customers. In addition, we provide to our affiliates: marketing, sales and advertising services; computer system development and support services; network support and technical services; and other support services, such as legal, regulatory, finance and accounting, tax and human resources.

Our analysis presented below is organized to provide the information we believe will be useful for understanding the trends affecting our business. This discussion should be read in conjunction with our consolidated financial statements in Item 1 of Part I of this report.

Since the April 1, 2011 closing of CenturyLink's indirect acquisition of us, our operations were integrated into and are reported as part of the segments of CenturyLink. CenturyLink's CODM has become our CODM, but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the SEC. Consequently, we will not provide our discrete financial information to the CODM on a regular basis.

Our financial results were impacted by several significant trends, which are described below. We expect that these trends will continue to affect our results of operations, cash flows or financial position.

- *Strategic services*. We continue to see shifts in the makeup of our total revenues as customers move to strategic services, such as private line, broadband and video services, from legacy services, such as

local and access services. Revenues from our strategic services represented 36% and 33% of our total revenues for the successor three months ended June 30, 2011 and the predecessor three months ended June 30, 2010, respectively, and 35% and 32% of our total revenues for the combined six months ended June 30, 2011 and the predecessor six months ended June 30, 2010, respectively, and this percentage continues to grow. With respect to broadband services, we continue to focus on increasing subscribers, particularly among consumer and small business customers. We reached approximately 3.0 million broadband subscribers at June 30, 2011 compared to approximately 2.9 million at June 30, 2010. In order to remain competitive, we believe the ability to continually increase connection speeds is important. As a result, we continue to invest in our fiber to the node, or FTTN, deployment, which we launched to meet customer demand for higher broadband speeds. FTTN is a type of telecommunications network that combines fiber-optic cables (which run from a telecommunication provider's central office to a single location within a particular neighborhood or geographic area) and traditional copper wires (which run from this location to individual residences and businesses within the neighborhood or geographic area). Fiber to the node allows for the delivery of higher speed broadband services than would otherwise generally be available through a more traditional telecommunications network made up of only copper wires. In addition to the FTTN deployment, we continue to expand our product offerings and enhance our marketing efforts as we compete in a competitive and maturing market in which a significant portion of consumers already have broadband services. We expect these efforts will improve our ability to compete and grow our broadband subscribers. Demand for the private line services we offer to business and wholesale customers continues to increase, despite our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors will continue to impact our business, we ultimately believe the growth in fiber based special access provided to wireless carriers for backhaul will, over time, offset the decline in copper based special access provided to wireless carriers as they migrate to Ethernet, although the timing of this technological migration is uncertain.

- *Legacy services.* Revenues from our legacy services represented 42% and 47% of our total revenues for the successor three months ended June 30, 2011 and the predecessor three months ended June 30, 2010, respectively, and 43% and 47% of our total revenues for the combined six months ended June 30, 2011 and the predecessor six months ended June 30, 2010, respectively, and continue to decline. Our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services for traditional voice telecommunications services. This has increased the number and type of competitors within our industry and has decreased our market share. We expect that these factors will continue to impact our business. Service bundling and other product promotions, as described below, continue to be some of our responses to offset the loss of revenues as a result of access line losses.
- *Service bundling and product promotions.* We offer our customers, primarily consumers and small businesses, the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video, long-distance and wireless. While video and wireless subscribers are an important piece of our customer retention strategy, they do not make a large contribution to strategic services revenues. However, we believe customers value the convenience of, and price discounts associated with, receiving multiple services through a single company. In addition to our bundle discounts, we also offer limited time promotions on our broadband service for qualifying customers who have our broadband product in their bundle, which we believe will positively affect our acquisition volume and drive customers to purchase more expanded offerings. While bundle price discounts have resulted in lower average revenues for our individual products, we believe service bundles continue to positively impact our customer retention.
- *Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our workforce in response to our workload, productivity improvements, changes in the telecommunications industry and governmental regulations. Through planned reductions and normal employee attrition, we have reduced our workforce and employee-related expenses (net of severance)

while achieving operational efficiencies and improving processes through automation and other innovative ways of operating our business.

- *Pension and post-retirement benefits expenses.* QCII is required to recognize in its consolidated financial statements certain expenses relating to its pension and post-retirement health care and life insurance benefits plans. These expenses are calculated based on several assumptions, including among other things discount rates and expected rates of return on plan assets that are generally set at December 31 of each year. Changes in these assumptions can cause significant changes in the combined net periodic benefits expenses QCII recognizes. QCII allocates the expenses of these plans to us and certain of its other affiliates. The allocation of expenses to us is based upon the demographics of our employees and retirees compared to all the remaining participants. Changes in QCII's assumptions can cause significant changes in the net periodic pension and post-retirement benefits expenses we recognize.
- *Disciplined capital expenditures .* Our capital expenditures continue to be focused on our strategic services such as broadband and fiber to the cell site, or FTTCs. FTTCs is a type of telecommunications network consisting of fiber-optic cables that run from a telecommunication provider's broadband interconnection points to cellular sites. Fiber to the cell site services, allow for the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional telecommunications network.

While these trends are important to understanding and evaluating our financial results, the other transactions, additional events and trends discussed in "Risk Factors" in Item 1A of Part II of this report may also materially impact our business operations and financial results.

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2011 Compared to Three and Six Months Ended June 30, 2010

The following table summarizes our results of operations for the successor three months ended June 30, 2011, predecessor three months ended June 30, 2010, combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010 and the number of employees as of June 30, 2011, successor and June 30, 2010, predecessor:

	<u>Successor</u> <u>Three months</u>	<u>Predecessor</u> <u>Three months</u>		<u>Combined</u>	<u>Predecessor</u>		
	<u>ended</u> <u>June 30, 2011</u>	<u>ended</u> <u>June 30, 2010</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	<u>Six months</u> <u>ended</u> <u>June 30, 2011</u>	<u>Six months</u> <u>ended</u> <u>June 30, 2010</u>	<u>Increase/</u> <u>(Decrease)</u>
							<u>%</u> <u>Change</u>
(Dollars in millions)							
Operating revenues by category:							
Strategic services	\$ 800	756	44	6%	1,593	1,507	86
Legacy services	945	1,087	(142)	(13)%	1,946	2,211	(265)
Affiliates and other services	486	470	16	3%	960	942	18
Total operating revenues	2,231	2,313	(82)	(4)%	4,499	4,660	(161)
Operating expenses	1,861	1,664	197	12%	3,491	3,350	141
Operating income	370	649	(279)	(43)%	1,008	1,310	(302)
Other expense	89	158	(69)	(44)%	237	314	(77)
Income before income tax expense	281	491	(210)	(43)%	771	996	(225)
Income tax expense	116	187	(71)	(38)%	307	440	(133)
Net income	<u>\$ 165</u>	<u>304</u>	<u>(139)</u>	<u>(46)%</u>	<u>464</u>	<u>556</u>	<u>(92)</u>
Employees (as of June 30)					25,355	26,906	(1,551)

During the second quarter of 2011, we updated our methodology for counting our subscribers and access lines where we provide the services. We now count access lines when we install the service, which resulted in an approximately 69,000 decrease in our successor June 30, 2011 access lines versus what we would have shown under our historical methodology of counting access lines when revenue was generated from them. We have not retrospectively adjusted our predecessor period access lines for this methodology adjustment as it was not reasonably practicable for us to do so. Our access line methodology includes only those access lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. Our new methodology also excludes unbundled loops and includes stand alone broadband subscribers. We have conformed prior periods to our current presentation, unless noted above.

The following table summarizes our total broadband subscribers and access lines as of June 30, 2011, successor and June 30, 2010, predecessor:

	<u>Successor</u>	<u>Predecessor</u>		
	<u>June 30,</u>	<u>June 30,</u>	<u>Increase/</u>	<u>%</u>
	<u>2011</u>	<u>2010</u>	<u>(Decrease)</u>	<u>Change</u>
		(in thousands)		
Total broadband subscribers	<u>3,002</u>	<u>2,852</u>	<u>150</u>	5%
Total access lines	<u>8,804</u>	<u>9,574</u>	<u>(770)</u>	(8)%

Operating Revenues

Strategic Services

Strategic services revenues increased primarily due to higher broadband revenues resulting from new subscribers and an improving mix of higher priced, higher speed broadband services. Strategic services revenues also increased due to higher private line services revenues as a result of increased volumes.

Legacy Services

Legacy services revenues decreased as a result of lower local services revenues due to access line loss and reduced access services usage related to competitive pressures, along with product substitution. Legacy services also decreased due to lower amortization of deferred revenue due to certain predecessor deferred revenue being assigned no value at the acquisition date, as well as lower revenues from our traditional WAN services, due to customer migration, product substitution and increased competition.

Affiliates and Other Services Revenues

Affiliates services revenues increased primarily due to services we provided to support an affiliate's growth in its strategic service offerings. This was partially offset by reduced revenue due to a decline in customer demand for our affiliate's legacy telecommunication service offerings driven by technological migration and competition. We estimate that the profit from services provided to our affiliates was approximately \$50 million, \$60 million, \$100 million and \$150 million, before income taxes, for the successor three months ended June 30, 2011, predecessor three months ended June 30, 2010, combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010, respectively.

Operating Expenses

The following table provides further detail regarding our total operating expenses for the successor three months ended June 30, 2011, predecessor three months ended June 30, 2010, combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010:

	<u>Successor</u> <u>Three months</u>	<u>Predecessor</u> <u>Three months</u>		<u>Combined</u> <u>Six months</u>	<u>Predecessor</u> <u>Six months</u>		
	<u>ended</u> <u>June 30, 2011</u>	<u>ended</u> <u>June 30, 2010</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	<u>ended</u> <u>June 30, 2011</u>	<u>ended</u> <u>June 30, 2010</u>	<u>Increase/</u> <u>(Decrease)</u> <u>%</u> <u>Change</u>
(Dollars in millions)							
Cost of services and products (exclusive of depreciation and amortization)	\$ 591	630	(39)	(6)%	1,217	1,281	(64) (5)%
Selling, general and administrative	574	523	51	10%	1,075	1,045	30 3%
Operating expenses—affiliates	73	44	29	66%	125	92	33 36%
Depreciation and amortization	623	467	156	33%	1,074	932	142 15%
Total operating expenses	\$ 1,861	1,664	197	12%	3,491	3,350	141 4%

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

Cost of services and products decreased due to the amortization of certain deferred expenses being lower as a result of assigning no value to these predecessor assets at the acquisition date. Cost of services and products also decreased due to lower salaries and wages related to employee reductions in our network operations as we continue to manage our workforce to our workload.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased primarily due to severance related to employee reductions, a majority of which was due to CenturyLink's indirect acquisition of us. These increases were partially offset by lower pension expense and lower marketing and advertising expense.

Depreciation and Amortization

The following table provides detail regarding depreciation and amortization expense for the successor three months ended June 30, 2011, predecessor three months ended June 30, 2010, combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010:

	<u>Successor</u> <u>Three months</u>	<u>Predecessor</u> <u>Three months</u>		<u>Combined</u> <u>Six months</u>	<u>Predecessor</u> <u>Six months</u>		
	<u>ended</u> <u>June 30,</u> <u>2011</u>	<u>ended</u> <u>June 30,</u> <u>2010</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	<u>ended</u> <u>June 30,</u> <u>2011</u>	<u>ended</u> <u>June 30,</u> <u>2010</u>	<u>Increase/</u> <u>(Decrease)</u> <u>%</u> <u>Change</u>
(Dollars in millions)							
Depreciation	\$ 304	412	(108)	(26)%	697	823	(126) (15)%
Amortization	319	55	264	nm	377	109	268 nm
Total depreciation and amortization	\$ 623	467	156	33%	1,074	932	142 15%

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

In the second quarter of 2011, our property, plant and equipment was revalued and as a result decreased \$2.568 billion due to CenturyLink's indirect acquisition of us. The decrease in asset value resulted in our depreciation expense declining significantly. This revaluation also resulted in an additional \$6.052 billion in amortizable intangible customer relationship assets, which resulted in an additional \$202 million of amortization expense for the successor three months ended June 30, 2011. In addition, capitalized software was revalued to

\$1.702 billion, an increase of \$815 million, resulting in amortization expense of \$117 million for the successor three months ended June 30, 2011 as compared to the \$58 million for the predecessor three months ended March 31, 2011. We expect depreciation and amortization expense in the remaining periods of 2011 and future years to be impacted by this revaluation, which remains subject to further adjustment.

Other Consolidated Results

The following table provides detail regarding other (expense) income, net and income tax expense for the successor three months ended June 30, 2011, predecessor three months ended June 30, 2010, combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010:

	<u>Successor</u> <u>Three months</u> <u>ended June 30,</u>	<u>Predecessor</u> <u>Three months</u> <u>ended June 30,</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>	<u>Combined</u> <u>Six months</u> <u>ended June 30,</u>	<u>Predecessor</u> <u>Six months</u> <u>ended June 30,</u>	<u>Increase/</u> <u>(Decrease)</u>	<u>%</u> <u>Change</u>
	<u>2011</u>	<u>2010</u>			<u>2011</u>	<u>2010</u>		
(Dollars in millions)								
Interest expense	\$ (88)	(159)	(71)	(45)%	(238)	(315)	(77)	(24)%
Other (expense) income, net	(1)	1	2	nm	1	1	—	—%
Total other (expense) income	<u>\$ (89)</u>	<u>(158)</u>	<u>(69)</u>	<u>(44)%</u>	<u>(237)</u>	<u>(314)</u>	<u>(77)</u>	<u>(25)%</u>
Income tax expense	\$ 116	187	(71)	(38)%	307	440	(133)	(30)%

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

Other (Expense) Income, Net

Interest expense decreased primarily due to the amortization of the net premium associated with our long-term debt which resulted from the revaluation of this debt caused by CenturyLink's indirect acquisition of us.

Income Tax Expense

Included in income tax expense for the first quarter of 2010 is a \$55 million charge related to the change in the tax treatment of the Medicare Part D subsidy as a result of the comprehensive health care reform legislation enacted in March 2010.

LIQUIDITY AND CAPITAL RESOURCES

We are a wholly owned subsidiary of QSC, which is a direct wholly owned subsidiary of QCII and as of April 1, 2011, is an indirect wholly owned subsidiary of CenturyLink. As such, factors relating to, or affecting, CenturyLink's liquidity and capital resources could have material impacts on us, including impacts on our credit ratings, our access to capital markets and changes in the financial market's perception of us. In addition, we believe that any future liquidity needs not met through our cash on hand and net cash provided by operating activities will be met by CenturyLink.

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 and are classified as short-term debt. Under these arrangements, the majority of our cash balance is transferred on a daily basis to CenturyLink in return for a receivable. From time to time we may declare and pay dividends to QSC in excess of our earnings to the extent permitted by applicable law. Our debt covenants do not limit the amount of dividends we can pay to QSC. In general, we intend to refinance our debt as it matures. Any time we deem conditions favorable, we may attempt to improve our liquidity position by accessing debt markets in a manner designed to create positive economic value. The unstable economy may impair our ability to refinance maturing debt at terms that are as favorable as those from which we previously benefited or at terms that are acceptable to us.

At June 30, 2011, we held cash and cash equivalents of \$12 million and CenturyLink had an additional \$2.534 billion in cash and cash equivalents which was unusually high due to the cash necessary to close their July acquisition of Savvis. In January 2011, CenturyLink entered into a new four-year revolving credit facility (the "Credit Facility") that allows CenturyLink to borrow up to \$1.700 billion for the general corporate purposes of itself and its subsidiaries. Interest is assessed on borrowings using the London Interbank Offered Rate ("LIBOR") plus an applicable margin between 0.5% and 2.5% per annum depending on the type of loan and CenturyLink's senior unsecured long-term debt rating. CenturyLink also maintains letter of credit arrangements with various financial institutions to which we have access. As of June 30, 2011 CenturyLink had \$429 million available for future use under these letter of credit arrangements.

During the 12 months ended June 30, 2011, our net cash generated by operating activities totaled \$3.265 billion.

For the coming 12 months, our expected financing and investing cash needs include:

- \$1.500 billion of maturing debt;
- capital expenditures of approximately \$650 million in the remaining six months of 2011; and
- capital expenditures of an as yet undetermined amount in the first six months of 2012.

We incur capital expenditures on an ongoing basis in order to modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on expected strategic impacts (such as forecasted revenue growth or productivity, expense and service impacts) and our expected return on investment. If we are not successful in maintaining or increasing our net cash generated by operating activities in the near term, we may use this discretion to decrease our capital expenditures, which may impact future years' operating results and cash flows. Our ultimate spending for capital expenditures will be determined in part by the strategic initiatives of our new ultimate parent company, CenturyLink.

At June 30, 2011, our current liabilities exceeded our current assets by \$2.539 billion. This working capital deficit decreased \$1.126 billion as compared to our working capital deficit at April 1, 2011. The decrease was primarily due to earnings before depreciation and amortization and net proceeds from our long term debt issuances, partially offset by capital expenditures.

As of June 30, 2011, we had paid certain costs that were associated with the CenturyLink acquisition. These costs include compensation costs comprised of retention bonuses and severance. The final amounts and timing of the compensation costs to be paid is partially dependent upon personnel decisions that continue to be made as part of the continuing integration. These amounts may be material.

We have historically operated with a working capital deficit due to our practice of declaring and paying regular cash dividends to QSC, and it is likely that we will operate with a working capital deficit in the future. As discussed below, we continue to generate substantial cash from operations. We believe that these cash flows, combined with additional cash available to us from CenturyLink including borrowings under its Credit Facility, and the likelihood that we will continue to have access to capital markets to refinance our debt as it matures, should allow us to meet our cash requirements for the foreseeable future.

We have a significant amount of debt maturing in the next several years, including \$1.500 billion maturing in 2012, \$750 million maturing in 2013 and \$600 million maturing in 2014. We believe that we will continue to have access to capital markets to refinance our debt as necessary.

The Credit Facility has 21 lenders, with commitments ranging from \$2.5 million to \$135 million, and expires in January 2015. This facility has a cross payment default provision, and this facility and certain of QCII's debt issues also have cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Upon a cross default, the creditors of a material amount of the debt may elect to declare that a default has occurred under their debt instruments and to accelerate the principal amounts due to those creditors. Cross acceleration provisions are similar to cross default provisions, but permit a default in a second debt instrument to be declared only if, in addition to a default occurring under the first debt instrument, the indebtedness due under the first debt instrument is actually accelerated.

To the extent that QCII's earnings before interest, taxes, depreciation and amortization, or EBITDA (as defined in QCII's debt covenants), is reduced by cash settlements or judgments relating to the matters referred to in Note 9—Commitments and Contingencies to our consolidated financial statements in Item 1 of this report, QCII's debt to consolidated EBITDA ratios under certain debt agreements will be adversely affected. This could reduce QCII's financing flexibility due to potential restrictions on incurring additional debt under certain provisions of its debt agreements. As a wholly owned subsidiary of QCII, our business operations and financial condition could be similarly affected, potentially impacting our credit ratings and access to capital markets.

We may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) if:

- revenues and cash provided by operations significantly decline;
- unstable economic conditions continue to persist;
- competitive pressures increase;
- we are required to contribute a material amount of cash to QCII's pension plans; or
- QCII becomes subject to significant judgments or settlements in one or more of the matters referred to in Note 9 — Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report.

Benefits paid by QCII's pension plan are paid through a trust. This pension plan is generally measured annually at December 31. However, due to CenturyLink's acquisition of QCII, QCII remeasured the pension plan at April 1, 2011. The accounting unfunded status of the pension plan was \$448 million at April 1, 2011. Cash funding requirements can be significantly impacted by earnings on investments, the discount rate, changes in the plan and funding laws and regulations. As a result, it is difficult to determine future funding requirements with a high level of precision; however, in general, current funding laws require a company with a plan shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Based on current funding laws and regulations, QCII will not be required to make a cash contribution in 2011. QCII expects to begin making required contributions to the plan during 2012 and estimates that these 2012 contributions could be between \$300 million and \$350 million. Although potentially significant in the aggregate, QCII currently expects that contributions in 2013 and beyond will decrease annually from the 2012 expected contribution amount. However, the actual amount of required contributions in 2013 and beyond will depend on earnings on investments, discount rates, demographic experience, changes in the plan and funding laws and regulations.

Substantially all of our employees participate in the QCII pension plan. Historically, QCII has only required us to pay our portion of its pension contribution. 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 QCII's affiliates.

Certain of QCII's post-retirement health care and life insurance benefits plans are unfunded. As of April 1, 2011, the unfunded status of all of QCII's post-retirement benefit plans was \$2.516 billion. A trust holds assets that are used to help cover the health care costs of retirees who are former occupational (also referred to as union) employees. As of April 1, 2011, the fair value of the trust assets was \$768 million; however, a portion of these assets is comprised of investments with restricted liquidity. QCII estimates that the more liquid assets in the trust will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately five years. Thereafter, covered benefits will be paid either directly by us or from the trust as the remaining assets become liquid. This five year period could be substantially shorter or longer depending on returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits. QCII's estimate of the annual long-term rate of return on the plan assets is 7.5% based on the currently held assets; however, actual returns could vary widely in any given year.

Effective after CenturyLink's indirect acquisition of us, we are included in the consolidated federal income tax return of CenturyLink. CenturyLink is in the process of developing a post-acquisition intercompany agreement for allocation of consolidated income tax liabilities. We will continue to account for income tax expense on a stand-alone basis. We are also included in certain combined state tax returns filed by CenturyLink and the same accounting will apply.

Certain of our employees may become eligible to participate in the QCII post-retirement plan. The amounts contributed by us through QCII are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of QCII's affiliates. Historically, QCII has only required us to pay our portion of its post-retirement contribution.

The following table summarizes cash flow activities for the combined six months ended June 30, 2011 and predecessor six months ended June 30, 2010:

	<u>Combined</u> <u>Six months</u>	<u>Predecessor</u> <u>Six months</u> <u>ended</u> <u>June 30,</u> <u>2010</u>	<u>Increase/</u> <u>(Decrease)</u>
	<u>ended</u> <u>June 30,</u> <u>2011</u>	<u>(Dollars in millions)</u>	
Net cash provided by operating activities	\$ 1,479	1,449	30
Net cash used in investing activities	(825)	(720)	105
Net cash used in financing activities	(834)	(1,518)	(684)

Cash provided by operating activities remained relatively flat as decreased tax payments to QSC were offset by a decline in cash received from customers due to decreased revenues.

Cash used in investing activities increased primarily due to an increase in short-term affiliate loans resulting from the majority of our cash balance being transferred on a daily basis to CenturyLink in return for a receivable. This increase was partially offset by a decrease in interest on investments managed by QSC.

Cash used in financing activities decreased primarily due to \$643 million more of proceeds from issuance of long-term debt, as well as \$370 million decrease in dividends paid to QSC for the six months ended June 30, 2011 as compared to the same period ended June 30, 2010. This decrease was partially offset by \$342 million more payments of debt for the six months ended June 30, 2011 as compared to the same period ended June 30, 2010. You can find additional information regarding our financing activities in Note 4—Long-term Debt to our consolidated financial statements in Item 1 of Part I of this report.

The timing of cash payments for declared dividends to QSC is at our discretion in consultation with QSC. We may declare and pay dividends to QSC in excess of our earnings to the extent permitted by applicable law. Our debt covenants do not limit the amount of dividends we can pay QSC.

We are exposed to market risks arising from changes in interest rates. The objective of our interest rate risk management program is to manage the level and volatility of our interest expense. We have historically used derivative financial instruments to manage our interest rate risk exposure on our debt and we may employ them in the future.

There were no material changes to market risks arising from changes in interest rates for the six months ended June 30, 2011, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2010.

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support, and we do not engage in hedging, research and development services, or other relationships that expose us to any significant liabilities that are not reflected on the face of the consolidated financial statements. There were no substantial changes to our off-balance sheet arrangements or contractual commitments in the three and six months ended June 30, 2011, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2010.

CenturyLink's and our website is www.centurylink.com. CenturyLink, QCII and 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, this website is not part of this report.

In addition to historical information, this MD&A includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including those arising out of the FCC's proposed rules regarding intercarrier compensation and the USF and the FCC's related Notice of Proposed Rulemaking released on February 8, 2011); our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by CenturyLink's recent acquisitions of Savvis, QCII and Embarq; CenturyLink's ability to successfully integrate the operations of Savvis, QCII (including us) and Embarq into its operations, including the possibility that the anticipated benefits from these acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; CenturyLink's and QCII's ability to use net operating loss carryovers in projected amounts; the effects of changes in CenturyLink's assignment of the QCII or Savvis purchase price after the date hereof; CenturyLink's ability to effectively manage its expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; any adverse developments in legal proceedings involving CenturyLink and QCII; CenturyLink's ability to pay a \$2.90 per common share dividend annually, which may be affected by changes in its and our cash requirements, capital spending plans, cash flows or financial position; unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in CenturyLink or QCII's pension funding requirements or otherwise; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from time to time in this report (including in "Risk Factors" in Item 1A of Part II of this report) or other of our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any of our forward-looking statements for any reason.

Item 3.
Qwest Corporation
QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

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

Item 4.
Qwest Corporation
CONTROLS AND PROCEDURES

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.

Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of June 30, 2011. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

We did not make any changes to our internal control over financial reporting in the second quarter of 2011 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Qwest Corporation

Item 1. Legal Proceedings

The information contained in Note 9—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report is incorporated herein by reference.

Item 1A. Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects.

Risks Affecting Our Business

CenturyLink's acquisition of QCII may not achieve the intended results.

CenturyLink's acquisition of QCII resulted in the combination of two companies that previously operated as independent public companies. The combined company will need to devote management attention and resources to integrate CenturyLink's and QCII's businesses. In addition, the combined company may face difficulties with the integration process. For example:

- the combined company may not realize the anticipated cost savings and operating synergies at expected levels or in the expected timeframe;
- existing customers and suppliers may decide not to do business with the combined company;
- the costs of integrating QCII's policies, procedures, operations, technologies and systems with those of CenturyLink could be higher than expected;
- the integration process could consume significant time and attention on the part of the combined company's management, thereby diverting attention from day-to-day operations; or
- the combined company may not be able to integrate employees from the two companies while maintaining existing levels of sales, customer service and operational support.

For these and other reasons, the acquisition may not achieve the intended results. This could, in turn, adversely affect our operating results and financial condition

Increasing competition, including product substitution, continues to cause access line losses, which has adversely affected and could continue to adversely affect our operating results and financial condition.

We compete in a rapidly evolving and highly competitive market, and we expect competition to continue to intensify. We are facing greater competition from cable companies, wireless providers, resellers and sales agents (including ourselves) and facilities-based providers using their own networks as well as those leasing parts of our network. In addition, regulatory developments over the past several years have generally increased competitive pressures on our business. Due to some of these and other factors, we continue to lose access lines.

We are continually evaluating our responses to these competitive pressures. Some of our more recent responses are expanded broadband capabilities and strategic partnerships. We also remain focused on customer service and providing customers with simple and integrated solutions, including, among other things, service bundles and packages. However, we may not be successful in these efforts. We may not be able to distinguish our offerings and service levels from those of our competitors, and we may not be successful in integrating our product offerings, especially products for which we act as a reseller or sales agent such as wireless and video services. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient and if we otherwise are unable to sufficiently stem or offset our continuing access line losses and our revenue declines significantly without corresponding cost reductions. If this occurred, our ability to service debt and pay other obligations would also be adversely affected.

Unfavorable general economic conditions in the United States could negatively impact our operating results and financial condition.

Unfavorable general economic conditions, including the unstable economy and the current credit market environment, could negatively affect our business. While it is often difficult for us to predict the impact of general economic conditions on our business, these conditions could adversely affect the affordability of and consumer demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forgo purchases of our products and services. One or more of these circumstances could cause our revenues to decline. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could affect their ability to make timely payments to us. If that were to occur, we could be required to increase our allowance for doubtful accounts, and the number of days outstanding for our accounts receivable could increase. In addition, as discussed below under the heading “Risks Affecting our Liquidity,” due to the unstable economy and the current credit market environment, we may not be able to refinance maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us or at all. For these reasons, among others, if the current economic conditions persist or decline, this could adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

Consolidation among other participants in the telecommunications industry may allow our competitors to compete more effectively against us, which could adversely affect our operating results and financial condition.

The telecommunications industry has experienced some consolidation, and several of our competitors have consolidated with other telecommunications providers. This consolidation results in competitors that are larger and better financed and affords our competitors increased resources and greater geographical reach, thereby enabling those competitors to compete more effectively against us. We have experienced and expect further increased pressures as a result of this consolidation and in turn have been and may continue to be forced to respond with lower profit margin product offerings and pricing plans in an effort to retain and attract customers. These pressures could adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

Rapid changes in technology and markets could require substantial expenditure of financial and other resources in excess of contemplated levels, and any inability to respond to those changes could reduce our market share and adversely affect our operating results and financial condition.

The telecommunications industry is experiencing significant technological changes, and our ability to execute our business plans and compete depends upon our and our affiliates’ ability to develop and deploy new products and services. The development and deployment of new products and services could also require substantial expenditure of financial and other resources in excess of contemplated levels. If we are not able to develop new products and services to keep pace with technological advances, or if those products and services are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

Our reseller and sales agency arrangements expose us to a number of risks, one or more of which may adversely affect our business and operating results.

We rely on reseller and sales agency arrangements with other companies to provide some of the services that we sell to our customers, including video services and wireless products and services. If we fail to extend or renegotiate these arrangements as they expire from time to time or if these other companies fail to fulfill their contractual obligations to us or our customers, we may have difficulty finding alternative arrangements and our customers may experience disruptions to their services. In addition, as a reseller or sales agent, we do not control the availability, retail price, design, function, quality, reliability, customer service or branding of these products and services, nor do we directly control all of the marketing and promotion of these products and services. To the extent that these other companies make decisions that negatively impact our ability to market and sell their

products and services, our business plans and goals and our reputation could be negatively impacted. If these reseller and sales agency arrangements are unsuccessful due to one or more of these risks, our business and operating results may be adversely affected.

Third parties may claim we infringe upon their intellectual property rights, and defending against these claims could adversely affect our profit margins and our ability to conduct business.

From time to time, we receive notices from third parties or are named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We may receive similar notices or be involved in similar lawsuits in the future. Responding to these claims may require us to expend significant time and money defending our use of affected technology, may require us to enter into licensing agreements requiring royalty payments that we would not otherwise have to pay or may require us to pay damages. If we are required to take one or more of these actions, our profit margins may decline. In addition, in responding to these claims, we may be required to stop selling or redesign one or more of our products or services, which could significantly and adversely affect the way we conduct business.

Risks Relating to Legal and Regulatory Matters

Any adverse outcome of the KPNQwest litigation against QCII could have a material adverse impact on our financial condition and operating results, on the trading price of our debt securities and on our ability to access the capital markets.

As described in Note 9—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report, CenturyLink and QCII are involved in several legal proceedings that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly owned subsidiary of CenturyLink and QCII, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's and QCII's quarterly and annual reports filed with the SEC. These matters include certain KPNQwest matters, which present material and significant risks to QCII and us. In the aggregate, the plaintiffs in the KPNQwest matters seek billions of euros (equating to billions of dollars) in damages. In addition, the outcome of one or more of the KPNQwest matters could have a negative impact on the outcomes of the other matters. QCII continues to defend against these matters vigorously and is currently unable to provide any estimate as to the timing of their resolution.

We can give no assurance as to the impacts on QCII's and our financial results or financial condition that may ultimately result from these matters. The ultimate outcomes of these matters are still uncertain, and substantial settlements or judgments in these matters could have a significant impact on QCII and us. The magnitude of such settlements or judgments resulting from these matters could materially and adversely affect QCII's financial condition and ability to meet its debt obligations, potentially impacting its credit ratings, its ability to access capital markets and its compliance with debt covenants. In addition, the magnitude of any such settlements or judgments may cause QCII to draw down significantly on its cash balances, which might force it to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional debt securities or selling assets. As a wholly owned subsidiary of QCII, our business operations and financial condition could be similarly affected.

Further, there are other material proceedings pending against CenturyLink and QCII that, depending on their outcome, may have a material adverse effect on their financial position. As a wholly owned subsidiary of CenturyLink and QCII, our financial condition may be similarly affected. Thus, we can give no assurances as to the impacts on CenturyLink's, QCII's and our operating results or financial condition as a result of these matters.

We operate in a highly regulated industry and are therefore exposed to restrictions on our manner of doing business and a variety of claims relating to such regulation.

We are subject to significant regulation by the FCC, which regulates interstate communications, and state utility commissions, which regulate intrastate communications. Generally, we must obtain and maintain certificates of authority from the FCC and regulatory bodies in most states where we offer regulated services, and

we are subject to numerous, and often quite detailed, requirements under federal, state and local laws, rules and regulations. Accordingly, we cannot ensure that we are always in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from state to state. The state legislatures and state utility commissions in our local service area have adopted reduced or modified forms of regulation for retail services. These changes also generally allow more flexibility for rate changes and for new product introduction, and they enhance our ability to respond to competition. Despite these regulatory changes, a substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which could expose us to unanticipated price declines. For instance, in 2011 the state utility commission in Arizona may consider a price cap plan that will govern the rates that we charge in that state. The FCC is also considering changing the rates that carriers can charge each other for originating, carrying and terminating traffic and for local access facilities. Also under review by the FCC and state commissions are the intercarrier compensation issues arising from the delivery of traffic destined for entities that offer conference and chat line services for free (known in the industry as “access stimulation,” or “traffic pumping”), and of traffic bound for Internet service providers that cross local exchange boundaries (known as “VNXX traffic”). The FCC and state commissions are also considering changes to funds they have established to subsidize service to high-cost areas. Changes to how those funds are distributed could result in us receiving less in universal service funding, and changes to how the funds are collected could make some of our services less competitive. For example, the state utility commission in Colorado has proposed new USF rules that would reduce the size of its support fund by more than half of its current amount during a transition period from 2012 to 2017. Depending on the final rules, our distributions from the fund could be \$20 million less annually by 2017 compared to the distributions that would be expected if no rules changes are adopted. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. We monitor our compliance with federal, state and local regulations governing the management, discharge and disposal of hazardous and environmentally sensitive materials. Although we believe that we are in compliance with these regulations, our management, discharge or disposal of hazardous and environmentally sensitive materials might expose us to claims or actions that could have a material adverse effect on our business, financial condition and operating results.

Risks Affecting Our Liquidity

CenturyLink’s high debt levels pose risks to our viability and may make us more vulnerable to adverse economic and competitive conditions, as well as other adverse developments.

Our ultimate parent, CenturyLink, continues to carry significant debt. As of June 30, 2011, our consolidated debt was approximately \$8.440 billion, which was included in CenturyLink’s consolidated debt of approximately \$21.344 billion as of that date. Approximately \$4.711 billion of CenturyLink’s debt, which includes approximately \$2.250 billion of our debt obligations, comes due over the next three years. While we currently believe CenturyLink and we will have the financial resources to meet our obligations when they come due, we cannot fully anticipate our future condition or that of CenturyLink, the credit markets or the economy generally. We may have unexpected costs and liabilities, and we may have limited access to financing.

We may periodically need to obtain financing in order to meet our debt obligations as they come due. Due to the unstable economy and the current credit market environment, we may not be able to refinance maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us or at all. We may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if CenturyLink, QCII or we are required to contribute a

material amount of cash to our collective pension plans, if CenturyLink, QCII or we are required to begin to pay other post-retirement benefits significantly earlier than is anticipated, or if CenturyLink or QCII becomes subject to significant judgments or settlements in one or more of the matters referred to in Note 9—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report. We can give no assurance that this additional financing will be available on terms that are acceptable to us or at all. Also, we may be impacted by factors relating to or affecting our liquidity and capital resources due to perception in the market, impacts on our credit ratings or provisions in our financing agreements that may restrict our flexibility under certain conditions.

Certain of CenturyLink's and QCII's debt issues have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings. See "Liquidity and Capital Resources—Near-Term View" in Item 1 of this report for additional information about the Credit Facility.

The degree to which we, together with CenturyLink and QCII, are leveraged may have other important limiting consequences, including the following:

- placing us at a competitive disadvantage as compared with our less leveraged competitors;
- making us more vulnerable to downturns in general economic conditions or in any of our businesses;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- impairing our credit ratings or our ability to obtain additional financing in the future for working capital, capital expenditures or general corporate purposes.

We may be unable to significantly reduce the substantial capital requirements or operating expenses necessary to continue to operate our business, which may in turn affect our operating results.

The industry in which we operate is capital intensive, and we anticipate that our capital requirements will continue to be significant in the coming years. Although we have reduced our operating expenses over the past few years, we may be unable to further significantly reduce these costs, even if revenues in some areas of our business are decreasing. While we believe that our planned level of capital expenditures will meet both our maintenance and our core growth requirements going forward, this may not be the case if circumstances underlying our expectations change.

Adverse changes in the value of assets or obligations associated with QCII's qualified pension plan could negatively impact QCII's liquidity, which may in turn affect our business and liquidity.

Substantially all of our employees participate in a qualified pension plan sponsored by QCII.

The funded status of this plan is the difference between the value of plan assets and the benefit obligation. The accounting unfunded status of QCII's pension plan was \$448 million at April 1, 2011. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in QCII's benefit obligation or a significant decrease in the value of plan assets. These adverse changes could require QCII to contribute a material amount of cash to its pension plan or could accelerate the timing of required cash payments. The amounts contributed by us through QCII are not segregated or restricted and may be used to provide benefits to employees of QCII's other subsidiaries. QCII determines our cash contribution and, historically, has only required us to pay our portion of its required pension contribution. Based on current funding laws and regulations, QCII will not be required to make a cash contribution in 2011. QCII expects to begin making required contributions to the plan during 2012 and estimates that these 2012 contributions could be between \$300 million and \$350 million. Although potentially significant in the aggregate, QCII currently expects

that contributions in 2013 and beyond will decrease annually from the 2012 expected contribution amount. However, the actual amount of required contributions in 2013 and beyond will depend on earnings on investments, discount rates, demographic experience, changes in the plan and funding laws and regulations. Any future material cash contributions in 2011 and beyond could have a negative impact on QCII's liquidity by reducing its cash flows, which in turn could affect our liquidity.

The cash needs of our affiliated companies may consume a significant amount of the cash we generate.

CenturyLink has cash management arrangements between certain of its subsidiaries, including us, under which the majority of our cash balance is transferred on a daily basis to CenturyLink in return for a receivable. In addition, from time to time we may declare dividends to our direct parent, QSC. We may declare and pay dividends in excess of our earnings to the extent permitted by applicable law, which may consume a significant amount of the cash we generate. Our debt covenants do not limit the amount of dividends we can pay to our parent.

Our debt agreements and the debt agreements of CenturyLink and its other subsidiaries allow us to incur significantly more debt, which could exacerbate the other risks described in this report.

The terms of our debt instruments and the debt instruments of CenturyLink and its other subsidiaries permit additional indebtedness. Additional debt may be necessary for many reasons, including to adequately respond to competition, to comply with regulatory requirements related to our service obligations or for financial reasons alone. Incremental borrowings or borrowings at maturity on terms that impose additional financial risks to our various efforts to improve our operating results and financial condition could exacerbate the other risks described in this report.

CenturyLink plans to access the public debt markets, and we cannot assure you that these markets will remain free of disruptions.

CenturyLink has a significant amount of indebtedness that it intends to refinance over the next couple of years, principally it hopes through the issuance of debt securities of CenturyLink, QC or both. CenturyLink's ability to arrange additional financing will depend on, among other factors, its financial position and performance, as well as prevailing market conditions and other factors beyond its control. Prevailing market conditions could be adversely affected by the ongoing sovereign debt crises in Europe, the failure of the United States to reduce its deficit in amounts deemed to be sufficient, possible downgrades in the credit ratings of the U.S. debt, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad. As a result, CenturyLink cannot assure you that it will be able to obtain additional financing on terms acceptable to us or at all. Any such failure to obtain additional financing could jeopardize its and our ability to repay, refinance or reduce debt obligations.

Other Risks Relating to Qwest

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, the accuracy of our financial statements and related disclosures could be affected.

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in our Annual Report on Form 10-K for the year ended December 31, 2010, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

Taxing authorities may determine we owe additional taxes relating to various matters, which could adversely affect our financial results.

We were included in the consolidated federal income tax return of QCII for the periods before the April 1, 2011 closing of CenturyLink's acquisition of QCII, and we are included in the consolidated federal income tax return of CenturyLink for periods on or after that date. As such, we could be severally liable for tax examinations and adjustments attributable to other members of the QCII or CenturyLink affiliated groups, as applicable. As a significant taxpayer, QCII is (and CenturyLink will be) subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

Tax sharing agreements have been executed between QCII and previous affiliates, and QCII believes the liabilities, if any, arising from adjustments to previously filed returns would be borne by the affiliated group member determined to have a deficiency under the terms and conditions of such agreements and applicable tax law. We have not generally provided for liabilities attributable to current or former affiliated companies or for claims they have asserted or may assert against us.

We believe that we have adequately provided for tax contingencies. However, QCII's tax audits and examinations may result in tax liabilities that differ materially from those that we have recorded in our consolidated financial statements. Because the ultimate outcomes of all of these matters are uncertain, we can give no assurance as to whether an adverse result from one or more of them will have a material effect on our financial results.

Tax limitations resulting from the CenturyLink acquisition could affect CenturyLink's and QCII's realization of accumulated tax net operating losses, which could adversely affect our financial results and liquidity.

As of June 30, 2011, QCII had net operating loss carryovers, or NOLs, of \$5.670 billion. The CenturyLink acquisition caused an "ownership change" for us under federal tax laws relating to the use of NOLs. As a result, these laws could limit CenturyLink's ability to use QCII's NOLs and certain other tax attributes to reduce consolidated future federal and state taxable income. If CenturyLink's future taxable income is less than expected, these limitations could cause QCII to lose some economic benefits related to these tax attributes. QCII currently expects to use substantially all of its NOLs and certain other deferred tax attributes. However, if QCII is unable to realize these benefits, its and CenturyLink's future income tax payments would be higher than expected and would adversely affect its financial results and liquidity. As a wholly owned subsidiary of QCII, our financial results and liquidity could be similarly affected.

If we fail to extend or renegotiate our collective bargaining agreements with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.

We are a party to collective bargaining agreements with our labor unions, which represent a significant number of our employees. Our current four-year agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers expire on October 6, 2012. Although we believe that our relations with our employees and unions are satisfactory, no assurance can be given that we will be able to successfully extend or renegotiate our collective bargaining agreements as they expire from time to time. The impact of future negotiations, including changes in wages and benefit levels, could have a material impact on our financial results. Also, if we fail to extend or renegotiate our collective bargaining agreements, if significant disputes with our unions arise, or if our unionized workers engage in a strike or other work stoppage, we could incur higher ongoing labor costs or experience a significant disruption of operations, which could have a material adverse effect on our business.

Item 6. Exhibits

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

Exhibit Number	Description
(3.1)	Restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, File No. 001-03040).
(3.2)	Articles of Amendment to the Articles of Incorporation of Qwest Corporation (incorporated by reference to Qwest Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, File No. 001-03040).
(3.3)	Amended and Restated Bylaws of Qwest Corporation (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-03040).
(4.1)	Indenture, dated as of April 15, 1990, by and between Mountain States Telephone and Telegraph Company and The First National Bank of Chicago (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-03040).
(4.2)	First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. and The First National Bank of Chicago (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002, File No. 001-03040).
(4.3)	Indenture, dated as of October 15, 1999, by and between U S West Communications, Inc. and Bank One Trust Company, N.A. (incorporated by reference to Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999, File No. 001-03040).
(4.4)	Officer's Certificate of Qwest Corporation, dated as of March 12, 2002 (including forms of 8 ⁷ / ₈ % notes due March 15, 2012) (incorporated by reference to Qwest Corporation's Form S-4, File No. 333-115119).
(4.5)	First Supplemental Indenture, dated as of August 19, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, File No. 001-15577).
(4.6)	Second Supplemental Indenture, dated as of November 23, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8-K filed November 23, 2004, File No. 001-03040).
(4.7)	Third Supplemental Indenture, dated as of June 17, 2005, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8-K filed June 23, 2005, File No. 001-03040).
(4.8)	Fourth Supplemental Indenture, dated August 8, 2006, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8-K filed August 8, 2006, File No. 001-03040).
(4.9)	Fifth Supplemental Indenture, dated May 16, 2007, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8-K filed May 18, 2007, File No. 001-03040).
(4.10)	Sixth Supplemental Indenture, dated April 13, 2009, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Current Report on Form 8-K filed April 13, 2009, File No. 001-03040).

Exhibit Number	Description
(4.11)	Seventh Supplemental Indenture, dated June 8, 2011, between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A filed June 7, 2011, File No. 001-03040).
12	Calculation of Ratio of Earnings to Fixed Charges.
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted 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 quarter ended June 30, 2011, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholder's Equity (Deficit) and (vi) the Notes to the Consolidated Financial Statements tagged as blocks of text.

() Previously filed.

In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

Pursuant to the requirements 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.

Qwest Corporation

By: / s / David D. Cole
David D. Cole
Senior Vice President – Controller and Operations Support
(Chief Accounting Officer and Duly Authorized Officer)

August 11, 2011

Qwest Corporation
CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
(UNAUDITED)

	<u>Successor</u>	<u>Predecessor</u>					
	<u>Three months ended June 30,</u>	<u>Three months ended March 31,</u>	<u>Years ended December 31,</u>				
	<u>2011</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income before income taxes	\$ 281	490	1,873	1,921	2,267	2,440	1,882
Add: estimated fixed charges	104	171	689	705	671	682	700
Add: estimated amortization of capitalized interest	2	2	10	11	12	10	10
Less: interest capitalized	(2)	(3)	(12)	(10)	(14)	(12)	(12)
Total earnings available for fixed charges	<u>\$ 385</u>	<u>660</u>	<u>2,560</u>	<u>2,627</u>	<u>2,936</u>	<u>3,120</u>	<u>2,580</u>
Estimate of interest factor on rentals	\$ 14	18	62	63	68	62	72
Interest expense, including amortization of premiums, discounts and debt issuance costs ⁽¹⁾	88	150	615	632	589	608	616
Interest capitalized	2	3	12	10	14	12	12
Total fixed charges	<u>\$ 104</u>	<u>171</u>	<u>689</u>	<u>705</u>	<u>671</u>	<u>682</u>	<u>700</u>
Ratio of earnings to fixed charges	3.7	3.9	3.7	3.7	4.4	4.6	3.7

(1) Interest expense includes only interest related to long-term debt and capital lease obligations.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

Date: August 11, 2011

 / s / Glen F. Post, III
 Glen F. Post, III
 Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

Date: August 11, 2011

/ s / R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.

Executive Vice President and Chief Financial Officer

By: / s / R. Stewart Ewing, Jr.
R. Stewart Ewing, Jr.
Executive Vice President and Chief Financial Officer