

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

FORM 10-K

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

For the fiscal year ended December 31, 2019
or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 001-03040

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado
(State or other jurisdiction of
incorporation or organization)
100 CenturyLink Drive, Monroe, Louisiana
(Address of principal executive offices)

84-0273800
(I.R.S. Employer
Identification No.)
71203
(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 ☐
Emerging growth company ☐

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

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

On March 5, 2020, one share of common stock was outstanding. None of Qwest Corporation's common stock is held by non-affiliates.

DOCUMENTS INCORPORATED BY REFERENCE: None.

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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 including Level 3 Parent, LLC, referred to as "Level 3".

PART I

Special Note Regarding Forward-Looking Statements

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

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

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

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

- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection, privacy and net neutrality;
- our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments and dividends;
- our ability to implement our operating plans, corporate strategies and capital allocation plans or changes in such plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- the negative impact of increases in the costs of CenturyLink's pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which could affect our business and liquidity;
- the potential negative impact of customer complaints, governmental investigation or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to collect our receivables from financially troubled customers;
- CenturyLink's ability to use its net operating loss carryforwards in the amounts projected;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates, including CenturyLink;
- changes in tax, communications, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require additional future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;

- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions; and
- other risks referenced in "Risk Factors" in Item 1A or elsewhere in this report or other of our filings with the SEC.

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

ITEM 1. BUSINESS

Overview

We are an integrated communications company engaged primarily in providing an array of communications services to our business and residential customers. Our specific products and services are detailed below under the heading "Operations - Products and Services."

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

We were incorporated under the laws of the State of Colorado in 1911. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

For a discussion of certain risks applicable to our business, see "Risk Factors" in Item 1A of Part I of this report. The summary financial information in this Item 1 should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and notes thereto in Item 8 of Part II of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Financial Highlights

The following table summarizes the results of our consolidated operations:

	Years Ended December 31,		
	2019	2018	2017 ⁽¹⁾
	(Dollars in millions)		
Operating revenue	\$ 8,157	8,493	8,550
Operating expenses	5,273	5,833	6,237
Operating income	\$ 2,884	2,660	2,313
Net income	\$ 1,827	1,665	1,657

- (1) The enactment of the Tax Cuts and Jobs Act in December 2017 resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21%. The re-measurement resulted in a tax benefit of \$555 million.

The following table summarizes certain selected financial information from our consolidated balance sheets:

	As of December 31,	
	2019	2018
	(Dollars in millions)	
Total assets	\$ 20,999	20,583
Total long-term debt ⁽¹⁾	5,951	5,959
Total stockholder's equity	10,117	9,868

- (1) Total long-term debt does not include note payable-affiliate. For additional information on our total long-term debt, see Note 5—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of this report. For information on our total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Future Contractual Obligations" in Item 7 of Part II of this report.

Substantially all of our long-lived assets are located in the United States and substantially all of our total consolidated operating revenue is from customers located in the United States.

Operations

For the reasons noted in Note 13—Products and Services Revenue to our consolidated financial statements in Item 1 of Part I of this report, we believe we have one reportable segment.

Products and Services

While most of our customized customer interactions involve multiple integrated technologies and services, we organize our products and services according to the core technologies that drive them. We report our related revenue under the following categories: IP and data services, transport and infrastructure services, voice and collaboration services, IT and managed services, regulatory revenue and affiliate services, each of which is described in further detail below.

IP and Data Services

- *Ethernet.* We deliver a robust array of networking services built on Ethernet technology. Ethernet services include point-to-point and multi-point equipment configurations that facilitate data transmissions across metropolitan areas and larger enterprise-class wide area networks. Our Ethernet technology is also used by wireless service providers for data transmission via our fiber-optic cables connected to their towers; and
- *Retail Video.* Our video services span a range of technologies aimed at consumers and business customers. We also offer various broadcast services to deliver audio and video feeds over fiber or satellite for broadcast and production firms

Transport and Infrastructure

- *Broadband.* Our broadband services deliver a cost-effective Internet connection through existing telephone lines or fiber-optic cables while companies enjoy high speed data transfer. A substantial portion of our broadband subscribers are located within the local service area of our wireline telephone operations;
- *Private Line.* We deliver a private line (including business data services), a direct circuit or channel specifically dedicated for connecting two or more organizational sites. Private line service offers a high-speed, secure solution for frequent transmission of large amounts of data between sites, including wireless backhaul transmissions;
- *Unbundled Network Elements and Other.* We provide select technology elements to other network carriers on a regional basis for the inclusion of those technologies in their offerings; and
- *Wavelength.* We deliver high bandwidth optical networks to firms requiring an end-to-end transport solution with Ethernet technology by contracting for a scalable amount of bandwidth connecting sites or providing high-speed access to cloud computing resources.

Voice and Collaboration

- *Voice.* We offer to our business and residential customers a complete portfolio of traditional Time Division Multiplexing ("TDM") voice services to businesses and enterprises including Primary Rate Interface ("PRI") service, local inbound service, switched one-plus, toll free, long distance and international services.

IT and Managed Services

- *Information Technology ("IT") Services.* Our IT-based services deliver strategic consulting and solutions to C-suite executives in mid to large enterprises. Services involve architecting technologies to address business needs. Solutions range from System Integration Services to Big Data Analytics, building and managing strategic application suites such as SAP and deploying security technologies. In many cases, we operate and manage these solutions on behalf of customers once they are deployed.

Regulatory Revenue

- *Universal Service Fund ("USF") support payments.* We receive federal and state USF support payment subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and
- *Connect America Fund ("CAF").* We receive federal support payments from CAF II of the CAF program. The funding from the CAF II support program has substantially replaced the funding from the interstate USF program that we previously utilized to support voice services in high-cost rural markets in 33 states.

Affiliate Revenue

- *Affiliate Services.* We provide our affiliates, with telecommunication services that we also provide to external customers. Please see our products and services listed above for further description of these services. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

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

Additional Information

For further information on regulatory, technological and competitive factors that could impact our revenue, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

For additional information about us and our ultimate parent, CenturyLink, Inc., please refer to the periodic reports filed by CenturyLink, Inc. with the SEC, which can be accessed by visiting the websites listed below under "Website Access and Important Investor Information."

Our Network

Most of our products and services are provided using our telecommunications network, which consists of fiber-optic and copper cables, high-speed transport equipment, data switches and routers, voice switches and other equipment. Our local exchange carrier networks also include central offices and remote site assets, and form a portion of the public switched telephone network. We operate part of our network with leased assets, and a substantial portion of our equipment with licensed software.

We continue to enhance and expand our network by deploying various technologies to provide additional capacity to our customers. Rapid and significant changes in technology are expected to continue in the telecommunications industry. Our future success will depend, in part, on our ability to anticipate and adapt to changes in technology and customer demands, including demands for enhanced digitization, automation and customer self-service capabilities. In addition, we anticipate that continued increases in internet usage by our customers will require us to make significant capital expenditures to increase network capacity or to implement network management practices to alleviate network capacity shortages. The FCC's stringent definition of broadband service and consumers' demand for faster transmission speeds could create additional requirements for higher capital spending. Any such additional expenditure could adversely impact our results of operations and financial condition.

Similarly, we continue to take steps to simplify and modernize our network. To attain our objectives, we plan to continue to pursue several complex projects that we expect will be costly and may take several years to complete. The costs of these projects could materially increase if we conclude that we need to replace any portion or all of our legacy systems.

Like other large communications companies, we are a constant target of cyber-attacks of varying degrees, which has caused us to spend increasingly more time and money to deal with increasingly sophisticated attacks. Some of the attacks result in security breaches, and we periodically notify our customers, our employees, our regulators or the public of these breaches when necessary or appropriate. None of these resulting security breaches to date have materially adversely affected our business, results of operations or financial condition.

Similarly, like other large communication companies operating complex networks, from time to time in the ordinary course of our business we experience disruptions in our service. Although none of these outages have thus far materially adversely affected us, certain of these outages have resulted in regulatory fines, negative publicity, service credits and other adverse consequences.

We rely on several other communications companies to provide our offerings. We lease a portion of our core fiber network from our competitors and other third parties. Many of these leases will lapse in future years. A portion of our services are provided by other carriers under agency agreements or through reselling arrangements with other carriers. Our future ability to provide services on the terms of our current offerings will depend in part upon our ability to renew or replace these leases, agreements and arrangements on terms substantially similar to those currently in effect.

For additional information regarding our systems, network assets, network risks, capital expenditure requirements and reliance upon third parties, see "Risk Factors," generally, in Item 1A of Part I of this report, and, in particular, "Risk Factors—Risks Affecting Our Business" and "Risk Factors—Risks Affecting Our Liquidity and Capital Resources." For more information on our properties, see "Properties" in Item 2 of Part I of this report.

Patents, Trade Names, Trademarks and Copyrights

Either directly or through our affiliates, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others as we deem appropriate.

Our patent portfolio includes patents covering technologies ranging from data and voice services to content distribution to transmission and networking equipment. Patents give us the right to prevent others, particularly competitors, from using our proprietary technologies. Patent licenses give us the freedom to operate our business without the risk of interruption from the holder of the patent that has been licensed to us. We, or our affiliates, plan to continue to file new patent applications as we enhance and develop products and services, and we plan to continue to seek opportunities to expand our patent portfolio through strategic acquisitions and licensing.

We periodically receive offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices, or are named in lawsuits, alleging that our products or services infringe on patents or other intellectual property rights of third parties, or receive request to indemnify customers who allege that their use of our products or services caused them to be names in an infringement proceeding. In certain instances, these matters can potentially adversely impact our operations, operating results or financial position. For additional information, see "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this report, and Note 16—Commitments, Contingencies and Other Items to our consolidated financial statements in Item 8 of Part II of this report.

Sales and Marketing

We maintain local offices in most of the larger population centers within our local service area. These offices provide sales and customer support services to the communities in our local markets. We also rely on our call center personnel and a variety of channel partners to promote sales of services that meet the needs of our customers. Our sales and marketing strategy is to enhance our sales by offering solutions tailored to the needs of our various customers and promoting our brands. Our offerings include both stand-alone services and bundled services designed to meet the needs of different customer segments.

We conduct most of our operations under the brand name "CenturyLink." Our satellite television service is offered on a co-branded basis under the "DIRECTV" name.

Similarly, our sales and marketing approach to our business customers includes a commitment to provide comprehensive communications solutions for business, wholesale and government customers of all sizes, ranging from small business offices to select enterprise customers. We strive to offer our business customers stable, reliable, secure and trusted solutions. Our marketing plans include marketing our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties, including telecommunications agents, system integrators, value-added resellers and other telecommunications firms. We support our distribution with digital marketing, direct mail, bill inserts, newspaper and television advertising, website promotions, public relations activities and sponsorship of community events and sports venues.

Our sales and marketing approach to our residential customers emphasizes customer-oriented sales, marketing and service with a local presence. Our marketing plans include marketing our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties, including retailers, satellite television providers, door to door sales agents and digital marketing firms. We support our distribution with digital marketing, direct mail, bill inserts, newspaper and television advertising, website promotions, public relations activities and sponsorship of community events and sports venues.

Regulation

Overview

Our domestic operations are regulated by the Federal Communications Commission (the "FCC"), various state utility commissions and occasionally by local agencies.

The following description discusses some of the major industry regulations that affect our operations, but numerous other regulations not discussed below also have a substantial impact on us. For additional information, see "Risk Factors" in Item 1A of Part I of this report.

Federal Regulation

General

The FCC regulates the interstate services we provide, including the business data service charges we bill for wholesale network transmission and intercarrier compensation, including the interstate access charges that we bill to long-distance companies and other communications companies in connection with the origination and termination of interstate phone calls. Additionally, the FCC regulates several aspects of our business related to international communications services, privacy, public safety and network infrastructure, including our access to and use of local telephone numbers and our provision of emergency 911 services.

Universal Service

In 2015, CenturyLink accepted Connect America Fund or "CAF" funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses in 33 states under the CAF II high-cost support program. Of these amounts, approximately \$150 million is attributable to our service area, to provide service to approximately 0.3 million rural households and business in 13 of the 14 states in which we are an ILEC. The funding from the CAF II support program in these 13 states has substantially replaced the funding from the interstate USF high-cost program that we previously utilized to support voice services in high-cost rural markets in these 13 states. As a result of accepting CAF II support payments, we are obligated to make substantial capital expenditures to build infrastructure by certain specified milestone deadlines. For information on the risks associated with participating in this program, see "Risk Factors—Risks Relating to Legal and Regulatory Matters" in Item 1A of Part I of this report.

On January 30, 2020, the FCC approved an order creating the Rural Digital Opportunity Fund (the "RDOF"), which is a new federal support program designed to follow the CAF Phase II program. Through the RDOF, the FCC plans to award up to \$20.4 billion in support payments, beginning January 1, 2022, to communications providers to bring broadband services to unserved areas through multi-round reverse auctions. The FCC plans to conduct the first auction late in 2020. The FCC's order also provides for price cap carriers like us to receive an additional year of CAF II funding in 2021. Because we are in the very early stages of analyzing this opportunity, we cannot predict its ultimate impact on us or our affiliates, including CenturyLink.

For additional information about the potential financial impact of the CAF II program, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Broadband Regulation

In February 2015, the FCC adopted an order classifying Broadband Internet Access Services ("BIAS") under Title II of the Communications Act of 1934 and applying new regulations. In December 2017, the FCC voted to repeal most of those regulations and the classification of BIAS as a Title II service and to preempt states from imposing substantial regulations on broadband. Opponents of this change have appealed this action in federal court and have advocated in favor of re-instituting regulation of Internet services under Title II of the Communications Act. Several states have also opposed the change and have initiated state executive orders or introduced legislation focused on state-specific Internet service regulation. In October 2019, the federal court upheld the FCC's classification decision but vacated a part of its state preemption ruling. The court also requested the FCC to make further findings relating to its classification decision. Numerous parties have sought further appellate review of this decision. The result of these appeals is pending and the potential impact to us is currently unknown.

State Regulation of Domestic Operations

In recent years, most states have reduced their regulation of ILECs, including our ILEC operations. Nonetheless, some state regulatory commissions continue to (i) set the rates that telecommunication companies charge each other for exchanging traffic, (ii) administer support programs designed to subsidize the provision of services to high-cost rural areas, (iii) regulate the purchase and sale of ILECs, (iv) require ILECs to provide service under publicly-filed tariffs setting forth the terms, conditions and prices of regulated services, (v) limit ILECs' ability to borrow and pledge their assets, (vi) regulate transactions between ILECs and their affiliates and (vii) impose various other service standards. In most states, local voice service, switched and business data services and interconnection services are subject to price regulation, although the extent of regulation varies by type of service and geographic region.

We operate in states where traditional cost recovery mechanisms, including rate structures and state USF, are under evaluation or have been modified. The 2017 changes to the federal tax code prompted several states to review the potential impact to regulated rates. As laws and regulations change, there can be no assurance that these mechanisms will continue to provide us with any cost recovery.

Other Regulations

Our networks are subject to numerous local regulations, including codes that regulate our trenching and construction operations or that require us to obtain permits, licenses or franchises to operate. Such regulations are enacted by municipalities, counties or other regional governmental bodies, and can vary widely from jurisdiction to jurisdiction as a result. Such regulations may also require us to pay substantial fees.

Various federal and state laws govern our storage, maintenance and use of customer data, including a wide range of consumer protection, data protection, privacy, intellectual property and similar laws. The application, interpretation and enforcement of these laws are often uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction. Various federal and state legislative or regulatory bodies have recently adopted increasingly restrictive laws or regulations governing the protection or retention of data, and others are contemplating similar actions.

For additional information about these matters, see "Risk Factors—Risks Affecting Our Business" and "Risk Factors—Risks Relating to Legal and Regulatory Matters" in item 1A of Part I of this report.

Competition

General

We compete in a rapidly evolving and highly competitive market, and we expect intense competition from a wide variety of sources under evolving market conditions to continue. In addition to competition from larger telecommunication service providers, we are facing increasing competition from cable and satellite companies, wireless providers, technology companies, cloud companies, broadband providers, device providers, resellers, sales agents facilities-based providers, and smaller more narrowly focused niche providers. Further technological advances and regulatory and legislative changes have increased opportunities for a wide range of alternative communications service providers, which in turn have increased competitive pressures on our business. These alternate providers often face fewer regulations and have lower cost structures than we do. In addition, the communications industry has, in recent years, experienced substantial consolidation, and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In particular, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to specific portions of the ILEC's network and (iii) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

Wireless voice services are a significant source of competition with our traditional ILEC services. It is increasingly common for customers to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly with younger customers who are less accustomed to using traditional wireline voice services. Technological and regulatory developments in wireless services, Wi-Fi, and other wired and wireless technologies have contributed to the development of alternatives to traditional landline voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services. These factors have led to a long-term systemic decline in the number of our wireline voice service customers.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers, municipalities or alternative access vendors. These systems are capable of originating or terminating calls without use of an ILEC's networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of business data services or independent switching services and the concentration of telecommunications traffic on a few of an ILEC's access lines. We anticipate that all these trends will continue and lead to decreased billable use of our networks.

Demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver generally faster average broadband transmission speeds than ours.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through (i) reselling an ILEC's local services, (ii) using an ILEC's unbundled network elements (iii) operating their own facilities or (iv) a combination thereof.

We compete to provide services to business customers based on a variety of factors, including the comprehensiveness and reliability of our network, our data transmission speeds, price, the latency of our available intercity and metro routes, the scope of our integrated offerings, the reach and peering capacity of our IP network, and customer service. Depending on the applicable market and requested services, competition can be intense, especially if one or more competitors in the market have network assets better suited to the customer's needs or are offering faster transmission speeds or lower prices.

As both residential and business customers increasingly demand high-speed connections for entertainment, communications and productivity, we expect the demands on our network will continue to increase over the next several years. To succeed, we must continue to invest in our networks to ensure that they can deliver competitive services that meet these increasing bandwidth and speed requirements. In addition, network reliability and security are increasingly important competitive factors in our business.

With respect to providing our services to residential customers, technology advancements have increased both the quantity and type of competitors that we compete with for our services. More specifically, voice services face significant product and technology substitution. Additionally, cable companies have increased broadband speeds and continue to compete with our broadband services, and wireless carriers' latest generation technologies are allowing them to more directly compete with our Broadband services. The fragmentation of the video market with the proliferation of Over the Top providers has made it difficult for us to offer a cost-effective video product. Lastly, the regulatory environment in which we operate, while it provides us certain advantages, can make us less nimble than cable, wireless, and other technology companies.

As a result, our strategy is to continue to invest in our network with fiber solutions to increase connection speeds and service quality, partner with video providers such as DIRECTV to provide video and content options to customers, and encourage customers to bundle voice services by providing a high quality voice connection with discounts for bundling. In addition, we believe initiatives to improve the customer experience and digital experience should increase customer loyalty over time.

The consumer market for broadband services is mature, with a significant portion of households already receiving those services. We compete for customers on the basis of pricing, packaging of services and features and quality of service. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our network, which allows for the delivery of higher speed broadband services.

Although our status as an ILEC continues to provide us advantages in providing local services in our local service area, as noted above, we increasingly face significant competition as an increasing number of consumers are willing to substitute cable, wireless and electronic communications for traditional voice telecommunications services. This has led to an increase in the number and type of competitors within our industry, price compression and a decrease in our market share. As a result of this product substitution, we face greater competition in providing local services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We anticipate this trend will continue, particularly as wireless services providers continue to improve their service offerings and our older legacy customers are replaced over time with younger customers who are less accustomed to using traditional wireline voice services. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Additional information about competitive pressures is located (i) under the heading "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our services.

Environmental Matters

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating prior industrial sites or operating vehicle fleets or power supplies for our communications equipment. Although we cannot assess with certainty the impact of any future compliance and remediation obligations or provide you with any assurances regarding the ultimate impact thereof, we do not currently believe that future environmental compliance and remediation expenditures will have a material adverse effect on our financial condition or results of operations. For additional information, see (i) "Risk Factors—Risks Relating to Legal and Regulatory Matters" and "Risk Factors—Other Risks—We face risks from natural disasters and extreme weather, which can disrupt our operations and cause us to incur additional capital and operating costs" in Item 1A of Part I of this report and (ii) Note 16—Commitments, Contingencies and Other Items included in Item 8 of Part II of this report.

Seasonality

Overall, our business is not materially impacted by seasonality. Our network-related operating expenses are, however, generally higher in the second and third quarters of the year. From time to time, weather related problems have resulted in increased costs to repair our network and respond to service calls in some of our markets. The amount and timing of these costs are subject to the weather patterns of any given year.

Employees

At December 31, 2019, we had approximately 17,700 employees, of which approximately 7,500 are members of either the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this report and see Note 18—Labor Union Contracts to our consolidated financial statements in Item 8 of Part II of this report for a discussion of risks relating to our labor relations, for additional information on the timing of certain contract expirations.

Website Access and Important Investor Information

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

In connection with filing this report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and its related regulations.

Lenders should also be aware that while we do, at various times, answer questions raised by analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, lenders should not assume that we agree with any statement or report issued by an analyst with respect to our past or projected performance. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

As a large complex organization, we are from time to time subject to litigation, disputes, governmental or internal investigations, service outages, security breaches or other adverse events, or are engaged in discussions regarding a wide range of business or strategic initiatives. We typically publicly disclose these events only when we determine these disclosures to be material to investors or otherwise required by applicable law, or with respect to pending negotiations, when we have entered into a preliminary or definitive agreement.

We typically disclose material non-public information by disseminating press releases, making public filings with the SEC, or disclosing information during publicly accessible meetings or conference calls. Nonetheless, from time to time we have used, and intend to continue to use, our website and social media accounts to augment our disclosures.

Unless otherwise indicated, information contained in this report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the communications industry generally. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness.

ITEM 1A. RISK FACTORS

The following discussion identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with the other portions of this report, including "Special Note Regarding Forward-Looking Statements", "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions. In addition, certain of the risks described below apply only to a part of our business.

Risks Affecting Our Business

Our failure to simplify our service support systems could adversely impact our competitive position.

For many of our services, we can effectively compete only if we can quickly and efficiently (i) quote and accept customer orders, (ii) provision and initiate ordered services, (iii) provide customers with adequate means to manage their services and (iv) accurately bill for our services. To attain these objectives, we believe we must digitally transform our service support processes to permit greater automation and customer self-service options. This digital transformation is complex and will require a substantial amount of resources, especially in light of the multiplicity of our systems. Development of systems designed to support this transformation will continuously require our personnel and third-party vendors to, among other things, (i) adjust to changes in our offerings and customers' preferences, (ii) simplify our processes, (iii) improve our data management capabilities, (iv) eliminate inconsistencies between our legacy and acquired operations, (v) eliminate older support systems that are costly or obsolete, (vi) develop uniform practices and procedures, and (vii) automate them as much as possible. These undertakings will be challenging and time consuming, and we cannot assure you that they will be successful. Our competitive position could be adversely impacted if we fail to continuously develop viable service support systems that are satisfactory to our current and potential customers.

We could experience difficulties in consolidating, integrating, updating and simplifying our technical infrastructure.

Our ability to consolidate, integrate, update and simplify our systems and information technology infrastructure in response to our growth and changing business needs is very important to our ability to develop and maintain attractive product and service offerings and to interface effectively with our customers. As discussed further under "Business-Our Network" in Item 1 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2019, CenturyLink is currently undertaking several complex, costly and multi-year projects to simplify, consolidate and modernize its network, which combines our legacy network and other networks acquired in the past. Delays in the completion of these projects have hampered our progress, and any additional delays may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize, consolidate and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions or delays, service offering inconsistencies, customer dissatisfaction, and the diversion of development resources. In addition, our dedication of significant resources to these projects could divert attention from ongoing operations and other strategic initiatives. Any or all of the foregoing developments could have a negative impact on our business, results of operations, financial condition and cash flows.

We may not be able to compete successfully against current or future competitors.

Each of our offerings to our customers face increasingly intense competition from a wide variety of sources under evolving market conditions. In particular, (i) aggressive competition from a wide range of communications and technology companies has limited the prospects for several of our offerings to our customers; (ii) intense competition from wireless and other communications providers has led to a long-term systemic decline in the number of our wireline voice customers and (iii) strong competition from cable companies has impacted our customers. We also face competition from cloud companies, broadband providers, software developers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network. We expect these trends will continue. For more detailed information, see "Business—Competition" in Item 1 of this report.

Some of our current and potential competitors (i) offer products or services that are substitutes for our traditional wireline voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) offer products or services with features that we cannot readily match in some or all of our markets, (iv) install their services more quickly than we do, (v) have greater marketing, engineering, research, development, technical, provisioning, customer relations, financial or other resources, (vi) have larger or more diverse networks with greater transmission capacity, (vii) conduct operations or raise capital at a lower cost than us, (viii) are subject to less regulation, which we believe enables such competitors to operate more flexibly than us with respect to certain offerings, (ix) offer services nationally or internationally to a larger geographic area or larger base of customers, (x) have substantially stronger brand names, which may provide them with greater pricing power than ours, (xi) have deeper or more long standing relationships with key customers, or (xii) have larger operations than ours, which may enable them to compete more successfully in recruiting top talent, entering into operational or strategic partnerships or acquiring companies. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructure more quickly, to adapt more swiftly to changes in technologies or customer requirements, to devote greater resources to the marketing and sale of their products and services, to provide more comprehensive customer service, to provide greater resources to research and development initiatives and to take advantage of business or other opportunities more readily.

Competition could adversely impact us in several ways, including (i) the loss of customers, market share or traffic on our networks, (ii) our need to expend substantial time or money on new capital improvement projects, (iii) our need to lower prices or increase marketing expenses to remain competitive and (iv) our inability to diversify by successfully offering new products or services.

We are continually taking steps to respond to these competitive pressures, but these efforts may not be successful. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient.

Rapid technological changes could significantly impact our competitive and financial position.

The communications industry has been and continues to be impacted by significant technological changes, which in general are enabling a much broader array of companies to compete with us. Many of these technological changes are (i) enabling customers to reduce or bypass use of our networks, (ii) displacing or reducing demand for our services, or (iii) enabling the development of competitive products or services. For years, the development of wireless and Internet-based voice and non-voice communications technologies and social media platforms have significantly reduced demand for our traditional voice services, and these trends continue. More recently, continuous improvements in wireless data technologies have enabled wireless carriers to offer competing data transmission products that are highly convenient to use, and we expect this trend to continue as technological advances enable these carriers to carry greater amounts of data faster and with less latency. Technological advancements have also permitted cable companies and other of our competitors to deliver generally faster average broadband transmission speeds than ours. Developments in software have permitted new competitors to offer affordable networking products that historically required more expensive hardware investment. To enhance the competitiveness of certain of our services, we will likely be required to spend additional capital to install more fiber optic cable or to augment the capabilities of our copper-based services.

We may not be able to accurately predict or respond to changes in technology or industry standards, or to the introduction of newly-offered services. Any of these developments could make some or all of our offerings less desirable or even obsolete, which would place downward pressure on our market share and revenue. These developments could also require us to (i) expend capital or other resources in excess of currently contemplated levels to enhance our network or develop products or services, (ii) forego the development or provision of products or services that others can provide more efficiently, or (iii) make other changes to our operating plans, corporate strategies or capital allocation plans, any of which could be contrary to the expectations of our security holders or could adversely impact our business operating results.

In addition to introducing new technologies and offerings, we may need, from time to time, to phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits. Similarly, if new market entrants are not burdened by an installed base of outdated equipment or obsolete technology, they may have a competitive advantage over us.

For additional information on the risks of increased expenditures, see "Risk Factors—Risks Affecting our Liquidity and Capital Resources—Our business requires us to incur substantial capital and operating expenses, which reduces our available free cash flow."

Our failure to meet the evolving needs of our customers could adversely impact our competitive position.

In order to compete effectively and respond to changing market conditions, we must continuously offer products and services on terms and conditions that allow us to retain and attract customers and to meet their evolving needs. To do so, we must continuously (i) invest in our network, (ii) develop, test and introduce new products and services and (iii) rationalize and simplify our offerings by eliminating older or overlapping products or services. Our ability to maintain attractive products and services and to successfully introduce new product or service offerings on a timely and cost-effective basis could be constrained by a range of factors, including network limitations, support system limitations, limited capital, an inability to attract key personnel with the necessary skills, intellectual property constraints, inadequate digitization or automation, technological limits or an inability to act as quickly or efficiently as other competitors. Network service enhancements and product launches could take longer or cost more money than expected due to a range of factors, including software issues, supplier delays, testing delays, permitting delays, or network incompatibility issues. In addition, new product or service offerings may not be widely accepted by our customers. Our business could be materially adversely affected if we are unable to maintain competitive products and services and to timely and successfully develop and introduce new products or services.

Several of our services continue to experience declining revenue, and our efforts to offset these declines may not be successful.

Primarily as a result of the competitive and technological changes discussed above, we have experienced a prolonged systemic decline in our local voice, long-distance voice, network access and private line revenue. Consequently, we have experienced declining consolidated revenue for a prolonged period. More recently, we have experienced declines in revenue derived from the sale of certain other products and services.

We have taken a variety of steps to counter these declines in revenue, including an increased focus on selling services in greater demand. However, for the reasons described elsewhere in this report, we have thus far been unable to reverse our annual revenue losses. In addition, most of our more recent product and service offerings generate lower profit margins than our traditional services, and some can be expected to experience slowing or no growth in the future. Accordingly, you should not assume that we will be successful in attaining our goal of achieving future revenue growth.

We may not be able to successfully adjust to changes in our industry, our markets and our product mix.

Ongoing changes in the communications industry have fundamentally changed consumers' communications expectations and requirements. In response to these changes, we have substantially altered our product and service offerings through acquisitions and internal product development. Many of these changes have placed a higher premium on sales, marketing and product development functions, and necessitated ongoing changes in our processes and operating protocols, as well as periodic reorganizations of our sales and leadership teams. In addition, we now offer a much more complex range of products and services, operate larger and more complex networks and serve a much larger and more diverse set of global customers. Consequently, we now face greater challenges in effectively managing and administering our operations and allocating capital and other resources to our various offerings. For all these reasons, we cannot assure you that our efforts to adjust to these changes will be timely or successful.

Our failure to hire and retain qualified personnel could harm our business.

Our future success depends on our ability to identify, hire, train and retain executives, managers and employees with technological, engineering, software, product development, operational, provisioning, marketing, sales, customer service, administrative, managerial and other key skills. There is a shortage of qualified personnel in several of these fields particularly in certain growth markets, such as the areas adjoining our Denver and Seattle offices. We compete with several other companies for this limited pool of potential employees. As our industry increasingly becomes more competitive, it could become especially difficult to attract and retain top personnel with skills in high demand. Our workforce reduction and integration initiatives over the past couple of years have further increased the challenges of attracting and retaining talented individuals. In addition, subject to limited exceptions, none of our executives or domestic employees have long-term employment agreements. For all these reasons, there is no assurance that our efforts to recruit and retain qualified personnel will be successful.

We could be harmed by security breaches or other significant disruptions or failures of networks, information technology infrastructure or related systems owned or operated by us.

We are materially reliant upon our networks, information technology infrastructure and related technology systems (including our billing and provisioning systems) to provide products and services to our customers and to manage our operations and affairs. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems. As a communications company that transmits large amounts of information over communications networks, we face an added risk that a security breach or other significant disruption of our network, infrastructure or systems, or those that we operate or maintain for certain of our business customers, could lead to material interruptions or curtailments of service. Moreover, in connection with processing and storing sensitive and confidential customer data, we face a heightened risk that a security breach or disruption could result in unauthorized access to our customers' proprietary information.

To safeguard our systems and data stored thereon, we strive to maintain effective security measures, disaster recovery plans, business contingency plans and employee training programs, and to continuously upgrade these safeguards. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, ransomware, distributed denial-of-service attacks, or other forms of cyber-attacks or similar events. These threats may derive from human error, hardware or software vulnerabilities, aging equipment or accidental technological failure. These threats may also stem from fraud, malice or sabotage on the part of employees, third parties or foreign nations, including attempts by outside parties to fraudulently induce our employees or customers to disclose or grant access to our data or our customers' data, potentially including information subject to stringent domestic and foreign data protection laws governing personally identifiable information, protected health information or other similar types of sensitive data. These threats may also arise from failure or breaches of systems owned, operated or controlled by other unaffiliated operators to the extent we rely on such other systems to deliver services to our customers. Various other factors could intensify these risks, including, (i) our maintenance of information in digital form stored on servers connected to the Internet, (ii) our use of open and software-defined networks, (iii) the complexity of our multi-continent network composed of legacy and acquired properties, (iv) growth in the size and sophistication of our customers and their service requirements, and (v) increased use of our network due to greater demand for data services.

Similar to other large communications companies, we are a constant target of cyber-attacks of varying degrees. Although some of these attacks have resulted in security breaches, thus far, none of these breaches have resulted in a material adverse effect on our operating results or financial condition. You should be aware, however, that the risk of breaches is likely to increase due to several factors, including the increasing sophistication of cyber-attacks and the wider accessibility of cyber-attack tools. You should be further aware that defenses against cyber-attacks currently available to U.S. companies are unlikely to prevent intrusions by a highly-determined, highly-sophisticated hacker. Consequently, you should assume that we will be unable to implement security barriers or other preventative measures that repel all future cyber-attacks. Any such future security breaches or disruptions could materially adversely affect our business, results of operations or financial condition, especially in light of the growing frequency, scope and well-documented sophistication of cyber-attacks and intrusions.

Although CenturyLink maintains insurance coverage that may, subject to policy terms and conditions (including self-insured deductibles, coverage restrictions and monetary coverage caps), cover certain aspects of our cyber risks, such insurance coverage may be unavailable or insufficient to cover our losses.

Additional risks to our network, infrastructure and related systems include, among others:

- capacity or system configuration limitations, including those resulting from changes in our customer's usage patterns, the introduction of new technologies or products, or incompatibilities between our newer and older systems;
- theft or failure of our equipment;
- software or hardware obsolescence, defects or malfunctions;
- power losses or power surges;
- physical damage, whether caused by fire, flood, adverse weather conditions, terrorism, sabotage, vandalism or otherwise;
- deficiencies in our processes or controls;
- our inability to hire and retain personnel with the requisite skills to adequately maintain or improve our systems;
- programming, processing and other human error; and
- inadequate building maintenance by third-party landlords or other service failures of our third-party vendors.

Due to these factors, from time to time in the ordinary course of our business we experience disruptions in our service. We could experience more significant disruptions in the future, especially if network traffic continues to increase and we continue to assume greater responsibility for managing our customers' critical systems and networks.

Disruptions, security breaches and other significant failures of the above-described networks and systems could:

- disrupt the proper functioning of these networks and systems, which could in turn disrupt (i) our operational, billing or other administrative functions or (ii) the operations of certain of our customers who rely upon us to provide services critical to their operations;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive, classified or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require us to notify customers, regulatory agencies or the public of data breaches;
- require us to provide credits for future service under certain service level commitments we have provided contractually to our customers or to offer expensive incentives to retain customers;
- subject us to claims for damages, fines, penalties, termination or other remedies under our customer contracts or service standards set by regulators, which in certain cases could exceed our insurance coverage;
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to prolonged litigation; or
- require significant management attention or financial resources to remedy the resulting damages or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems.

Any or all of the foregoing developments could have a negative impact on our business, results of operations, financial condition and cash flows.

Negative publicity may adversely impact us.

We believe our industry is by its nature more prone to reputational risks than many other industries. Our ability to attract and retain customers depends in part upon external perceptions of our products, services, management integrity and financial performance. Customer complaints, governmental investigations, outages, or other service failures of networks operated by us could cause substantial adverse publicity affecting us. Similar events impacting other operators could indirectly harm us by causing substantial adverse publicity affecting our industry in general. In either case, press coverage, social media messaging or other public statements that insinuate improper actions by us or other operators, regardless of their factual accuracy or truthfulness, may result in negative publicity, litigation, governmental investigations or additional regulations. Addressing negative publicity and any resulting litigation or investigations may distract management, increase costs and divert resources. Negative publicity may have an adverse impact on our reputation and the morale of our employees. We could suffer similar adverse effects if shareholders, financial analysts or other financial professionals issue public statements that cast us or our industry in a negative light. Any of these developments could adversely affect our business, results of operations, financial condition, cash flows, prospects and the value of our securities.

In mid-2017, a former employee alleged that we had engaged in sales-related misconduct. Later that year, a special committee of CenturyLink's independent directors formed to investigate these allegations concluded, among other things, that systems and human error had contributed to inaccurate consumer billings. Since then we have implemented several changes to improve our customers' experience and have settled various claims with private and state litigants relating to our consumer billing practices. While we believe we have largely mitigated the issues identified by our 2017 investigation, we cannot assure you that all of our service support issues have been addressed to the full satisfaction of our customers. Nor can we assure you that customers, governmental agencies or employees will not raise further concerns about our operations in the future.

Market prices for many of our services have decreased in the past, and any similar price decreases in the future will adversely affect our revenue and margins.

Over the past several years, a range of competitive and technological factors, including robust network construction and intense competition, have lowered market prices for many of our products and services. If these market conditions persist, we may need to continue to reduce prices to retain customers and revenue. If future price reductions are necessary, our operating results will suffer unless we are able to offset these reductions by reducing our operating expenses or increasing our sales volumes.

Our future growth potential will depend in part on the continued development and expansion of the Internet.

Our future growth potential will depend in part upon the continued development and expansion of the Internet as a communication medium and marketplace for the distribution of data, video and other products by businesses, consumers and governments. The use of the Internet for these purposes may not grow and expand at the rate anticipated by us or others, or may be restricted by factors outside of our control, including (i) actions by other carriers or governmental authorities that restrict us from delivering traffic over other parties' networks, (ii) changes in regulations, (iii) technological stagnation, (iv) increased concerns regarding cyber threats or (v) changes in consumers' preferences or data usage.

Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers.

Video streaming services, gaming and peer-to-peer file sharing applications use significantly more bandwidth than other Internet activity such as web browsing and email. As use of these services continues to grow, our broadband customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we could choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. Competitive or regulatory constraints may preclude us from recovering the costs of network investments designed to address these issues, which could adversely impact our operating margins, results of operations, financial condition and cash flows.

We have been accused of infringing the intellectual property rights of others and will likely face similar accusations in the future, which could subject us to costly and time-consuming litigation or require us to seek third-party licenses.

Like other communications companies, we have increasingly in recent years received a number of notices from third parties or have been named in lawsuits filed by third parties claiming we have infringed or are infringing upon their intellectual property rights. We are currently responding to several of these notices and claims and expect this industry-wide trend will continue. Responding to these claims may require us to expend significant time and money defending our use of the applicable technology, and divert management's time and resources away from other business. In certain instances, we may be required to enter into licensing agreements requiring royalty payments. In the case of litigation, we could be required to pay significant monetary damages or cease using the applicable technology. If we are required to take one or more of these actions, our profit margins may decline or our operations could be materially impaired. 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 our business, results of operations, financial condition and cash flows.

Similarly, from time to time, we may need to obtain the right to use certain patents or other intellectual property from third parties to be able to offer new products and services. If we cannot license or otherwise obtain rights to use any required technology from a third party on reasonable terms, our ability to offer new products and services may be prohibited, restricted, made more costly or delayed.

We may not be successful in protecting and enforcing our intellectual property rights.

We rely on various patents, copyrights, trade names, trademarks, service marks, trade secrets and other similar intellectual property rights, as well as confidentiality agreements and procedures, to establish and protect our proprietary rights. These steps, however, may not fully protect us. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services, or may intentionally or unintentionally infringe on our intellectual property. Moreover, we may be unable to prevent our current or former employees from using or disclosing to others our proprietary information. Enforcement of our intellectual property rights may depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.

Our operations, financial performance and liquidity are materially reliant on various third parties.

Reliance on other communications providers. To offer certain services in certain of our markets, we must either purchase services or lease network capacity from, or interconnect our network with the infrastructure of, other communications carriers or cloud companies who typically compete against us in those markets. Our reliance on these supply or interconnection arrangements exposes us to multiple risks. Typically, these arrangements limit our control over the quality of our services and expose us to the risk that our ability to market our services could be adversely impacted by changes in the plans or properties of the carriers upon which we are reliant. In addition, we are exposed to the risk that the other carriers may be unwilling or unable to continue or renew these arrangements in the future on terms favorable to us, or at all. This risk is heightened when the other carrier is a competitor who may benefit from terminating the agreement or imposing price increases, or a carrier who suffers financial distress or bankruptcy. If we lose these arrangements and cannot timely replace them, our ability to provide services to our customers and conduct our business could be materially adversely affected. Moreover, many of our arrangements with other carriers are regulated by domestic or foreign agencies, which subject us to the additional risk that changes in regulation could increase our costs or otherwise adversely affect our ability to provide services. Finally, even when another carrier agrees or is obligated to provide services to us to permit us to obtain new customers, it is frequently expensive, difficult and time-consuming to switch the new customers to our network, especially if the other carrier fails to provide timely and efficient cooperation.

Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to existing or newly-built networks, owned or leased by them, thereby reducing our revenue. For additional information, see "Management's Discussion and Analysis of Financial Condition included in Item 7 of this report.

We also rely on reseller and sales agency arrangements with our affiliates and other communications companies to provide some of the services that we offer to our customers, including video and wireless services. As a reseller or sales agent, we do not control the availability, retail price, design, function, quality, reliability, customer service, marketing or branding of these products and services.

Our operations and financial performance could be adversely affected if our relationships with any of these other communications companies are unable or unwilling to continue to engage with us for any reason, including financial distress, bankruptcy, strikes, regulatory impediments, legal disputes or commercial differences.

Reliance on other key suppliers and vendors. We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure, including fiber optic cable, software, optronics, transmission electronics, digital switches and related components. We also rely on a limited number of software vendors, content suppliers or other parties to assist us with operating, maintaining and administering our business. If any of these suppliers experience interruptions or other problems delivering their products or services on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers and may be adversely affected if third parties assert patent infringement claims against our suppliers or us. Similarly, in certain instances we have access to only a limited number of alternative suppliers or vendors. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement equipment, software, supplies, services, utilities or programming on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Reliance on utility providers and landlords. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers.

Reliance on governmental payments. We receive a material amount of revenue or government subsidies under various government programs, which are further described under the heading "Risk Factors—Risks Relating to Legal and Regulatory Matters." We also provide products or services to various federal, state and local agencies. Our failure to comply with complex governmental regulations and laws applicable to these programs, or the terms of our governmental contracts, could result in us being suspended or barred from future governmental programs or contracts for a significant period of time. Moreover, certain governmental agencies frequently reserve the right to terminate their contracts for convenience or if funding is unavailable. If our governmental contracts are terminated for any reason, or if we are suspended or debarred from governmental programs or contracts, our results of operations and financial condition could be materially adversely affected.

Violating our government contracts could have other serious consequences.

We provide services to various governmental agencies with responsibility for national security or law enforcement. These governmental contracts impose significant requirements on us relating to network security, information storage and other matters, and in certain instances impose on us additional heightened responsibilities, including requirements related to the composition of CenturyLink's Board of Directors. While we expect to continue to comply fully with all of our obligations under these contracts, we cannot assure you of this. The consequences of violating these contracts could be severe, potentially including the revocation of our Federal Communications Commission (the "FCC") licenses in the U.S. (in addition to being suspended or debarred from government contracting, as noted above.)

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.

As of December 31, 2019, approximately 42% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. Our mixed workforce of represented and non-represented personnel could induce additional organizational activities. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits. In particular, retirement benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

Portions of our property, plant and equipment are located on property owned by third parties.

We rely on rights-of-way, colocation agreements, franchises and other authorizations granted by governmental bodies, railway companies, utilities, carriers and other third parties to locate our cable, conduit and other network equipment on or under their respective properties. A significant number of these authorizations are scheduled to lapse over the next five to ten years, unless we are able to extend or renew them. Our operations could be adversely affected if any of these authorizations terminate or lapse, or if the landowner requests price increases. Moreover, our ability to expand our network could depend in part on obtaining additional authorizations, the receipt of which is not assured.

Over the past few years, certain utilities, cooperatives and municipalities in certain of the states in which we operate have requested significant rate increases for attaching our plant to their facilities. To the extent that these entities are successful in increasing the amount we pay for these attachments, our future operating costs will increase.

We currently are, and in the past have been, subject to lawsuits challenging our use of rights-of-way. Similar suits are possible in the future. Plaintiffs in these suits typically seek to have them certified as class action suits. These suits are typically complex, lengthy and costly to defend, and expose us to each of the other general litigation risks described elsewhere herein.

Our major contracts subject us to various risks.

We furnish to and receive from our business customers indemnities relating to damages caused or sustained by us in connection with certain of our operations. Our customers' changing views on risk allocation could cause us to accept greater risk to win new business or could result in us losing business if we are not prepared to take such risks. To the extent that we accept such additional risk, and seek to insure against it, our insurance premiums could rise.

Asset dispositions could have a detrimental impact on us or the holders of our securities.

We may consider disposing of other assets or asset groups from time to time in the future. We may not be able to divest any such assets on terms that are attractive to us, or at all. In addition, if we agree to proceed with any such divestitures of assets, we may experience operational difficulties segregating them from our retained assets and operations, which could impact the execution or timing for such dispositions and could result in disruptions to our operations or claims for damages, among other things. Moreover, such dispositions could reduce our cash flows and make it harder for us to fund all of our cash requirements.

Unfavorable general economic conditions could negatively impact our operating results and financial condition.

Unfavorable general economic conditions, including unstable economic and credit markets, or depressed economic activity caused by trade wars, epidemics, pandemics or other factors, could negatively affect our business. While it is difficult to predict the ultimate impact of these general economic conditions, they could adversely affect demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forego purchases of our products and services. These conditions impact, in particular, our ability to sell discretionary products or services to business customers that are under pressure to reduce costs or to governmental customers operating under budgetary constraints. Any one or more of these circumstances could continue to depress our revenue. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could negatively impact their ability to make timely payments to us. In addition, as discussed further below, unstable economic and credit markets may preclude us from refinancing 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, weak economic conditions could adversely affect our operating results, financial condition, and liquidity.

For additional information about our business and operations, see "Business" in Item 1 of this report.

Risks Relating to Legal and Regulatory Matters

We operate in a highly regulated industry and are therefore exposed to restrictions on our operations and a variety of risks relating to such regulation.

General. Our operations are regulated by the FCC, various state utility commissions and occasionally by local agencies. Our operations are also subject to potential investigation and legal action by the Federal Trade Commission ("FTC") and other federal and state regulatory authorities over issues such as consumer marketing, competitive practices, and privacy protections.

Generally, we must obtain and maintain operating licenses from these bodies in most territories where we offer regulated services. We cannot assure you that we will be successful in obtaining or retaining all licenses necessary to carry out our business plan. Even if we are, the prescribed service standards and conditions imposed on us under these licenses may increase our costs and limit our operational flexibility.

We are subject to numerous requirements and interpretations under various federal, state and local laws, rules and regulations, which are often quite detailed and occasionally in conflict with each other. Accordingly, we cannot ensure that we will always be considered to be in compliance with all these requirements at any single point in time (as discussed further elsewhere herein). Our inability or failure to comply with the telecommunications and other laws in territories where we operate could prevent us from commencing or continuing to provide service therein.

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. Even if we are ultimately found to have complied with applicable regulations, such actions or inquiries could create adverse publicity that negatively impacts our business.

Regulation of the telecommunications industry continues to change, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. In addition, from time to time carriers or other third parties refuse to pay for certain of our services, or challenge our rights to receive certain service payments. Our future revenue, costs, and capital investment could be adversely affected by material changes to or decisions regarding the applicability of government requirements, and we cannot assure you that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations.

Changes in the composition and leadership of the FCC, state commissions and other agencies that regulate our business could have significant impacts on our revenue, expenses, competitive position and prospects. Changes in the composition and leadership of these agencies are often difficult to predict, and make future planning more difficult.

Risks associated with changes in regulation. Changes in regulation can have a material impact on our business, revenue or financial performance. Changes over the past couple of decades in federal regulations have substantially impacted our operations, including recent orders or laws overhauling intercarrier compensation, revamping universal service funding, and increasing our responsibilities to assist various governmental agencies and safeguard customer data. These changes, coupled with our participation in the new FCC support programs, have significantly impacted various aspects of our operations, financial results and capital expenditures, including the amount of revenue we collect from our wholesale customers and from federal support programs. We expect these impacts will continue in the future. For more information, see "Business—Regulation" in Item 1 of this report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

Many of the FCC's regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

Federal and state agencies that dispense support program payments can, and from time to time do, reduce the amount of those payments to us and other carriers.

Risks of higher costs. Regulations continue to create significant operating and capital costs for us. Regulatory challenges to our business practices or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect our operations.

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to regulating broadband services, storing records, fighting crime, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, restricting data collection, protecting intellectual property rights of third parties, or addressing other issues that impact our business. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations.

Risk of investigations and fines. Various governmental agencies, including state attorneys general, with jurisdiction over our operations have routinely in the past investigated our business practices either in response to customer complaints or on their own initiative, and are expected to continue to do the same in the future. These investigations can potentially result in enforcement actions, litigation, fines, settlements or reputational harm, or could cause us to change our sales practices or operations. We typically publicly disclose the existence or outcome of these investigations, or our own internal investigations, only when we determine these disclosures to be material to investors or otherwise required by applicable law.

We have recently paid certain regulatory fines associated with network or service outages, particularly with respect to outages impacting the availability of emergency - 911 services. Federal and state regulators continue to be focused on 911 service reliability and we believe this trend will continue.

Risks of reduced flexibility. As a diversified full service incumbent local exchange carrier in many of our operating markets, we have traditionally been subject to significant regulation that does not apply to many of our competitors. This regulation in many instances restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. As our business becomes increasingly competitive, regulatory disparities could continue to favor our competitors.

Risks posed by other regulations. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. In connection with our current operations, we use, handle and dispose of various hazardous and non-hazardous substances and wastes. In prior decades, certain of our current or former subsidiaries owned or operated, or are alleged to have owned or operated, former manufacturing businesses, for which we have been notified of certain potential environmental liabilities. We monitor our compliance with applicable regulations or commitments governing these current and past activities. Although we believe that we are in compliance with these regulations in all material respects, our use, handling and disposal of environmentally sensitive materials, or the prior operations of our predecessors, could expose us to claims or actions that could potentially have a material adverse effect on our business, financial condition and operating results.

Our participation in the FCC's Connect America Fund ("CAF") II support program poses certain risks.

Our participation in the FCC's CAF II support program subjects us to certain financial risks. If we fail to attain certain specified infrastructure buildout requirements, the FCC could withhold future CAF support payments until these shortcomings are rectified. In addition, if we are not in compliance with FCC measures by the end of the CAF II program, we would incur substantial penalties. To comply with the FCC's buildout requirements, we believe we will need to dedicate a substantial portion of our future capital expenditure budget to the construction of new infrastructure. The CAF-related expenditures could reduce the amount of funds we are willing or able to allocate to other initiatives or projects. The FCC has determined it will use reverse auctions to award support under a new fund following the completion of CAF Phase II. We cannot assure you that any funding that CenturyLink or we pursue and receive through these upcoming auctions will be sufficient to replace our current CAF support payments.

Regulation of the Internet and data privacy could substantially impact us.

Since the creation of the Internet, there has been extensive debate about whether and how to regulate Internet service providers. A significant number of U.S. congressional leaders, state elected officials and various consumer interest groups have long advocated in favor of extensive regulation. In 2015, the FCC adopted new regulations that regulated broadband services as a public utility under Title II of the Communications Act of 1934. The FCC voted to repeal most of those regulations in December 2017 and preempted states from imposing substantial regulations of their own, opponents of the rescission judicially challenged this action and continue to advocate in favor of re-instituting extensive federal regulation. In addition, California and other states have adopted, or are considering adopting, legislation or regulations that govern the terms of internet services. In October 2019, a federal court upheld the FCC's classification decision but vacated a part of its preemption ruling. The court also remanded to the FCC for further findings relates to the classification decision. Numerous parties have sought further appellate review of this decision. The related result of these further appeals is pending. Depending on the scope of such current and future federal or state regulation and judicial proceedings regarding these matters, the imposition of heightened regulation of our Internet operations could hamper our ability to operate our data networks efficiently, restrict our ability to implement network management practices necessary to ensure quality service, increase the cost of operating, maintaining and upgrading our network, and otherwise negatively impact our current operations. As the significance of the Internet continues to expand, foreign governments similarly may adopt new laws or regulations governing the Internet. We cannot predict the outcome of any such changes.

California and other states have adopted, or are considering adopting, data privacy laws. These laws are complex and not consistent across jurisdictions. Although we cannot predict the ultimate outcomes of this growing trend toward additional regulation, we expect it will increase our operating costs and heighten our regulatory risk.

We may be liable for the material that content providers or distributors distribute over our network.

The liability of private network operators for information stored or transmitted on their networks is impacted both by changing technology and evolving legal principles that remain unsettled in many jurisdictions. While we disclaim any liability for third-party content in our service contracts, as a private network provider we could be exposed to legal claims relating to third party content stored or transmitted on our networks. Such claims could involve, among others, allegations of defamation, invasion of privacy, copyright infringement, or aiding and abetting restricted activities such as online gambling or pornography. Although we believe our liability for these types of claims is limited, suits against other carriers have been successful and we cannot assure you that our defenses will prevail. If we decide to implement additional measures to reduce our exposure to these risks, or if we are required to defend ourselves against these kinds of claims, our operations and financial results could be negatively affected.

Our pending legal proceedings could have a material adverse impact on our financial condition and operating results, the trading price of our securities and our ability to access the capital markets.

There are several material proceedings pending against CenturyLink and its affiliates, as described in Note 19—Commitments and Contingencies to the consolidated financial statements included in Item 8 of Part II of CenturyLink's annual report on Form 10-K for the year ended December 31, 2019, and certain material proceedings pending against us, as described in Note 16—Commitments, Contingencies and Other Items in Item 8 of this report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. For each of these reasons, any of the proceedings described in Note 16—Commitments, Contingencies and Other Items in Item 8 of this report, as well as current litigation not described therein or future litigation, could have a material adverse effect on our business, reputation, financial position, operating results, the trading price of our securities and our ability to access the capital markets. We can give you no assurances as to the ultimate impact of these matters on us.

We are subject to franchising requirements that could impede our expansion opportunities or result in potential fines or penalties.

We may be required to obtain from municipal authorities operating franchises to install or expand certain facilities related to our fiber transport operations, and certain of our other services. Some of these franchises may require us to pay franchise fees, and may require us to pay fines or penalties if we violate or terminate our related contractual commitments. In some cases, certain franchise requirements could delay us in expanding our operations or increase the costs of providing these services.

We are exposed to risks arising out of recent legislation affecting U.S. public companies.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, and related regulations implemented thereunder, have increased our legal and financial compliance costs and made some activities more time consuming. Any failure to comply with these laws and regulations, including any failure to timely complete annual assessments of our internal controls could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or our reputation with investors, lenders or others.

Changes in any of the above-described laws or regulations may limit our ability to plan, and could subject us to further costs or constraints.

From time to time, the laws or regulations governing us or our customers, or the government's policy of enforcing those laws or regulations, have changed frequently and materially. The variability of these laws could hamper the ability of us and our customers to plan for the future or establish long-term strategies. Moreover, future changes in these laws or regulations could further increase our operating or compliance costs, or further restrict our operational flexibility, any of which could have a material adverse effect on our results of operations, competitive position, financial condition or prospects.

For a more thorough discussion of the regulatory issues that may affect our business, see "Business—Regulation" in Item 1 of this report.

Risks Affecting Our Liquidity and Capital Resources

CenturyLink's and our high debt levels expose us to a broad range of risks.

Our ultimate parent, CenturyLink, and we continue to carry significant debt. As of December 31, 2019, the aggregate principal amount of our consolidated long-term debt, excluding unamortized premiums and discounts, unamortized debt issuance costs and finance lease and other obligations, was \$6.1 billion (excluding our note payable - affiliate of \$1.1 billion), which was included in CenturyLink's consolidated long-term debt of \$34.8 billion as of that date. As of the filing date of this report, \$7.0 billion aggregate principal amount of CenturyLink's consolidated debt securities is scheduled to become payable prior to December 31, 2022. While we currently believe that CenturyLink and we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of CenturyLink, the credit markets or the economy generally.

Our significant levels of debt can adversely affect us in several other respects, including:

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, refinancings or other general corporate purposes, particularly if, as discussed further in the risk factor disclosure below, (i) the ratings assigned to our debt securities by nationally recognized credit rating organizations are revised downward or (ii) we seek capital during periods of turbulent or unsettled market conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal on our debt, thereby reducing the funds available to us for other purposes, including acquisitions, capital expenditures, strategic initiatives, dividends, marketing and other potential growth initiatives;
- hindering our ability to capitalize on business opportunities and to plan for or react to changing market, industry, competitive or economic conditions;
- increasing our future borrowing costs;
- limiting or precluding us from entering into commercial, hedging or other financial arrangements with vendors, customers or other business partners;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell securities or assets, possibly on unfavorable terms, or take other unfavorable actions to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments, either of which could result in the acceleration of some or all of our outstanding indebtedness.

The effects of each of these factors could be intensified if we increase our borrowings.

A portion of our indebtedness continues to bear interest at variable rates. If market interest rates increase, our variable-rate debt will have higher debt service requirements, which could adversely impact our cash flows and financial condition. If such rate increases are significant and sustained, these impacts could be material.

Any failure to make required debt payments could, among other things, adversely affect our ability to conduct operations or raise capital.

Subject to certain limitations, our debt agreements and the debt agreements of CenturyLink and its other subsidiaries allow us to incur additional debt, which could exacerbate the other risks described in this report.

Subject to certain limitations and restrictions, the current terms of our debt instruments and the debt instruments of CenturyLink and its other subsidiaries permit us or them to incur additional indebtedness, including additional borrowings under CenturyLink's revolving credit facility. Incremental borrowings that impose additional financial risks could exacerbate the other risks described in this report.

We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities or term loans by CenturyLink or one or more of our principal subsidiaries. We may also need to obtain additional financing under a variety of other circumstances, including if:

- we undertake substantial capital projects or other initiatives that increase our cash requirements;
- we become subject to significant judgments or settlements, including in connection with one or more of the matters discussed in Note 16—Commitments, Contingencies and Other Items to our consolidated financial statements included in this report; or
- we otherwise require additional cash to fund our cash requirements described elsewhere herein.

Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Prevailing market conditions could be adversely affected by (i) general market conditions, such as disruptions in domestic or overseas sovereign or corporate debt markets, geo-political instabilities, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad and (ii) specific conditions in the communications industry. Instability in the domestic or global financial markets has from time to time resulted in periodic volatility and disruptions in capital markets. Uncertainty regarding worldwide trade, the strength of various global and supranational governing bodies and other geopolitical events could significantly affect global financial markets in 2020. Volatility in the global markets could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefited, on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our debt instruments, which are discussed further below.

For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us, or at all.

If we are unable to make required debt payments or refinance our debt, we would likely have to consider other options, such as selling assets, issuing additional debt securities, cutting or delaying costs or otherwise reducing our cash requirements, or negotiating with our lenders to restructure our applicable debt. Our current and future debt instruments may restrict, or market or business conditions may limit, our ability to complete some of these actions on favorable terms, or at all. For these and other reasons, we cannot assure you that we could implement these steps in a sufficient or timely manner, or at all. Moreover, any steps taken to strengthen our liquidity, such as cutting costs, could adversely impact our business or operations.

Our affiliates have a highly complex debt structure, which could impact the rights of our investors.

CenturyLink, Inc. and various of its subsidiaries owe substantial sums pursuant to various debt and financing arrangements, certain of which are guaranteed by other principal subsidiaries. Over half of the debt of CenturyLink, Inc. is guaranteed by nine of its principal domestic subsidiaries, six of which have pledged substantially all of their assets (including certain of their respective subsidiaries) to secure their guarantees. The remainder of the debt of CenturyLink, Inc. is neither secured by collateral nor guaranteed by any of its subsidiaries. Nearly half of the debt of Level 3 Financing, Inc. is (i) secured by a pledge of substantially all of its assets and (ii) guaranteed on a secured basis by certain of its affiliates. The remainder of the debt of Level 3 Financing, Inc. is not secured by any of its assets, but is guaranteed by its parent. Substantial amounts of debt are also owed by two direct or indirect subsidiaries of Qwest Communications International Inc., including us, and by Embarq Corporation and one of its subsidiaries. Most of the approximately 400 subsidiaries of CenturyLink, Inc. have neither borrowed money nor guaranteed any of the debt of CenturyLink, Inc. or its affiliates. As such, investors in our consolidated debt instruments should be aware that (i) determining the priority of their rights as creditors is a complex matter which is substantially dependent upon the assets and earning power of the entities that issued or guaranteed (if any) the applicable debt and (ii) a substantial portion of such debt is structurally subordinated to all liabilities of our subsidiaries to the extent of the value of those subsidiaries that are obligors.

Our various debt agreements include restrictions and covenants that could (i) limit our ability to conduct operations or borrow additional funds (ii) restrict our ability to engage in inter-company transactions and (iii) lead to the acceleration of our repayment obligations in certain instances.

We have borrowed substantial amounts of money from financial institutions or investors. Under the associated debt and financing arrangements, we are subject to various covenants and restrictions.

CenturyLink's debt arrangements contain several significant limitations restricting our ability to, among other things:

- borrow additional money or issue guarantees;
- pay dividends or other distributions to shareholders;
- make loans, advances or other investments;
- create liens on assets;
- sell assets;
- enter into transactions with affiliates; and
- engage in mergers or consolidations.

These above-listed restrictive covenants could materially adversely affect our ability to operate or expand our business, to pursue strategic transactions, or to otherwise pursue our plans and strategies.

Our term loan requires us to maintain certain financial ratios. Our ability to comply with these provisions may be affected by events beyond our control.

Increasingly in recent years, certain debt investors have sought to financially benefit themselves by identifying and seeking to enforce defaults under borrowers' debt agreements. This development could increase the risk of claims made under our debt agreements.

Our failure to comply with the above-described restrictive or financial covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations. Certain of our debt instruments have cross-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. As noted elsewhere herein, we cannot assure you that we could adequately address any such defaults, cross-defaults or acceleration of our debt payment obligations in a sufficient or timely manner, or at all. For additional information, see Risks Affecting Our Liquidity and Capital Resources —“We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all” and Note 5—Long-Term Debt and Revolving Promissory Note.

Any downgrade in the credit ratings of us could limit our ability to obtain future financing, increase our borrowing costs and adversely affect the market price of our existing debt securities or otherwise impair our business, financial condition and results of operations.

Nationally recognized credit rating organizations have issued credit ratings relating to the long-term debt of CenturyLink, Inc. and us. Most of these ratings are below “investment grade”, which results in higher borrowing costs than “investment grade” debt as well as reduced marketability of our debt securities. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency’s judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants or adverse conditions in our current or future debt agreements;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

For more information on the credit ratings of our secured and unsecured debt, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt and Other Financing Arrangements” in Item 7 of this report.

Our business requires us to incur substantial capital and operating expenses, which reduces our available free cash flow.

Our business is capital intensive. We expect to continue to require significant cash to maintain, upgrade and expand.

Our network infrastructure as a result of several factors, including:

- changes in customers' service requirements, including increased demands by customers to transmit larger amounts of data at faster speeds;
- our above-described need to (i) consolidate and simplify our various legacy systems, (ii) strengthen and transform our customer support systems and (iii) support our development and launch of new products and services;
- technological advances of our competitors; and
- our regulatory commitments, including infrastructure construction requirements arising out of our participation in the FCC's CAF II program, which are discussed further herein.

We may be unable to expand or adapt our network infrastructure to respond to these developments in a timely manner, at a commercially reasonable cost or on terms producing satisfactory returns on our investment.

In addition to investing in expanded networks, new products or new technologies, we must from time to time invest capital to (i) replace some of our aging equipment that supports many of our traditional services that are experiencing revenue declines or (ii) convert older systems to simplify and modernize our network. While we believe that our currently planned level of capital expenditures will meet both our maintenance and core growth requirements, this may not be the case if demands on our network continue to accelerate or other circumstances underlying our expectations change. Increased spending could, among other things, adversely affect our operating margins, cash flows, results of operations and financial position.

Similarly, we continue to anticipate incurring substantial operating expenses to support and maintain our operations. If we are unable to attain our objectives for managing or reducing these costs, our operating margins will be adversely impacted. For additional information, see Note 5—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements included in Item 8 of Part II of this report.

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

A substantial amount of our employees participate in a qualified pension plan sponsored by CenturyLink that has assumed the obligations under Qwest Communications International Inc.'s ("QCII") predecessor pension plan.

The funded status of CenturyLink's qualified pension plan is the difference between the value of the plan's assets and the benefit obligation. The accounting unfunded status of CenturyLink's qualified pension plan was \$1.7 billion as of December 31, 2019. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in CenturyLink's benefit obligation or a significant decrease in the value of the plan's assets. These adverse changes could require CenturyLink 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 CenturyLink are not segregated or restricted and may be used to provide benefits to employees of CenturyLink's other subsidiaries. Based on current laws and circumstances, CenturyLink does not expect it will be required to make a contribution to its plan in 2020. The actual amount of required contributions to its plan in 2020 and beyond will depend on earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on CenturyLink's liquidity by reducing their cash flows, which in turn could affect our liquidity.

Other Risks

We regularly transfer our cash for centralized management by CenturyLink, which exposes us to certain risks.

Under our cash management arrangement with CenturyLink, we regularly transfer the majority of our cash balance for centralized management by CenturyLink, which we recognize on our consolidated balance sheets as advances to affiliates. Although these advances are periodically repaid to fund our cash requirements throughout the year, at any given point in time we may be owed a substantial sum under this arrangement. Accordingly, developments that adversely impact CenturyLink could adversely impact our ability to collect these advances.

Terrorist attacks and other acts of violence or war may adversely affect the financial markets and our business.

Future terrorist attacks or armed conflicts may directly affect our physical facilities or those of our customers. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. Any of these occurrences could materially adversely affect our business.

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies or forward-looking statements, our consolidated financial statements and related disclosures could be materially affected.

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes including the judgments, assumptions and estimates applied pursuant to our critical accounting policies, which are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Item 7 of this report. If future events or assumptions differ significantly from the judgments, assumptions and estimates applied in connection with preparing our historical financial statements, our future financial statements could be materially impacted.

While frequently presented with numeric specificity, the forward-looking statements that we disseminate from time to time is based on numerous variables and assumptions (including, but not limited to, those related to industry performance and competition and general business, economic, market and financial conditions and additional matters specific to our business, as applicable) that are inherently subjective and speculative and are largely beyond our control. As a result, actual results may differ materially from our guidance or other forward-looking statements. Similarly, for a variety of reasons, we may change our intentions, strategies or plans at any time, which could materially alter our actual results from those previously anticipated. For additional information, see "Special Note Regarding Forward-Looking Statements" in Part I of this report.

Lapses in our disclosure controls and procedures or internal control over financial reporting could materially and adversely affect our operations, profitability or reputation.

We maintain (i) disclosure controls and procedures designed to provide reasonable assurances regarding the accuracy and completeness of our SEC reports and (ii) internal control over financial reporting designed to provide reasonable assurance regarding the reliability and compliance with GAAP of our financial statements. We cannot assure you that these measures will be effective. As of December 31, 2018, we concluded that we had a material weakness relating to our accounting for revenue transactions. Although we successfully remediated this material weakness during 2019, we cannot assure you that our remedial measures will avoid other control deficiencies in the future.

There can be no assurance that our disclosure controls and procedures or internal control over financial reporting will be effective in the future. As a result, it is possible that our current or future financial statements or SEC reports may not comply with generally accepted accounting principles or other applicable requirements, will contain a material misstatement or omission, or will not be available on a timely basis, any of which could cause investors to lose confidence in us and lead to, among other things, unanticipated legal, accounting and other expenses, delays in filing required financial disclosures or reports, enforcement actions by regulatory authorities, fines, penalties, the delisting of our securities, liabilities arising from shareholder litigation, restricted access to the capital markets and lower valuations of our securities.

If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings and reduce our stockholders' equity.

As of December 31, 2019, approximately 48% of our total consolidated assets reflected on the consolidated balance sheet included in this report consisted of goodwill, customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time, including in the fourth quarter of 2018 and the first quarter of 2019, our affiliates or predecessors have recorded large non-cash charges to earnings in connection with required reductions of the value of their intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred. Any such charges could, in turn, have a material adverse effect on our results of operation, financial condition or ability to comply with financial covenants in our debt instruments. Moreover, even if we conclude that our intangible assets are recorded at carrying values that are recoverable, we cannot assure you of the amount of cash we would receive in the event of a voluntary or involuntary sale of these assets.

The Tax Cuts and Jobs Act will continue to have a substantial impact on us.

The Tax Cuts and Jobs Act (the "Act") enacted in December 2017 significantly changed U.S. tax law by reducing the U.S. corporate income tax rate and making certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures, interest expense and various other items. The net impact of this Act as applied to date, has been favorable to us. However, the Act is quite complex and the impacts could potentially change as additional regulatory guidance is received from the Internal Revenue Service. As a result, our views on the Act's ultimate impact on us could change.

Additional changes in tax laws or tax audits could adversely affect us.

Like all large multinational businesses, CenturyLink is subject to multiple sets of complex and varying federal, state and local tax laws and rules. Legislators and regulators at various levels of government may from time to time change existing tax laws or regulations or enact new laws or regulations. In many cases, the application of existing, newly enacted or amended tax laws may be uncertain and subject to differing interpretations that could negatively impact our operating results or financial condition. We are also subject to frequent and regular audits by a broad range of federal, state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

We believe that we have adequately provided for tax contingencies. However, CenturyLink's tax audits and examinations may result in tax liabilities that differ materially from those that we have recognized 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.

We face risks from natural disasters and extreme weather, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.

A substantial number of our facilities are subject to the risks associated with severe tropical storms, hurricanes, tornadoes, earthquakes, floods or other similar casualty events. These events could cause substantial damages, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our property (excluding our above ground outside plant) and may, under certain circumstances, be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for catastrophic hazard-related losses or, if obtainable and carried, whether this insurance will be adequate to cover such losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles, retentions and coverage exclusions, and the premiums to be based on our loss experience. Moreover, many climate experts have predicted an increase in extreme weather events in the future, which would increase our exposure to casualty risks. For all these reasons, any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

Adverse developments impacting our non-consolidated affiliates could indirectly impact us.

Our consolidated operations constitute only a portion of the consolidated operations of our corporate parent, CenturyLink. We engage in various intercompany transactions with affiliates of CenturyLink, that are not members of our consolidated group of companies. Events or developments that adversely impact these non-consolidated affiliates will not directly impact our consolidated financial position or performance as reported under GAAP, but could nonetheless indirectly adversely impact us to the extent such developments interfere with the ability of such non-consolidated affiliates to provide services or pay amounts to which we or our subsidiaries are entitled. For these reasons, you are urged to review the risk factor disclosures contained in Item 1A of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2019.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our property, plant and equipment consists principally of telephone lines, cable, central office equipment, land and buildings related to our operations. Our gross property, plant and equipment consisted of the following components:

	As of December 31,	
	2019	2018
Land	2%	2%
Fiber, conduit and other outside plant ⁽¹⁾	49%	48%
Central office and other network electronics ⁽²⁾	29%	29%
Support assets ⁽³⁾	17%	18%
Construction in progress ⁽⁴⁾	3%	3%
Gross property, plant and equipment	100%	100%

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

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

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

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

We own substantially all of our telecommunications equipment required for our business. However, we lease from third parties certain facilities, plant, equipment and software under various finance and operating lease arrangements when the leasing arrangements are more favorable to us than purchasing the assets. We also own and lease administrative offices in major metropolitan locations primarily within our local service area. Substantially all of our network electronics equipment is located in buildings or on land that we own or lease within our local service area. Outside of our local service area, our assets are generally located on real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of these agreements, due to their termination or expiration or in connection with legal challenges to our rights under such agreements.

Our net property, plant and equipment was approximately \$8.2 billion and \$8.1 billion at December 31, 2019 and 2018, respectively. For additional information, see Note 7—Property, Plant and Equipment to our consolidated financial statements in Item 8 of Part II of this report.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings in which we are involved, see Note 16—Commitments, Contingencies and Other Items to our consolidated financial statements in Item 8 of Part II of this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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 including Level 3 Parent, LLC, referred to as "Level 3".

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not Applicable.

ITEM 6. SELECTED FINANCIAL DATA

Omitted pursuant to General Instruction I(2).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All references to "Notes" in this Item 7 of Part II refer to the Notes to Consolidated Financial Statements included in Item 8 of Part II of this report. Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" in Part I of this report for factors relating to these statements and "Risk Factors" in Item 1A of Part I of this report for a discussion of certain risk factors applicable to our business, financial condition, results of operations, liquidity and prospects.

Overview

We are an integrated communications company engaged primarily in providing an array of communications services to our business and residential customers. Our specific products and services are detailed below under the heading "Operations - Products and Services" in Item 1 of Part I of this report.

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

For the reasons noted in Note 13—Products and Services Revenue to our consolidated financial statements in Item 8 of Part II of this report, we have determined that we have one reportable segment.

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

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

- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory revenue*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenue. We receive federal support payments from both federal and state USF programs and from the federal CAF II program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and
- *Affiliate services*, which are telecommunication services that we also provide to our external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

From time to time, we change the categorization of our products and services, and we may make similar changes in the future.

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

Trends Impacting Our Operations

Our consolidated operations have been, and are expected to continue to be, impacted by the following company-wide trends:

- Customers' demand for automated products and services and competitive pressures will require that we continue to invest in new technologies and automated processes to improve the customer experience and reduce our operating expenses.
- The increasingly digital environment and the growth in online video require robust, scalable network services. We are continuing to enhance our product capabilities and simplify our product portfolio based on demand and profitability to enable customers to have access to greater bandwidth.
- Businesses continue to adopt distributed, large-scale operating models. We are expanding and densifying our fiber network, connecting more buildings to our network to generate revenue opportunities and reduce our costs associated with leasing networks from other carriers.
- Industry consolidation, coupled with changes in regulation, technology and customer preferences, are significantly reducing demand for our traditional voice services and are pressuring some other revenue streams, while other advances, such as the need for lower latency provided by Edge computing or the implementation of 5G networks, are expected to create opportunities.
- The operating margins of several of our newer, more technologically advanced services, some of which may connect to customers through other carriers, are lower than the operating margins on our traditional, on-net wireline services.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2019 and 2018:

	Years Ended December 31,	
	2019	2018
	(Dollars in millions)	
Operating revenue	\$ 8,157	8,493
Operating expenses	5,273	5,833
Operating income	2,884	2,660
Other expense, net	416	501
Income tax expense	641	494
Net income	\$ 1,827	1,665

Operating Revenue

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

	Years Ended December 31,		% Change
	2019	2018	
	(Dollars in millions)		
IP and Data Services	\$ 624	615	1 %
Transport and Infrastructure	2,829	2,925	(3)%
Voice and Collaboration	1,639	1,798	(9)%
IT and Managed Services	3	6	(50)%
Regulatory Services	189	214	(12)%
Affiliate Services	2,873	2,935	(2)%
Total operating revenue	\$ 8,157	8,493	(4)%

Total operating revenue decreased by \$336 million, or 4%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The change in operating revenue was primarily due to a decrease in voice and collaboration, transport and infrastructure and regulatory services. The decrease in voice and collaboration was due to a continued decline in revenue services from our local voice services. The reduction in transport and infrastructure was attributable to a continued decline in private line (including business data services).

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Years Ended December 31,		% Change
	2019	2018	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,438	2,767	(12)%
Selling, general and administrative	659	799	(18)%
Operating expenses-affiliates	812	831	(2)%
Depreciation and amortization	1,364	1,436	(5)%
Total operating expenses	\$ 5,273	5,833	(10)%

These expense classifications may not be comparable to those of other companies.

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

Cost of services and products (exclusive of depreciation and amortization) are expenses incurred in providing products and services to our customers. These expenses include: employee-related expenses directly attributable to operating and maintaining our network (such as salaries, wages, benefits and professional fees); facilities expenses (which include third-party telecommunications expenses we incur for using other carriers' networks to provide services to our customers); rents and utilities expenses; equipment expenses (such as modem expenses); costs incurred for universal service funds (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); certain legal expenses associated with our operations; and other expenses directly related to our operations.

Cost of services and products (exclusive of depreciation and amortization) decreased by \$329 million, or 12%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The decrease in our cost of services and products was due to reductions in salaries and wages and employee-related expenses resulting from lower headcount directly related to operating and maintaining our network, customer premises equipment from lower sales, voice usage costs and direct taxes and fees and city receipts taxes. These reductions were partially offset by higher customer installation expenses, USF rates and dark fiber expenses.

Selling, General and Administrative

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 expenses; property and other operating taxes and fees; external commissions; legal expenses associated with general matters; bad debt expense; and other selling, general and administrative expenses.

Selling, general and administrative expenses decreased by \$140 million, or 18%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to reductions in salaries and wages and employee-related expenses from lower headcount, contract labor costs, commissions, professional fees, marketing and advertising, property and other taxes, bad debt expense, and an increase in the amount of labor capitalized or deferred. These reductions were partially offset by higher building and network maintenance costs.

Operating Expenses-Affiliates

Since CenturyLink's acquisition of us, we have incurred affiliate expenses related to our use of telecommunication services, marketing and employee related support services provided by CenturyLink and its subsidiaries.

Operating expenses-affiliates decreased by \$19 million, or 2%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The decrease in operating expenses-affiliates was primarily due to the decline in the level of services provided to us by our affiliates.

Depreciation and Amortization

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

	Years Ended December 31,		% Change
	2019	2018	
	(Dollars in millions)		
Depreciation	\$ 831	855	(3)%
Amortization	533	581	(8)%
Total depreciation and amortization	\$ 1,364	1,436	(5)%

Annual depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets and the addition of new plant. Depreciation expense decreased by \$24 million, or 3%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The decline in depreciation expense was primarily due to the impact of annual rate depreciable life changes of \$78 million, partially offset by a net increase in depreciable assets of \$54 million.

Amortization expense decreased by \$48 million, or 8%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to a \$45 million decrease in the effect of using an accelerated amortization method resulting in an incremental decline in expense each period as the intangible assets amortize and a \$25 million decrease associated with annual rate amortizable life changes of software for the period. These decreases were partially offset by net growth in amortizable assets of \$21 million for the period.

Other Consolidated Results

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

	Years Ended December 31,		% Change
	2019	2018	
	(Dollars in millions)		
Interest expense	\$ (380)	(448)	(15)%
Interest expense-affiliates	(62)	(57)	9 %
Other income, net	26	4	nm
Total other expense, net	\$ (416)	(501)	(17)%
Income tax expense	\$ 641	494	30 %

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

Interest Expense

Interest expense decreased by \$68 million, or 15%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018 and was attributable to the redemption of approximately \$1.3 billion of senior notes in the third quarter of 2018. See Note 5—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of this report and Liquidity and Capital Resources below for additional information about our debt.

Interest Expense-Affiliates, Net

Affiliate interest expense increased by \$5 million, or 9%, for the year ended December 31, 2019 as compared to the year ended December 31, 2018. The increase in affiliate interest expense was primarily due to an increase in the principal balance of the note payable - affiliate resulting from the capitalization of interest in the third quarter of 2019.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including interest income, gains and losses from non-operating asset dispositions and components of net periodic pension and post-retirement benefit costs. Other income, net increased by \$22 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018 that was primarily due to the \$34 million loss on debt redemption during the third quarter of 2018.

Income Tax Expense

Income tax expense for the year ended December 31, 2019, was \$641 million, or an effective tax rate of 26.0%, compared to \$494 million, or an effective tax rate of 22.9%, for the year ended December 31, 2018. For tax year ended December 31, 2018, our tax rate is primarily driven by the lower federal statutory rate of 21%. Additionally, for the tax year ended December 31, 2018, the rate was also favorably impacted by a tax benefit of \$83 million generated by filing tax accounting method changes that accelerated significant tax deductions.

For additional information on income taxes, see Note 12—Income Taxes to our consolidated financial statements in Item 8 of Part II of this report.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenue and expenses. We have identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations related to (i) property, plant and equipment; (ii) affiliate transactions and (iii) income taxes. These policies and estimates are considered critical because they had a material impact, or they have the potential to have a material impact, on our consolidated financial statements and because they require us to make significant judgments, assumptions or estimates. We believe that the estimates, judgments and assumptions made when accounting for the items described below were reasonable, based on information available at the time they were made. However, there can be no assurance that actual results will not differ from those estimates.

Property, Plant and Equipment

As a result of our indirect acquisition by CenturyLink, property, plant and equipment owned at the time of acquisition was recorded based on its estimated fair value as of the acquisition date. Subsequently purchased and constructed property, plant and equipment are recorded at cost. Renewals and betterments of plant and equipment are capitalized while repairs, as well as renewals of minor items, are charged to operating expense. Depreciation of property, plant and equipment is provided on the straight-line method using class or overall group rates. The group method provides for the recognition of the remaining net investment, less anticipated net salvage value, over the remaining useful life of the assets. This method requires the periodic revision of depreciation rates.

Normal retirements of property, plant and equipment are charged against accumulated depreciation, with no gain or loss recognized. We depreciate such property on the straight-line method over estimated service lives ranging from 5 to 45 years.

We perform annual internal reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment. Our reviews utilize models that take into account actual usage, physical wear and tear, replacement history, assumptions about technology evolution and, in certain instances, actuarially determined probabilities to estimate the remaining life of our asset base.

Due to rapid changes in technology and the competitive environment, determining the estimated economic life of telecommunications plant and equipment requires a significant amount of judgment. We regularly review data on utilization of equipment, asset retirements and salvage values to determine adjustments to our depreciation rates. The effect of a hypothetical one-year increase or decrease in the estimated remaining useful lives of our property, plant and equipment would have decreased depreciation expense by approximately \$90 million annually or increased depreciation expense by approximately \$110 million annually, respectively.

Affiliate Transactions

We recognize intercompany charges at the amounts billed to us by our affiliates and we recognize intercompany revenue for services we bill to our affiliates. Regulatory rules require certain expenses to be recorded at market price or fully distributed cost. Our compliance with regulations is subject to review by regulators. Adjustments to intercompany charges that result from these reviews are recorded in the period they become known.

Because of the significance of the services we provide to our affiliates and our other affiliate transactions, the results of operations, financial position and cash flows presented herein are not necessarily indicative of the results of operations, financial position and cash flows we would have achieved had we operated as a stand-alone entity during the periods presented. See Note 14—Affiliate Transactions to our consolidated financial statements in Item 8 of Part II of this report for additional information.

Income Taxes

We are included in the consolidated federal income tax return of CenturyLink. Under CenturyLink's tax allocation policy, CenturyLink treats our consolidated results as if we were a separate taxpayer. The policy requires us to settle our tax liabilities through a change in our general intercompany obligation based upon our separate return taxable income. We are also included in the combined state tax returns filed by CenturyLink and the same payment and allocation policy applies. Our reported deferred tax assets and liabilities are primarily determined as a result of the application of the separate return allocation method and therefore the settlement of these amounts is dependent upon our parent, CenturyLink, rather than tax authorities. CenturyLink does have the right to change their policy regarding settlement of these assets and liabilities at any time.

Our provision for income taxes includes amounts for tax consequences deferred to future periods. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to tax credit carryforwards and differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities. Deferred taxes are computed using enacted tax rates expected to apply in the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in earnings in the period that includes the enactment date.

The measurement of deferred taxes often involves the exercise of considerable judgment related to the realization of tax basis. Our deferred tax assets and liabilities reflect our assessment that tax positions taken in filed tax returns and the resulting tax basis, are more likely than not to be sustained if they are audited by taxing authorities. Assessing tax rates that we expect to apply and determining the years when the temporary differences are expected to affect taxable income requires judgment about the future apportionment of our income among the states in which we operate. Any changes in our practices or judgments involved in the measurement of deferred tax assets and liabilities could materially impact our financial condition or results of operations. See Note 12—Income Taxes to our consolidated financial statements in Item 8 of Part II of this report for additional information.

Liquidity and Capital Resources

Overview

We are an indirectly wholly-owned subsidiary of CenturyLink. As such, factors relating to, or affecting, CenturyLink's liquidity and capital resources could have material impacts on us, including impacts on our credit ratings, our access to capital markets and changes in the financial market's perception of us.

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

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

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink evaluates capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF II infrastructure buildout requirements). For more information on CenturyLink's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

For more information on our capital spending, see "Business" and "Risk Factors" in Items 1 and 1A, respectively, of Part I of this report.

Debt and Other Financing Arrangements

Subject to market conditions, and to the extent feasible, we may continue to issue debt securities, under Qwest Corporation, from time to time in the future to refinance a substantial portion of our maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to Qwest Corporation by credit rating agencies, among other factors.

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

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

CenturyLink, Inc.'s and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies. For additional information regarding CenturyLink's and Qwest Corporation's funding arrangements, see "Risk Factors—Risk Related to CenturyLink's Acquisition of Level 3" and "Risks Affecting Liquidity and Capital Resources" in Item 1A of Part I of this report.

Term Loan

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

Revolving Promissory Note

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance of this new revolving promissory note and the accrued interest thereon shall be due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of December 31, 2019, the weighted average interest rate was 5.843%. As of December 31, 2019 and December 31, 2018, the amended and restated revolving promissory note and the original revolving promissory note, respectively, are reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of December 31, 2019 and 2018, \$31 million and \$30 million of accrued interest are reflected in other current liabilities on our consolidated balance sheets, respectively.

Dividends

We periodically pay dividends to our direct parent company. See Note 19—Stockholder's Equity to our consolidated financial statements in Item 8 of Part II of this report.

Future Contractual Obligations

The following table summarizes our estimated future contractual obligations as of December 31, 2019:

	2020	2021	2022	2023	2024	2025 and thereafter	Total
(Dollars in millions)							
Long-term debt ⁽¹⁾⁽²⁾	\$ 1,105	951	1	—	1	4,008	6,066
Interest on long-term debt and finance leases ⁽²⁾	350	328	264	263	263	7,270	8,738
Note payable-affiliate	1,069	—	—	—	—	—	1,069
Interest on note payable-affiliate	31	—	—	—	—	—	31
Operating leases	32	30	26	21	17	17	143
Right-of-way agreements	18	1	1	1	—	8	29
Purchase commitments ⁽³⁾	16	15	3	—	—	—	34
Affiliate obligations, net ⁽⁴⁾	72	66	61	57	52	490	798
Other	4	3	3	3	2	23	38
Total future contractual obligations ⁽⁵⁾	<u>\$ 2,697</u>	<u>1,394</u>	<u>359</u>	<u>345</u>	<u>335</u>	<u>11,816</u>	<u>16,946</u>

(1) Includes current maturities and finance lease obligations, but excludes unamortized discounts, net and unamortized debt issuance costs and excludes note payable-affiliate.

(2) Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt.

(3) We have various long-term, non-cancelable purchase commitments for advertising and promotion services, including advertising and marketing at sports arenas and other venues and events. We also have service-related commitments with various vendors for data processing, technical and software support services. Future payments under certain service contracts will vary depending on our actual usage. In the table above, we estimated payments for these service contracts based on estimates of the level of services we expect to receive.

(4) The affiliate obligations, net primarily represents the cumulative allocation of expense attributable to our employees, net of payments, associated with QCII's pension plans and post-retirement benefit plans prior to the plans being merged into CenturyLink's benefit plans. See additional information on CenturyLink's employee benefit plans in Note 11—Employee Benefits to the consolidated financial statements in Item 8 of Part II of CenturyLink's annual report on Form 10-K for the year ended December 31, 2019;

(5) The table is limited solely to contractual payment obligations and does not include:

- contingent liabilities;
- our open purchase orders as of December 31, 2019. These purchase orders are generally issued at fair value, and are generally cancelable without penalty;
- other long-term liabilities, such as accruals for legal matters and other taxes that are not contractual obligations by nature. We cannot determine with any degree of reliability the years in which these liabilities might ultimately settle;
- contract termination fees. These fees are non-recurring payments, the timing and payment of which, if any, is uncertain. In the ordinary course of business and to optimize our cost structure, we enter into contracts with terms greater than one year to purchase other goods and services. In the normal course of business, we do not believe payment of these fees is likely;
- service level commitments to our customers, the violation of which typically results in service credits rather than cash payments; and
- potential indemnification obligations to counterparties in certain agreements entered into in the normal course of business. The nature and terms of these arrangements vary.

Pension and Post-retirement Benefit Obligations

CenturyLink is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2019, the accounting unfunded status of CenturyLink's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$1.8 billion and \$3.0 billion, respectively. See Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this report and Note 11—Employee Benefits to the consolidated financial statements in Item 8 of Part II of CenturyLink's annual report on Form 10-K for the year ended December 31, 2019, for additional information about our and CenturyLink's pension and post-retirement benefit arrangements.

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

Benefits paid by CenturyLink's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, CenturyLink does not expect any contributions to be required for their qualified pension plan during 2020. The amount of required contributions to CenturyLink's qualified pension plan in 2021 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. CenturyLink occasionally makes voluntary contributions in addition to required contributions. CenturyLink does not currently expect to make a voluntary contribution to the trust for its qualified pension plan in 2020.

Substantially all of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2019, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$13 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited CenturyLink's ability to continue paying benefits from the trusts; however, CenturyLink plans to continue paying certain benefits from the trusts. Benefits not paid through the trusts are expected to be paid directly by CenturyLink with available cash.

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expense, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the year ended December 31, 2019, we made settlement payments of \$76 million to QCII in accordance with the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows. For the year ended 2020, we expect to make aggregate settlement payments of \$72 million to QCII under the plan.

For 2019, CenturyLink's estimated annual long-term rates of return were 6.5% and 4% for the pension plan trust assets and post-retirement plans' trust assets based on the assets held and net of expected fees and administrative costs. For 2020, our expected annual long-term rates on these assets are 6% and 4%, respectively. However, actual returns could be substantially different.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources—Adverse changes in the value of assets or obligations associated with CenturyLink's qualified pension plan could negatively impact CenturyLink's liquidity, which may in turn affect our business and liquidity" in Item 1A of Part I of this report.

Connect America Fund

As a result of accepting CAF II support payments, we are receiving substantial support payments under a program that will soon lapse. Moreover, we must meet certain specified infrastructure buildout requirements in 13 states. In order to meet these specified infrastructure buildout requirements, we may be obligated to make substantial capital expenditures. See "Capital Expenditures" above.

For additional information on the FCC's CAF program and a proposed replacement program, see "Business—Regulation" in Item 1 of Part I of this report.

Historical Information

The following tables summarize our consolidated cash flow activities:

	Years Ended December 31,		Increase /
	2019	2018	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	3,332	3,791	(459)
Net cash used in investing activities	(1,723)	(1,153)	570
Net cash used in financing activities	(1,612)	(2,634)	(1,022)

Operating Activities

Net cash provided by operating activities decreased by \$459 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to a decrease in other long-term liabilities and accounts payable. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable, and payroll and bonuses. For additional information about our operating results, see "Results of Operations" above.

Investing Activities

Net cash used in investing activities increased by \$570 million for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to an increase in advances to affiliates.

Financing Activities

Net cash used in financing activities decreased by \$1.0 billion for the year ended December 31, 2019 as compared to the year ended December 31, 2018 primarily due to the decrease in payments of debt and partially offset with an increase in dividends paid to QSC in the amount of \$325 million. In the third quarter of 2018, Qwest Corporation redeemed \$1.3 billion of notes payable.

See Note 5—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of this report, for additional information on our outstanding debt securities.

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 16—Commitments, Contingencies and Other Items for additional information.

CenturyLink and its affiliates 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, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters as of December 31, 2019.

Market Risk

As of December 31, 2019, we are exposed to market risk from changes in interest rates on our variable rate term loan and amended and restated revolving promissory note. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of December 31, 2019, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. As of December 31, 2019, we did not hold or issue derivative financial instruments for trading or speculative purposes.

At December 31, 2019, we had approximately \$5.956 billion (excluding finance lease and other obligations) of long-term debt outstanding which bears interest at fixed rates and is therefore not exposed to interest rate risk. At December 31, 2019, we had \$100 million floating rate debt exposed to changes in the London InterBank Offered Rate (LIBOR). A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$1 million. At December 31, 2019, we had approximately \$1.069 billion in debt, which was owed to an affiliate of our ultimate parent, CenturyLink. The note payable-affiliate bears interest at a variable rate, which is based on a weighted average per annum interest rate of CenturyLink's outstanding borrowings for the interest period and therefore is exposed to potential interest rate risk.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at December 31, 2019.

Off-Balance Sheet Arrangements

As of the date of this report, 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 leasing, hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 16—Commitments, Contingencies and Other Items to our consolidated financial statements in Item 8 of Part II of this report, or in the Future Contractual Obligations table included in this Item 7 of Part II above, or (iii) discussed under the heading "Market Risk" above.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk" in Item 7 of Part II of this report is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder
Qwest Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Qwest Corporation and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, cash flows, and stockholder's equity for each of the years in the three year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Shreveport, Louisiana
March 5, 2020

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
OPERATING REVENUE			
Operating revenue	\$ 5,284	5,558	5,831
Operating revenue - affiliates	2,873	2,935	2,719
Total operating revenue	8,157	8,493	8,550
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	2,438	2,767	2,881
Selling, general and administrative	659	799	925
Operating expenses - affiliates	812	831	848
Depreciation and amortization	1,364	1,436	1,583
Total operating expenses	5,273	5,833	6,237
OPERATING INCOME	2,884	2,660	2,313
OTHER (EXPENSE) INCOME			
Interest expense	(380)	(448)	(465)
Interest expense - affiliates, net	(62)	(57)	(63)
Other income, net	26	4	6
Total other expense, net	(416)	(501)	(522)
INCOME BEFORE INCOME TAXES	2,468	2,159	1,791
Income tax expense	641	494	134
NET INCOME	\$ 1,827	1,665	1,657

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	2018
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2	5
Accounts receivable, less allowance of \$39 and \$41	514	546
Advances to affiliates	1,842	1,148
Other	128	147
Total current assets	2,486	1,846
Property, plant and equipment, net of accumulated depreciation of \$7,746 and \$6,951	8,170	8,077
GOODWILL AND OTHER ASSETS		
Goodwill	9,360	9,360
Operating lease assets	105	—
Customer relationships, net	468	893
Other intangible assets, net	311	311
Other, net	99	96
Total goodwill and other assets	10,343	10,660
TOTAL ASSETS	\$ 20,999	20,583
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,105	11
Accounts payable	403	441
Note payable - affiliate	1,069	1,008
Accrued expenses and other liabilities		
Salaries and benefits	276	251
Income and other taxes	94	140
Interest	55	55
Other	134	75
Current affiliate obligations, net	72	79
Current portion of deferred revenue	201	212
Total current liabilities	3,409	2,272
LONG-TERM DEBT	4,846	5,948
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenue	108	91
Deferred income taxes, net	1,198	1,098
Noncurrent operating lease liabilities	89	—
Affiliate obligations, net	717	759
Other	515	547
Total deferred credits and other liabilities	2,627	2,495
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Retained earnings (accumulated deficit)	67	(182)
Total stockholder's equity	10,117	9,868
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 20,999	20,583

See accompanying notes to consolidated financial statements.

QWEST CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 1,827	1,665	1,657
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,364	1,436	1,583
Deferred income taxes	100	48	(773)
Provision for uncollectible accounts	51	60	74
Accrued interest on affiliate note	61	43	51
Net loss on early retirement of debt	—	30	5
Changes in current assets and liabilities:			
Accounts receivable	(19)	40	(20)
Accounts payable	(50)	69	(44)
Accrued income and other taxes	(46)	(34)	(1)
Other current assets and liabilities, net	60	40	(36)
Other current assets and liabilities - affiliates, net	1	8	11
Changes in other noncurrent assets and liabilities, net	15	473	17
Changes in affiliate obligations, net	(49)	(105)	(88)
Other, net	17	18	(1)
Net cash provided by operating activities	3,332	3,791	2,435
INVESTING ACTIVITIES			
Capital expenditures	(1,055)	(1,040)	(1,328)
Changes in advances to affiliates	(694)	(119)	(152)
Proceeds from sale of property, plant and equipment and other assets	26	6	49
Cash paid for acquisition	—	—	(5)
Net cash used in investing activities	(1,723)	(1,153)	(1,436)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	—	—	638
Payments of long-term debt	(12)	(1,359)	(641)
Dividends paid to Qwest Services Corporation	(1,600)	(1,275)	(1,000)
Net cash used in financing activities	(1,612)	(2,634)	(1,003)
Net (decrease) increase in cash, cash equivalents and restricted cash	(3)	4	(4)
Cash, cash equivalents and restricted cash at beginning of period	7	3	7
Cash, cash equivalents and restricted cash at end of period	\$ 4	7	3
Supplemental cash flow information:			
Income taxes (paid) refunded, net	\$ (539)	8	(907)
Interest paid (net of capitalized interest of \$27, \$24 and \$32)	\$ (378)	(466)	(467)
Cash, cash equivalents and restricted cash:			
Cash and cash equivalents	\$ 2	5	1
Restricted cash - noncurrent	2	2	2
Total	\$ 4	7	3

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
COMMON STOCK			
Balance at beginning of period	\$ 10,050	10,050	10,050
Balance at end of period	10,050	10,050	10,050
RETAINED EARNINGS (ACCUMULATED DEFICIT)			
Balance at beginning of period	(182)	(713)	(1,358)
Net income	1,827	1,665	1,657
Cumulative net effect of adoption of ASU 2014-09, <i>Revenue from Contracts with Customers</i> , net of \$—, (\$49), and \$— taxes	—	141	—
Cumulative net effect of adoption of ASU 2016-02, <i>Leases</i>	22	—	—
Dividends declared to Qwest Services Corporation	(1,600)	(1,275)	(1,000)
Dividend of equity interest in limited liability company to Qwest Services Corporation	—	—	(12)
Balance at end of period	67	(182)	(713)
TOTAL STOCKHOLDER'S EQUITY	\$ 10,117	9,868	9,337

See accompanying notes to consolidated financial statements.

QWEST CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this report to "QC" refer to Qwest Corporation, references to "Qwest," "we," "us," and "our" refer to Qwest Corporation and its consolidated subsidiaries, references to "QSC" refer to our direct parent company, Qwest Services Corporation, and its consolidated subsidiaries, 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) Background and Summary of Significant Accounting Policies

General

We are an integrated communications company engaged primarily in providing a broad array of communications services to our business and residential customers. Our specific products and services are detailed under the heading "Operations - Products and Services" in Item 1 of Part I of this report.

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

On April 1, 2011, our indirect parent QCII became a wholly-owned subsidiary of CenturyLink, Inc. in a tax-free, stock-for-stock transaction.

Basis of Presentation

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

We reclassified certain prior period amounts to conform to the current period presentation. See Note 13—Products and Services Revenue for additional information. These changes had no impact on total operating revenue, total operating expenses or net income for any period presented.

Summary of Significant Accounting Policies

Use of Estimates

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions we make when accounting for specific items and matters, including, but not limited to, revenue recognition, revenue reserves, network access costs, network access cost dispute reserves, investments, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, rates used for affiliate cost allocations, internal labor capitalization rates, recoverability of assets (including deferred tax assets), impairment assessments, taxes, certain liabilities and other provisions and contingencies, are reasonable, based on information available at the time they are made. These estimates, judgments and assumptions can materially affect the reported amounts of assets, liabilities and components of stockholder's equity as of the dates of the consolidated balance sheets, as well as the reported amounts of revenue, expenses and components of cash flows during the periods presented in our other consolidated financial statements. We also make estimates in our assessments of potential losses in relation to threatened or pending tax and legal matters. See Note 12—Income Taxes and Note 16—Commitments, Contingencies and Other Items for additional information.

For matters not related to income taxes, if a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. If we have the potential to recover a portion of the estimated loss from a third party, we make a separate assessment of recoverability and reduce the estimated loss if recovery is also deemed probable.

For matters related to income taxes, if we determine that the impact of an uncertain tax position is more likely than not to be sustained upon audit by the relevant taxing authority, then we recognize a benefit for the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained. Interest is recognized on the amount of unrecognized benefit from uncertain tax positions.

For all of these and other matters, actual results could differ materially from our estimates.

Revenue Recognition

We earn most of our consolidated revenue from contracts with customers, primarily through the provision of communications and other services. Revenue from contracts with customers is accounted for under Accounting Standards Codification ("ASC") 606. We also earn revenue from leasing arrangements (primarily fiber capacity agreements) and governmental subsidy payments, neither of which are accounted for under ASC 606.

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

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

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

We recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred. These advance payments include certain activation and certain installation charges. If the activation and installation charges are not separate performance obligations, we recognize them as revenue over the actual or expected contract term using historical experience, which ranges from one year to five years depending on the service. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

For access services, we generally bill fixed monthly charges one month in advance to customers and recognize revenue as service is provided over the contract term in alignment with the customer's receipt of service. For usage and other ancillary services, we generally bill in arrears and recognize revenue as usage or delivery occurs.

In certain cases, customers may be permitted to modify their contracts. We evaluate the change in scope or price to identify whether the modification should be treated as a separate contract, whether the modification is a termination of the existing contract and creation of a new contract, or if it is a change to the existing contract.

Customer contracts are evaluated to determine whether the performance obligations are separable. If the performance obligations are deemed separable and separate earnings processes exist, the total transaction price that we expect to receive with the customer is allocated to each performance obligation based on its relative standalone selling price. The revenue associated with each performance obligation is then recognized as earned.

We periodically sell optical capacity on our network. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 10 to 20 years. In most cases, we account for the cash consideration received on transfers of optical capacity as ASC 606 revenue which is adjusted for the time value of money and is recognized ratably over the term of the agreement. Cash consideration received on transfers of dark fiber is accounted for as non-ASC 606 lease revenue, which we also recognize ratably over the term of the agreement. We do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other non-owned optical capacity assets.

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

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

Customer payments are made based on billing schedules included in our customer contracts, which is typically on a monthly basis.

We defer (i.e. capitalize) incremental contract acquisition and fulfillment costs and recognize (or amortize) such costs over the average contract life. Our deferred contract costs for our customers have average amortization periods of approximately 30 months for consumer and up to 49 months for business. These deferred costs are monitored every period to reflect any significant change in assumptions.

See Note 3—Revenue Recognition for additional information.

Affiliate Transactions

We provide to our affiliates telecommunications services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services. Services provided by us to our affiliates are recognized as operating revenue-affiliates in our consolidated statements of operations. We also purchase services from our affiliates including telecommunications services, marketing and employee-related support services. Services provided to us from our affiliates are recognized as operating expenses-affiliates on our consolidated statements of operations. Because of the significance of the services we provide to our affiliates and our affiliates provide to us, the results of operations, financial position and cash flows presented herein are not necessarily indicative of the results of operations, financial position and cash flows we would have achieved had we operated as a stand-alone entity during the periods presented.

We recognize intercompany charges at the amounts billed to us by our affiliates and we recognize intercompany revenue for services we bill to our affiliates. Regulatory rules require certain revenue and expenses to be recorded at market price or fully distributed cost. Our compliance with regulations is subject to review by regulators. Adjustments to intercompany charges that result from these reviews are recorded in the period they become known.

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, an affiliate provides lines of credit to certain other affiliates. Amounts outstanding under these lines of credit and intercompany obligations vary from time to time. Under these arrangements, the majority of our cash balance is transferred on a daily basis for centralized management by CenturyLink and most affiliate transactions are deemed to be settled at the time the transactions are recorded in our accounting records, with the resulting net balance at the end of each period reflected as advances to affiliates on the accompanying consolidated balance sheets. From time to time we declare and pay dividends to our parent, QSC, which are settled through the advances to affiliates, which has the net effect of reducing the amount of these advances. Dividends declared are reflected on our consolidated statements of stockholder's equity and the consolidated statements of cash flows reflects the changes in advances to affiliates as investing activities and changes in advances from affiliates as financing activities. Interest is assessed on the advances to/from affiliates on either the three-month U.S T-bill rate (for advances to affiliates) or CenturyLink's weighted average borrowing rate (for advances from affiliates).

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expense, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the years ended December 31, 2019 and 2018, we made settlement payments of \$76 million and \$87 million, respectively, to QCII in accordance with the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows.

In the normal course of business, we transfer assets to and from various affiliates through our parent, QSC, which are recorded through our equity. It is our policy to record asset transfers based on carrying values.

USF Surcharges, Gross Receipts Taxes and Other Surcharges

In determining whether to include in our revenue and expenses the taxes and surcharges collected from customers and remitted to government authorities, including USF surcharges, sales, use, value added and some excise taxes, we assess, among other things, whether we are the primary obligor or principal taxpayer for the taxes assessed in each jurisdiction where we do business. In jurisdictions where we determine that we are the principal taxpayer, we record the surcharges on a gross basis and include them in our revenue and costs of services and products. In jurisdictions where we determine that we are merely a collection agent for the government authority, we record the taxes on a net basis and do not include them in our revenue and costs of services and products.

Advertising Costs

Costs related to advertising are expensed as incurred and included in selling, general and administrative expenses in our consolidated statements of operations. Our advertising expense was \$28 million, \$58 million and \$139 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Legal Costs

In the normal course of our business, we incur costs to hire and retain external legal counsel to advise us on regulatory, litigation and other matters. We expense these costs as the related services are received.

Income Taxes

Our results are included in the CenturyLink consolidated federal income tax return and certain combined state income tax returns. CenturyLink allocates income tax expense to us based upon a separate return allocation method which results in income tax expense that approximates the expense that would result if we were a stand-alone entity. Our reported deferred tax assets and liabilities, as discussed below and in Note 12—Income Taxes, are primarily determined as a result of the application of the separate return allocation method and therefore the settlement of these amounts is dependent upon our parent, CenturyLink, rather than tax authorities. Our current expectation is that the vast majority of deferred tax assets and liabilities will be settled through our general intercompany obligation based upon the current CenturyLink policy. CenturyLink has the right to change their policy regarding settlement of these assets and liabilities at any time.

The provision for income taxes consists of an amount for taxes currently payable, an amount for tax consequences deferred to future periods and adjustments to our liabilities for uncertain tax positions. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to differences between the financial statement carrying value of assets and liabilities and the tax basis of those assets and liabilities. Deferred taxes are computed using enacted tax rates expected to apply in the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in earnings in the period that includes the enactment date.

We establish valuation allowances when necessary to reduce deferred income tax assets to the amounts that we believe are more likely than not to be recovered. Each quarter we evaluate the need to retain all or a portion of the valuation allowance on our deferred tax assets. See Note 12 —Income Taxes for additional information.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates. As a result, the value at which cash and cash equivalents are reported in our consolidated financial statements approximates their fair value. Our cash collections are transferred to CenturyLink on a daily basis and our ultimate parent funds our cash disbursement needs. The net cash transferred to CenturyLink has been reflected as advances to affiliates in our consolidated balance sheets.

Book overdrafts occur when checks have been issued but have not been presented to our controlled disbursement bank accounts for payment. Disbursement bank accounts allow us to delay funding of issued checks until the checks are presented for payment. Until the issued checks are presented for payment, the book overdrafts are included in accounts payable on our consolidated balance sheet. This activity is included in the operating activities section in our consolidated statements of cash flows.

Restricted Cash and Securities

Restricted cash and securities consists primarily of cash and investments that serve to collateralize certain performance and operating obligations. Restricted cash and securities are recorded as current and non-current assets in the consolidated balance sheets depending on the duration of the restriction and the purpose for which the restriction exists. Restricted securities are stated at cost which approximates fair value as of December 31, 2019 and 2018.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recognized based upon the amount due from customers for the services provided or at cost for purchased and other receivables less an allowance for doubtful accounts. The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. We generally consider our accounts past due if they are outstanding over 30 days. Our collection process varies by the customer segment, amount of the receivable, and our evaluation of the customer's credit risk. Our past due accounts are written off against our allowance for doubtful accounts when collection is considered to be not probable. Any recoveries of accounts previously written off are generally recognized as a reduction in bad debt expense in the period received. The carrying value of accounts receivable, net of the allowance for doubtful accounts, approximates fair value.

Property, Plant and Equipment

As a result of our indirect acquisition by CenturyLink, property, plant and equipment acquired at the time of acquisition was recorded based on its estimated fair value as of the acquisition date. Subsequently purchased and constructed property, plant and equipment are recorded at cost. Property, plant and equipment is depreciated primarily using the straight-line group method. Under the straight-line group method, assets dedicated to providing telecommunications services (which comprise the majority of our property, plant and equipment) that have similar physical characteristics, use and expected useful lives are pooled for purposes of depreciation and tracking. The equal life group procedure is used to establish each pool's average remaining useful life. Generally, under the straight-line group method, when an asset is sold or retired in the course of normal business activities, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. A gain or loss is recognized in our consolidated statements of operations only if a disposal is unusual. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the expected lease term. Expenditures for maintenance and repairs are expensed as incurred. Interest is capitalized during the construction phase of network and other internal-use capital projects. Employee-related costs for construction of network and other internal use assets are also capitalized during the construction phase. Property, plant and equipment supplies used internally are carried at average cost, except for significant individual items for which cost is based on specific identification.

We perform annual internal reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment. Our reviews utilize models that take into account actual usage, physical wear and tear, replacement history, assumptions about technology evolution and, in certain instances, actuarially determined probabilities to estimate the remaining useful life of our asset base. Our remaining useful life assessments assess the possible loss in service value of assets that may precede the physical retirement. Assets shared among many customers may lose service value as those customers reduce their use of the network. However, the asset is not retired until all customers no longer utilize the asset and we determine there is no alternative use for the asset.

We review long-lived tangible assets for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For assessment purposes, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities, absent a material change in operations. An impairment loss is recognized only if the carrying amount of the asset group is not recoverable and exceeds its estimated fair value. Recoverability of the asset group to be held and used is assessed by comparing the carrying amount of the asset group to the estimated undiscounted future net cash flows expected to be generated by the asset group. If the asset group's carrying value is not recoverable, we recognize an impairment charge for the amount by which the carrying amount of the asset group exceeds its estimated fair value.

Goodwill, Customer Relationships and Other Intangible Assets

Intangible assets arising from business combinations, such as goodwill, customer relationships and capitalized software are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of ten years, using either the sum-of-the-years-digits or the straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years. Other intangible assets not arising from business combinations are initially recorded at cost.

Internally used software, whether purchased or developed by us, is capitalized and amortized using the straight-line method over its estimated useful life. We have capitalized certain costs associated with software such as costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with software to be used for internal purposes are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance, data conversion and training costs are expensed in the period in which they are incurred. We review the remaining economic lives of our capitalized software annually. Capitalized software is included in other intangible assets, net, in our consolidated balance sheets.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate an impairment may have occurred. We are required to write-down the value of goodwill in periods in which the carrying amount of the reporting unit equity exceeds the estimated fair value of the equity of the reporting unit limited to the goodwill balance. The impairment assessment is performed at the reporting unit level. We have determined that our operations consist of one reporting unit, consistent with our determination that our business consists of one operating segment. See Note 2—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

Pension and Post-Retirement Benefits

A substantial portion of our active and retired employees participate in the CenturyLink Combined Pension Plan. On December 31, 2014, the QCII pension plan and a pension plan of an affiliate were merged into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan. Prior to the pension plan merger, the above-noted employees participated in the QCII pension plan. In addition, certain of our employees participate in CenturyLink's post-retirement health care and life insurance benefit plans. CenturyLink allocates service costs relating to pension and post-retirement health care and life insurance benefits to us and its other affiliates. The amounts contributed by us through CenturyLink are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of CenturyLink. The allocation of the service costs to us is based upon our employees who are currently earning benefits under the plans.

For further information on qualified pension, post-retirement and other post-employment benefit plans, see CenturyLink's annual report on Form 10-K for the year ended December 31, 2019.

Recently Adopted Accounting Pronouncements

During 2019, we adopted Accounting Standards Update ("ASU") 2016-02, "Leases (ASC 842)". In 2018, we adopted Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*", ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" and ASU 2017-04, "*Simplifying the Test for Goodwill Impairment*".

Each of these is described further below.

Leases

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

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

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

Revenue Recognition

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

We adopted the new revenue recognition standard on January 1, 2018 using the modified retrospective transition method applying the rules to all open contracts existing as of January 1, 2018. During the year ended December 31, 2018, we recorded a cumulative catch-up adjustment that increased our retained earnings by \$141 million, net of \$49 million of income taxes.

See Note 3—Revenue Recognition for additional information.

Income Taxes

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

Goodwill Impairment

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

We elected to early adopt the provisions of ASU 2017-04 as of October 1, 2018.

Recently Issued Accounting Pronouncements

Financial Instruments

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

We are in the process of implementing the model for the recognition of credit losses related to our financial instruments, new processes and internal controls to assist us in the application of the new standard. The cumulative effect of initially applying the new standard on January 1, 2020 is not material.

(2) Goodwill, Customer Relationships and Other Intangible Assets

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

	As of December 31,	
	2019	2018
	(Dollars in millions)	
Goodwill	\$ 9,360	9,360
Customer relationships, less accumulated amortization of \$5,231 and \$4,806	\$ 468	893
Other intangible assets subject to amortization:		
Capitalized software, less accumulated amortization of \$1,780 and \$1,712	\$ 311	311

As of December 31, 2019, the gross carrying amount of goodwill, customer relationships and other intangible assets was \$17.2 billion.

Total amortization expense for intangible assets was as follows:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Amortization expense for intangible assets	\$ 533	581	671

We estimate that total amortization expense for intangible assets for the years ending December 31, 2020 through 2024 will be as follows:

	(Dollars in millions)
Year ending December 31,	
2020	\$ 475
2021	182
2022	87
2023	9
2024	9

We annually review the estimated lives and methods used to amortize our other intangible assets. The actual amounts of amortization expense may differ materially from our estimates, depending on the results of our annual reviews.

Substantially, all of our goodwill was derived from CenturyLink's acquisition of us where the purchase price exceeded the fair value of the net assets acquired.

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

At October 31, 2019, we estimated the fair value of our equity by considering both a market approach and a discounted cash flow method. The market approach method includes the use of comparable multiples of publicly traded companies whose services are comparable to ours. The discounted cash flow method is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows of the reporting unit beyond the cash flows from the discrete projection period. Based on our assessment performed with respect to our reporting unit as described above, we concluded that our goodwill was not impaired as of that date.

The decline in CenturyLink's stock price triggered impairment testing in the first quarter of 2019. Consequently, we evaluated our goodwill as of March 31, 2019. Because CenturyLink's low stock price was a trigger for impairment testing, we estimated the fair value of our operations using only the market approach in the quarter ended March 31, 2019. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry. As of March 31, 2019, based on our assessments performed as described above, we concluded that our goodwill was not impaired as of that date.

The market multiples approach that we used in the quarter ended March 31, 2019 incorporated significant estimates and assumptions related to the forecasted results for the remainder of the year, including revenues, expenses, and the achievement of certain cost synergies. In developing the market multiple, we also considered observed trends of our industry participants. Our assessment included many qualitative factors that required significant judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the size of our impairments.

As of October 31, 2018, based on our assessments performed, we concluded that our goodwill was not impaired as of that date.

(3) Revenue Recognition

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

	Year Ended December 31, 2018		
	Reported Balances	Impact of ASC 606	ASC 605 Historical Adjusted Amount
	(Dollars in millions)		
Operating revenue	\$ 8,493	6	8,499
Cost of services and products (exclusive of depreciation and amortization)	2,767	17	2,784
Selling, general and administrative	799	—	799
Income tax expense	494	(3)	491
Net income	1,665	(8)	1,657

Reconciliation of Total Revenue to Revenue from Contracts with Customers

The following tables provide disaggregation of revenue from contracts with customers based on service offerings for the years ended December 31, 2019 and 2018. It also shows the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards.

	Year Ended December 31, 2019		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽⁷⁾	Total Revenue from Contracts with Customers
	(Dollars in millions)		
IP and data services ⁽¹⁾	\$ 624	—	624
Transport and infrastructure ⁽²⁾	2,829	(308)	2,521
Voice and collaboration ⁽³⁾	1,639	—	1,639
IT and managed services ⁽⁴⁾	3	—	3
Regulatory revenue ⁽⁵⁾	189	(189)	—
Affiliate revenue ⁽⁶⁾	2,873	—	2,873
Total revenue	<u>\$ 8,157</u>	<u>(497)</u>	<u>7,660</u>

Timing of revenue	
Goods and services transferred at a point in time	54
Services performed over time	7,606
Total revenue from contracts with customers	<u>7,660</u>

	Year Ended December 31, 2018		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽⁷⁾	Total Revenue from Contracts with Customers
	(Dollars in millions)		
IP and data services ⁽¹⁾	\$ 615	—	615
Transport and infrastructure ⁽²⁾	2,925	(317)	2,608
Voice and collaboration ⁽³⁾	1,798	—	1,798
IT and managed services ⁽⁴⁾	6	—	6
Regulatory revenue ⁽⁵⁾	214	(214)	—
Affiliate revenue ⁽⁶⁾	2,935	—	2,935
Total revenue	<u>\$ 8,493</u>	<u>(531)</u>	<u>7,962</u>

Timing of revenue	
Goods and services transferred at a point in time	\$ 69
Services performed over time	7,893
Total revenue from contracts with customers	<u>\$ 7,962</u>

- (1) Includes primarily VPN data networks, Ethernet, IP and other ancillary services
- (2) Includes primarily broadband, private line (including business data services) and other ancillary services.
- (3) Includes local voice, including wholesale voice, and other ancillary services.
- (4) Includes IT services and managed services revenue.
- (5) Includes CAF II and federal and state USF support revenue.
- (6) Includes telecommunications and data services we bill to our affiliates.
- (7) Includes regulatory revenue, lease revenue, sublease rental income, which are not within the scope of ASC 606.

Customer Receivables and Contract Balances

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

	December 31, 2019	December 31, 2018
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 430	518
Contract liabilities	338	207
Contract assets	18	64

- (1) Gross customer receivables of \$462 million and \$554 million, net of allowance for doubtful accounts of \$32 million and \$36 million, at December 31, 2019 and December 31, 2018, respectively.

Contract liabilities are consideration we have received from our customers or billed in advance of providing goods and services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheet. During the years ended December 31, 2019 and December 31, 2018, we recognized \$273 million and \$42 million, respectively, of revenue that was included in contract liabilities as of January 1, 2019 and January 1, 2018, respectively.

Performance Obligations

As of December 31, 2019, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially satisfied) is approximately \$162 million. We expect to recognize approximately 99% of this revenue through 2022, with the balance recognized thereafter.

We do not disclose the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), or contracts that are classified as leasing arrangements that are not subject to ASC 606.

Contract Costs

The following table provides changes in our contract acquisition costs and fulfillment costs:

	Year Ended December 31, 2019	
	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)	
Beginning of period balance	\$ 90	57
Costs incurred	60	39
Amortization	(64)	(32)
End of period balance	\$ 86	64

	Year Ended December 31, 2018	
	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)	
Beginning of period balance	\$ 91	61
Costs incurred	62	27
Amortization	(63)	(31)
End of period balance	\$ 90	57

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

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

(4) Leases

Our financial position for reporting periods beginning on or after January 1, 2019 is presented under the new accounting guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance, as discussed in Note 1—Background and Summary of Significant Accounting Policies.

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

We determine if an arrangement is a lease at inception and whether that lease meets the classification criteria of a finance or operating lease. Lease-related assets, or right-of-use assets, are recognized at the lease commencement date at amounts equal to the respective lease liabilities. Lease-related liabilities are recognized at the present value of the remaining contractual fixed lease payments, discounted using our incremental borrowing rates. As part of the present value calculation for the lease liabilities, we use an incremental borrowing rate as the rates implicit in the leases are not readily determinable. The incremental borrowing rates used for lease accounting are based on our unsecured rates, adjusted to approximate the rates at which we could borrow on a collateralized basis over a term similar to the recognized lease term. We apply the incremental borrowing rates to lease components using a portfolio approach based upon the length of the lease term and the reporting entity in which the lease resides. Operating lease expense is recognized on a straight-line basis over the lease term, while variable lease payments are expensed as incurred.

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

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

Lease expense consisted of the following:

	Year Ended December 31, 2019
	(Dollars in millions)
Operating and short-term lease cost	\$ 43
Finance lease cost:	
Amortization of right-of-use assets	9
Interest on lease liability	1
Total finance lease cost	10
Total lease cost	\$ 53

We lease various equipment, office facilities, retail outlets, switching facilities and other network sites. These leases, with few exceptions, provide for renewal options and escalations that are either fixed or based on the consumer price index. Any rent abatements, along with rent escalations, are included in the computation of rent expense calculated on a straight-line basis over the lease term. The lease term for most leases includes the initial non-cancelable term plus any term under renewal options that are reasonably assured. For the years ended December 31, 2019, 2018 and 2017, our gross rental expense was \$53 million, \$64 million and \$70 million, respectively. We also received sublease rental income for the years ended December 31, 2019, 2018 and 2017 of \$10 million, \$2 million and \$2 million, respectively.

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

Leases (millions)	Classification on the Balance Sheet	December 31, 2019
Assets		
Operating lease assets	Operating lease assets	\$ 105
Finance lease assets	Property, plant and equipment, net of accumulated depreciation	14
Total leased assets		\$ 119
Liabilities		
Current		
Operating	Other current liabilities	\$ 29
Finance	Current portion of long-term debt	5
Noncurrent		
Operating	Noncurrent operating lease liabilities	89
Finance	Long-term debt	5
Total lease liabilities		\$ 128
Weighted-average remaining lease term (years)		
Operating leases		5.3
Finance leases		5.3
Weighted-average discount rate		
Operating leases		6.08%
Finance leases		5.55%

Supplemental consolidated cash flow statement information related to leases:

	Year Ended December 31, 2019
	(Dollars in millions)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 35
Operating cash flows from financing leases	1
Financing cash flows from finance leases	10
Supplemental lease cash flow disclosures	
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities	\$ 21
Right-of-use assets obtained in exchange for new finance lease liabilities	—

As of December 31, 2019, maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
	(Dollars in millions)	
2020	\$ 32	6
2021	30	2
2022	26	1
2023	21	1
2024	17	1
Thereafter	17	3
Total lease payments	143	14
Less: interest	(25)	(4)
Total	118	10
Less: current portion	(29)	(5)
Long-term portion	\$ 89	5

As of December 31, 2019, we had no material operating or finance leases that had not yet commenced.

Operating Lease Income

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

For the years ended December 31, 2019, 2018 and 2017, our gross rental income was \$320 million, \$522 million and \$555 million, respectively which represents 4%, 6% and 6%, respectively, of our operating revenue for the years ended December 31, 2019, 2018 and 2017.

Disclosures under ASC 840

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

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

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

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

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

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

(5) Long-Term Debt and Revolving Promissory Note

Long-term debt, including unamortized premiums and discounts, unamortized debt issuance costs and note payable-affiliate, were as follows:

	Interest Rates	Maturities	As of December 31,	
			2019	2018
			(Dollars in millions)	
Senior notes	6.125% - 7.75%	2021 - 2057	\$ 5,956	5,956
Term loan ⁽¹⁾	LIBOR + 2.00%	2025	100	100
Finance leases	Various	Various	10	21
Unamortized (discounts) premiums, net			—	(1)
Unamortized debt issuance costs			(115)	(117)
Total long-term debt			5,951	5,959
Less current maturities			(1,105)	(11)
Long-term debt, excluding current maturities			\$ 4,846	5,948
Note payable-affiliate	5.843%	2022	\$ 1,069	1,008

⁽¹⁾ Qwest Corporation's Term Loan had an interest rate of 3.800% as of December 31, 2019 and 4.530% as of December 31, 2018.

Repayment

During 2019, we did not repay any of our long-term debt.

During 2018, we retired approximately \$1.3 billion in debt securities including approximately \$164 million of Qwest Corporation 7.5% Notes due 2051, \$925 million of Qwest Corporation 7.0% Notes due 2052, and \$250 million of Qwest Corporation 7.25% Notes due 2035 and we recognized a loss of \$34 million.

Term Loan

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

Aggregate Maturities of Long-Term Debt

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

	(Dollars in millions) ⁽¹⁾
2020	\$ 1,105
2021	951
2022	1
2023	—
2024	1
2025 and thereafter	4,008
Total long-term debt	\$ 6,066

(1) Actual principal paid in any year may differ due to the possible future refinancing of outstanding debt or the issuance of new debt, see subsequent event.

Revolving Promissory Note

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance of this new revolving promissory note and the accrued interest thereon shall be due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of December 31, 2019, the amended and restated revolving promissory note had an outstanding balance of \$1.069 billion and bore interest at a weighted-average interest rate of 5.843%. As of December 31, 2019 and 2018, the amended and restated revolving promissory note is reflected on our consolidated balance sheet as a current liability under "Note payable-affiliate". In accordance with the terms of the amended and restated revolving promissory note, interest shall be assessed on June 30th and December 31st (an "Interest Period"). Any assessed interest for an Interest Period that remains unpaid on the last day of the subsequent Interest Period is capitalized on such date and begins accruing interest. Through December 31, 2019, \$104 million of such interest has been capitalized. As of December 31, 2019 and 2018, \$31 million and \$30 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Interest Expense

Interest expense includes interest on total long-term debt. The following table presents the amount of gross interest expense, net of capitalized interest and interest expense-affiliates, net:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 407	472	497
Capitalized interest	(27)	(24)	(32)
Total interest expense	\$ 380	448	465
Interest expense-affiliates, net	\$ 62	57	63

Covenants

Our senior notes were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures contain certain covenants including, but not limited to: (i) a prohibition on certain liens on our assets; and (ii) a limitation on mergers or sales of all, or substantially all, of our assets, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions. These indentures do not contain any financial covenants or restrictions on our ability to issue new securities thereunder. Except for a limited number of series of our notes, we generally can redeem our senior notes, at our option, typically at a fixed price.

Under the Qwest Corporation term loan, Qwest Corporation must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in CenturyLink's Credit Facility) ratio of not more than 2.85:1.0, as of the last day of each fiscal quarter for the four quarters then ended. The term loan also contains a negative pledge covenant, which generally requires us to secure equally and ratably any advances under the term loan if we pledge assets or permit liens on our property for the benefit of other debtholders. The term loan also has a cross payment default and 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. Our debt to EBITDA ratio could be adversely impacted by a wide variety of events, including unforeseen contingencies, many of which are beyond our control. This could reduce our financing flexibility due to potential restrictions on incurring additional debt under certain provisions of our debt agreements or, in certain circumstances, could result in a default under certain provisions of such agreements.

None of our long-term debt is secured or guaranteed by other companies.

Compliance

At December 31, 2019 and 2018, we believe we were in compliance with the financial covenants contained in our debt agreements in all material respects.

Subsequent Event

On January 15, 2020, Qwest Corporation fully redeemed all \$850 million aggregate principal amount of its outstanding 6.875% senior notes due 2033 and all \$250 million aggregate principal amount of its outstanding 7.125% senior notes due 2043.

(6) Accounts Receivable

The following table presents details of our accounts receivable balances:

	As of December 31,	
	2019	2018
	(Dollars in millions)	
Trade and purchased receivables	\$ 471	491
Earned and unbilled receivables	81	92
Other	1	4
Total accounts receivable	553	587
Less: allowance for doubtful accounts	(39)	(41)
Accounts receivable, less allowance	\$ 514	546

We are exposed to concentrations of credit risk from residential and business customers within our local service area and from other telecommunications service providers. No customers individually represented more than 10% of our accounts receivable for all periods presented herein. We generally do not require collateral to secure our receivable balances. We have agreements with other telecommunications service providers whereby we agree to bill and collect on their behalf for services rendered by those providers to our customers within our local service area. We purchase accounts receivable from other telecommunications service providers primarily on a recourse basis and include these amounts in our accounts receivable balance. We have not experienced any significant loss associated with these purchased receivables.

The following table presents details of our allowance for doubtful accounts:

	Beginning Balance	Additions	Deductions	Ending Balance
	(Dollars in millions)			
2019	\$ 41	51	(53)	39
2018	\$ 47	60	(66)	41
2017	\$ 53	74	(80)	47

(7) Property, Plant and Equipment

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

	Depreciable Lives	As of December 31,	
		2019	2018
		(Dollars in millions)	
Property, plant and equipment:			
Land	N/A	\$ 332	332
Fiber, conduit and other outside plant ⁽¹⁾	15-45 years	7,735	7,171
Central office and other network electronics ⁽²⁾	7-10 years	4,641	4,361
Support assets ⁽³⁾	5-30 years	2,670	2,656
Construction in progress ⁽⁴⁾	N/A	538	508
Gross property, plant and equipment		15,916	15,028
Accumulated depreciation		(7,746)	(6,951)
Net property, plant and equipment		\$ 8,170	8,077

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

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

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

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

We recorded depreciation expense of \$831 million, \$855 million and \$912 million for the years ended December 31, 2019, 2018 and 2017, respectively.

(8) Severance

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

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

Changes in our accrued liability for severance expenses were as follows:

	Severance	
	(Dollars in millions)	
Balance at December 31, 2017	\$	8
Accrued to expense		85
Payments, net		(60)
Balance at December 31, 2018		33
Accrued to expense		66
Payments, net		(36)
Balance at December 31, 2019	\$	63

(9) Employee Benefits

Pension and Post-Retirement Benefits

QCII's post-retirement benefit plans were merged into CenturyLink's post-retirement benefit plans on January 1, 2012 and on December 31, 2014, QCII's qualified pension plan and a pension plan of an affiliate were merged into the CenturyLink Retirement Plan, which was renamed the CenturyLink Combined Pension Plan. Based on current laws and circumstances, (i) CenturyLink was not required to make a cash contribution to the CenturyLink Combined Pension Plan in 2019 and (ii) CenturyLink does not expect it will be required to make a contribution in 2020. The amount of required contributions to the CenturyLink Combined Pension Plan in 2020 and beyond will depend on earnings on plan investments, prevailing discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. CenturyLink occasionally makes voluntary contributions in addition to required contributions, and CenturyLink made such voluntary cash contributions of \$500 million to the CenturyLink Combined Pension Plan during 2018. CenturyLink did not make a voluntary contribution in 2019 and does not currently expect to make a voluntary contribution in 2020.

The unfunded status of CenturyLink's qualified pension plan for accounting purposes was \$1.7 billion and \$1.6 billion as of December 31, 2019 and 2018, respectively, which includes the merged QCII qualified pension plan. The unfunded status of CenturyLink's post-retirement benefit plans for accounting purposes was \$3.0 billion for both periods as of December 31, 2019 and 2018.

CenturyLink allocates current service costs to subsidiaries relative to employees who are currently earning benefits under the pension and post-retirement benefit plans. The net cost allocated to us is paid on a monthly basis through CenturyLink's intercompany cash management process.

The affiliate obligations, net in current and noncurrent liabilities on the consolidated balance sheets primarily represents the cumulative allocation of expense, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the years ended December 31, 2019 and 2018, we made settlement payments in the aggregate of \$76 million and \$87 million, respectively, to QCII under the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows.

We were allocated \$40 million of pension service costs and \$11 million of post-retirement service costs during the year ended December 31, 2019, which represented 70% of CenturyLink's total pension and post-retirement service costs for the year. The combined net pension and post-retirement service costs is included in cost of services and products and selling, general and administrative expenses on our consolidated statement of operations for the year ended December 31, 2019.

We were allocated \$46 million of pension service costs and \$11 million of post-retirement service costs during the year ended December 31, 2018, which represented 70% of CenturyLink's total pension and post-retirement service costs for the year. The combined net pension and post-retirement service costs is included in cost of services and products and selling, general and administrative expenses on our consolidated statement of operations for the year ended December 31, 2018.

We were allocated \$44 million of pension service costs and \$12 million of post-retirement service costs during the year ended December 31, 2017, which represented 70% of CenturyLink's total pension and post-retirement service costs for the year. The combined net pension and post-retirement service costs is included in cost of services and products and selling, general and administrative expenses on our consolidated statement of operations for the year ended December 31, 2017.

CenturyLink sponsors a noncontributory qualified defined benefit pension plan that covers certain of our eligible employees. The CenturyLink Combined Pension Plan also provides survivor and disability benefits to certain employees. In November 2009, and prior to the plan merger, the pension plan was amended to no longer provide pension benefit accruals for active non-represented employees after December 31, 2009. In addition, non-represented employees hired after January 1, 2009 are not eligible to participate in the plans. Active non-represented employees who participate in these plans retain their accrued pension benefit earned as of December 31, 2009 and certain participants will continue to earn interest credits on their benefit after December 31, 2009. Employees are eligible to receive their vested accrued benefit when they separate from CenturyLink. The plans also provided a death benefit for eligible beneficiaries of certain retirees; however, the plan was amended to eliminate this benefit effective March 1, 2010 for retirees who retired prior to January 1, 2004 and whose deaths occur after February 28, 2010 and eliminate the death benefit for eligible beneficiaries of certain retirees who retired after December 31, 2003.

CenturyLink maintains post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. The QCII post-retirement benefit plans were merged into CenturyLink's post-retirement benefit plans on January 1, 2012. The benefit obligation for the occupational health care and life insurance post-retirement plans is estimated based on the terms of benefit plans. In calculating this obligation, CenturyLink considers numerous assumptions, estimates and judgments, including but not limited to, discount rates, health care cost trend rates and plan amendments. During the third quarter of 2019, we renewed a collective bargaining agreement for three years which covers approximately 7,500 of our unionized employees. Effective with the renewal, there were no significant changes to the existing benefits for the approximately 7,500 active employees and eligible post-1990 retirees who are former represented employees. This agreement expires in April 2023.

The terms of the post-retirement health care and life insurance plans between CenturyLink and its eligible non-represented employees and its eligible post-1990 non-represented retirees are established by CenturyLink and are subject to change at its discretion. CenturyLink has a practice of sharing some of the cost of providing health care benefits with its non-represented employees and post-1990 non-represented retirees. The benefit obligation for the non-represented post-retirement health care benefits is based on the terms of the current written plan documents and is adjusted for anticipated continued cost sharing with non-represented employees and post-1990 non-represented retirees. However, CenturyLink's contribution under its post-1990 non-represented retirees' health care plan is capped at a specific dollar amount.

Medicare Prescription Drug, Improvement and Modernization Act of 2003

CenturyLink sponsors post-retirement health care plans with several benefit options that provide prescription drug benefits that CenturyLink deems actuarially equivalent to or exceeding Medicare Part D. CenturyLink recognizes the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of its post-retirement benefit obligation and net periodic post-retirement benefit expense.

Other Benefit Plans

Health Care and Life Insurance

We provide health care and life insurance benefits to essentially all of our active employees. We are largely self-funded for the cost of the health care plan. Our health care benefit expense for current employees was \$171 million, \$211 million and \$204 million for the years ended December 31, 2019, 2018 and 2017, respectively. Employees' group basic life insurance plans are fully insured and the premiums are paid by CenturyLink.

401(k) Plans

CenturyLink sponsors qualified defined contribution plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of our employees' contributions in cash. We recognized \$46 million, \$45 million and \$42 million in expense related to these plans for the years ended December 31, 2019, 2018 and 2017, respectively.

(10) Share-based Compensation

Share-based compensation expenses are included in cost of services and products, and selling, general, and administrative expenses in our consolidated statements of operations.

For the years ended December 31, 2019, 2018 and 2017, we recorded share-based compensation expense of approximately \$26 million, \$24 million and \$27 million, respectively. We recognized an income tax benefit from our compensation expense of approximately \$6 million, \$6 million and \$7 million during the years ended December 31, 2019, 2018 and 2017, respectively.

(11) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, advances to affiliates, accounts payable, note payable-affiliate and long-term debt, excluding finance lease and other obligations. Due to their short-term nature, the carrying amounts of our cash and cash equivalents, accounts receivable, advances to affiliates, accounts payable and note payable-affiliate 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. We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

	Input Level	As of December 31, 2019		As of December 31, 2018	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt (excluding finance lease and other obligations)	2	\$ 5,941	6,258	5,938	5,118

(12) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduces the U.S. corporate income tax rate from a maximum of 35% to 21% for all corporations, effective January 1, 2018, and makes certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures, interest expense and various other items.

As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we re-measured our net deferred tax liabilities at December 31, 2017 and recognized a provisional tax benefit of \$555 million in our consolidated statement of operations for the year ended December 31, 2017. Upon completion of our re-measurement during 2018 there was no material change to the provisional amount recorded in 2017.

The components of the income tax expense (benefit) from continuing operations are as follows:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Income tax expense (benefit):			
Current:			
Federal and foreign	\$ 415	(39)	777
State and local	126	31	130
Total current	541	(8)	907
Deferred:			
Federal and foreign	95	408	(736)
State and local	5	94	(37)
Total deferred	100	502	(773)
Income tax expense	\$ 641	494	134

The effective income tax rate for continuing operations differs from the statutory tax rate as follows:

	Years Ended December 31,		
	2019	2018	2017
	(in percent)		
Effective income tax rate:			
Federal statutory income tax rate	21.0%	21.0 %	35.0 %
State income taxes-net of federal effect	4.1%	6.1 %	3.4 %
Tax reform	—%	— %	(31.0)%
Accounting method changes	—%	(3.9)%	— %
Other	0.9%	(0.3)%	0.1 %
Effective income tax rate	26.0%	22.9 %	7.5 %

The effective rate for the year ended December 31, 2018, was favorably impacted by a tax benefit of \$83 million generated by filing tax accounting method changes that accelerated significant tax deductions. The effective tax rate for the year ended December 31, 2017 reflects the benefit of \$555 million from the re-measurement of deferred taxes as noted above.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31,	
	2019	2018
	(Dollars in millions)	
Deferred tax assets and liabilities:		
Deferred tax liabilities:		
Property, plant and equipment	\$ (1,256)	(1,026)
Intangibles assets	(280)	(419)
Total deferred tax liabilities	(1,536)	(1,445)
Deferred tax assets:		
Payable to affiliate due to post-retirement benefit plan participation	326	297
Other	20	58
Gross deferred tax assets	346	355
Less valuation allowance on deferred tax assets	(8)	(8)
Net deferred tax assets	338	347
Net deferred tax liabilities	\$ (1,198)	(1,098)

At December 31, 2019, we have established a valuation allowance of \$8 million as it is not more likely than not that this amount of deferred tax assets will be realized.

With few exceptions, we are no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carryforwards are available.

A reconciliation of the change in our gross unrecognized tax benefits (excluding both interest and any related federal benefit) from January 1 to December 31 for 2019 and 2018 are as follows:

	2019	2018
	(Dollars in millions)	
Unrecognized tax benefits at January 1,	\$ 433	—
Increase due to tax positions taken in a prior year	—	433
Decrease due to tax positions taken in a prior year	(19)	—
Unrecognized tax benefits at December 31,	\$ 414	433

The total amount of unrecognized tax benefits (including interest and net of federal benefit) that, if recognized, would impact the effective income tax rate was \$432 million and \$435 million as of December 31, 2019 and 2018, respectively.

Our policy is to reflect interest expense associated with unrecognized tax benefits in income tax expense. We had accrued interest (presented before related tax benefits) of approximately \$40 million and \$21 million as of December 31, 2019 and 2018, respectively.

Based on our current assessment of various factors, including (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, and (iv) the administrative practices of applicable taxing jurisdictions, it is reasonably possible that the related unrecognized tax benefits for uncertain tax positions previously taken may not change in the next 12 months. The actual amount of changes, if any, will depend on future developments and events, many of which are outside our control.

We paid \$539 million and \$907 million related to income taxes for the years ended December 31, 2019 and 2017, respectively and received \$8 million from QSC related to income taxes in the year ended December 31, 2018.

(13) Products and Services Revenue

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

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

- *IP and Data Services*, which include primarily VPN data networks, Ethernet, IP and other ancillary services;
- *Transport and Infrastructure*, which include broadband, private line (including business data services) and other ancillary services;
- *Voice and Collaboration*, which includes primarily local voice, including wholesale voice, and other ancillary services;
- *IT and Managed Services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory Revenue*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenue. We receive federal support payments from both federal and state USF programs and from the federal CAF program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and
- *Affiliate services*, which are telecommunication services that we also provide to our external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

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

Our operating revenue for our products and services consisted of the following categories for the years ended December 31, 2019, 2018 and 2017:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
IP and Data Services	\$ 624	615	634
Transport and Infrastructure	2,829	2,925	3,006
Voice and Collaboration	1,639	1,798	1,980
IT and Managed Services	3	6	—
Regulatory Services	189	214	211
Affiliate Services	2,873	2,935	2,719
Total operating revenue	<u>\$ 8,157</u>	<u>8,493</u>	<u>8,550</u>

We do not have any single external customer that provides more than 10% of our total consolidated operating revenue. Substantially all of our consolidated revenue comes from customers located in the United States.

We recognize revenue in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The USF surcharges are assigned to the products and services categories based on the underlying revenue. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

The following table provides the amount of USF surcharges and transaction taxes:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
USF surcharges and transaction taxes	\$ 125	124	134

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

(14) Affiliate Transactions

We provide to our affiliates, telecommunications services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services and network support and technical services.

Below are details of the services we provide to our affiliates:

- *Telecommunications services.* Data, broadband and voice services in support of our affiliates' service offerings;
- *Computer system development and support services.* Information technology services primarily include the labor cost of developing, testing and implementing the system changes necessary to support order entry, provisioning, billing, network and financial systems, as well as the cost of improving, maintaining and operating our operations support systems and shared internal communications networks; and
- *Network support and technical services.* Network support and technical services relate to forecasting demand volumes and developing plans around network utilization and optimization, developing and implementing plans for overall product development, provisioning and customer care.

We charge our affiliates for services that we also provide to external customers, while other services that we provide only to our affiliates are priced by applying a fully distributed cost ("FDC") methodology. FDC rates include salaries and wages, payroll taxes, employee related benefits, miscellaneous expenses, and charges for the use of our buildings, computing and software assets. Whenever possible, costs are directly assigned to our affiliates for the services they use. If costs cannot be directly assigned, they are allocated among all affiliates based upon cost causative measures; or if no cost causative measure is available, these costs are allocated based on a general allocator. These cost allocation methodologies are reasonable. From time to time, we adjust the basis for allocating the costs of a shared service among affiliates. Such changes in allocation methodologies are generally billed prospectively.

We also purchase services from our affiliates including telecommunication services, insurance, flight services and other support services such as legal, regulatory, finance and accounting, tax, human resources and executive support. Our affiliates charge us for these services based on FDC.

(15) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in millions)					
2019					
Operating revenue	\$ 2,055	2,051	2,039	2,012	8,157
Operating income	760	750	748	626	2,884
Net income	487	477	477	386	1,827

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in millions)					
2018					
Operating revenue	\$ 2,130	2,101	2,149	2,113	8,493
Operating income	632	626	717	685	2,660
Net income	380	427	453	405	1,665

(16) Commitments, Contingencies and Other Items

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

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at December 31, 2019 and December 31, 2018 aggregated to approximately \$50 million and \$17 million, respectively, and are included in other current liabilities and other liabilities in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

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

Switched Access Disputes

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

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges. Final judgments have been entered in the consolidated lawsuits and the IXCs are pursuing an appeal. Separately, some of the defendants, including us, have petitioned the FCC to address these issues on an industry-wide basis.

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

Billing Practices Suits

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

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

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

The consumer putative class actions, the securities investor putative class actions, and the federal derivative actions have been transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings as *In Re: CenturyLink Sales Practices and Securities Litigation*. Subject to confirmatory discovery and court approval, CenturyLink agreed to settle the consumer putative class actions for payments of \$15.5 million to compensate class members and of up to \$3.5 million for administrative costs. CenturyLink has accrued a contingent liability for those amounts. Certain class members may elect to opt out of the class settlement and pursue the resolution of their individual claims against us on these issues through various dispute resolution processes, including individual arbitration. One law firm claims to represent more than 22,000 potential class members. To the extent that a substantial number of class members, including many of the law firm's alleged clients, meet the contractual requirements to arbitrate, elect to opt out of the settlement (or otherwise successfully exclude their individual claims), and actually pursue arbitrations, CenturyLink and we could incur a material amount of filing and other arbitrations fees in relation to the administration of those claims.

In July 2017, the Minnesota state attorney general filed *State of Minnesota v. CenturyTel Broadband Services LLC, et al.* in the Anoka County Minnesota District Court, alleging claims of fraud and deceptive trade practices relating to improper consumer sales practices.

CenturyLink has engaged in discussions regarding potential resolutions of these claims with a number of state attorneys general, and have entered into agreements settling the Minnesota suit and certain of the consumer practices claims asserted by state attorneys general. While CenturyLink does not agree with allegations raised in these matters, it has been willing to consider reasonable settlements where appropriate.

In 2019, we recorded a charge of approximately \$33 million with respect to the above-described settlements and other consumer litigation related matters.

Locate Service Investigations

In June 2019, Minnesota and Arizona initiated investigations related to the timeliness of responses by certain of our vendors to requests for marking the location of underground telecommunications facilities. We, along with CenturyLink and its other subsidiaries are cooperating with the investigations. In February 2020, the Minnesota claims were settled. The terms of the settlement were not material to our consolidated results of operations or financial position.

Other Proceedings, Disputes and Contingencies

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

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities, many of which are seeking substantial recoveries. These cases have progressed to various stages and one or more may go to trial during 2020 if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

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

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

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

Right-of-Way

At December 31, 2019, our future rental commitments for Right-of-Way agreements were as follows:

	Right-of-Way Agreements	
	(Dollars in millions)	
2020	\$	18
2021		1
2022		1
2023		1
2024		—
2025 and thereafter		8
Total future minimum payments	\$	29

Purchase Commitments

We have several commitments primarily for marketing activities and support services from a variety of vendors to be used in the ordinary course of business totaling \$34 million at December 31, 2019. Of this amount, we expect to purchase \$16 million in 2020 and \$18 million in 2021 through 2022. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we were contractually committed as of December 31, 2019.

(17) Other Financial Information

Other Current Assets

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

	As of December 31,	
	2019	2018
	(Dollars in millions)	
Prepaid expenses	\$ 41	37
Contract acquisition costs	50	52
Contract fulfillment costs	28	27
Other	9	31
Total other current assets	\$ 128	147

(18) Labor Union Contracts

As of December 31, 2019, approximately 42% of our employees were members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"). During the third quarter of 2019, we reached new agreements with the CWA and IBEW, which represented all of the above noted represented employees. Therefore, there are no collective bargaining agreements that are scheduled to expire over the next 12 months. We believe that relations with our employees continue to be generally good.

(19) Stockholder's Equity

Common Stock

We have one share of common stock (no par value) issued and outstanding, which is owned by QSC.

In addition, in the normal course of business, we transfer assets and liabilities to and from QSC and its affiliates, which are recorded through our equity. It is our policy to record these asset transfers based on carrying values.

Dividends

We declared the following cash dividend to QSC:

	Years Ended December 31,		
	2019	2018	2017
	(Dollars in millions)		
Cash dividend declared to QSC	\$ 1,600	1,275	1,000
Cash dividend paid to QSC	1,600	1,275	1,000

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 to QSC.

On March 31, 2017, we distributed our equity interest valued at \$12 million in a limited liability company to QSC. The limited liability company's sole asset was a building that was being utilized by an affiliate.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or furnishes under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Indraneel Dev, evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2019. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective, as of December 31, 2019, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Remediation Actions

As previously described in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, we had a material weakness as of December 31, 2018 related to the ineffective design and operation of process level internal controls over the existence and accuracy of revenue transactions. During the fourth quarter of 2019, we remediated our material weakness related to revenue transactions. The measures taken to remediate the material weakness associated with revenue transactions are described in further detail in the “Changes in Internal Control Over Financial Reporting” section immediately below.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2019, we concluded the design and implementation of new internal controls, and strengthened existing process level internal controls, in response to the material weakness identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 related to the ineffective design and operation of certain process level internal controls over the existence and accuracy of revenue transactions, as described below:

- We conducted a risk assessment to identify and assess changes needed to our financial reporting and process level controls related to the existence and accuracy of revenue transactions. Based on the results of that assessment, we designed, documented and implemented new process level internal controls and strengthened existing process level internal controls over the existence and accuracy of revenue transactions for areas in which we deemed there was a reasonable possibility of material misstatement of financial statement items related to revenue transactions.
- We expanded the scope of our existing internal controls over revenue transactions to include “upstream” controls in the areas of contract quoting, order entry, provisioning, mediation, rating, and pricing, as well as the underlying applications that support these processes and internal controls.
- We strengthened existing internal controls in our billing and revenue reporting processes to reduce the risk of failure in the effectiveness of upstream controls.
- We completed an evaluation of the operating effectiveness of our newly-designed or strengthened internal controls over the existence and accuracy of revenue transactions, including an assessment of potential financial and reporting impacts, and concluded the deficiencies of such controls would not result in a reasonable possibility of material misstatement of financial statement items related to revenue transactions.

Based on these activities, management has concluded that these remediation activities have addressed the material weakness related to the existence and accuracy of revenue transactions and believes that the design and operation of these controls address the related risks of material misstatement to revenue and related financial statement line items and disclosures.

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

Inherent Limitations of Internal Controls

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

Internal Control Over Financial Reporting

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), a process designed 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 in the United States. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective at December 31, 2019.

Management's Report on the Consolidated Financial Statements

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements for the year ended December 31, 2019. The consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Omitted pursuant to General Instruction I (2).

ITEM 11. EXECUTIVE COMPENSATION

Omitted pursuant to General Instruction I (2).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Omitted pursuant to General Instruction I (2).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Omitted pursuant to General Instruction I (2).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Pre-Approval Policies and Procedures

The Audit Committee of CenturyLink's Board of Directors is responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. Under the Audit Committee's charter, the Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. The approval may be given as part of the Audit Committee's approval of the scope of the engagement of our independent registered public accounting firm or on an individual basis. The pre-approval of non-audit services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee. Our independent registered public accounting firm may not be retained to perform the non-audit services specified in Section 10A(g) of the Exchange Act.

Fees Paid to the Independent Registered Public Accounting Firm

QCII first engaged KPMG LLP to be our independent registered public accounting firm in May 2002. The aggregate audit fees billed or allocated to us was \$2.3 million and \$2.2 million for the years ended December 31, 2019 and 2018, respectively, for professional accounting services, including KPMG's audit of our annual consolidated financial statements.

Audit fees are fees billed for the year shown for professional services performed for the audit of the consolidated financial statements included in our Form 10-K filing for that year, the review of condensed consolidated financial statements included in our Form 10-Q filings made during that year, comfort letters, consents and assistance with and review of documents filed with the SEC. Audit fees for each year shown include amounts that have been billed through the date of this filing and any additional amounts that are expected to be billed thereafter.

The Audit Committee of CenturyLink, Inc. approved in advance all of the services performed by KPMG described above.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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.⁽¹⁾

Exhibit Number	Description
3.1	<u>Amended and restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Exhibit 3.1 of Qwest Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2013 (File No. 001-03040) filed with the Securities and Exchange Commission on May 13, 2013).</u>
3.2	<u>Amended and Restated Bylaws of Qwest Corporation (incorporated by reference to Exhibit 3.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.1	<u>Indenture, dated as of April 15, 1990, by and between The Mountain States Telephone and Telegraph Company (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
	a. <u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.2	<u>Indenture, dated as of April 15, 1990, by and between Northwestern Bell Telephone Company (predecessor to Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.5(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on May 10, 2012).</u>
	a. <u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.3	Indenture, dated as of October 15, 1999, by and between U S West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
	a. <u>Ninth Supplemental Indenture, dated as of October 4, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on October 4, 2011).</u>

⁽¹⁾ Certain of the items in Sections 4.1 through 4.3 (i) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with applicable SEC rules copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith.

Exhibit Number	Description
	<ul style="list-style-type: none"> b. <u>Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).</u> c. <u>Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).</u> d. <u>Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).</u> e. <u>Thirteenth Supplemental Indenture, dated as of September 29, 2014, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.14 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 26, 2014).</u> f. <u>Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).</u> g. <u>Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).</u> h. <u>Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on August 22, 2016).</u> i. <u>Seventeenth Supplemental Indenture dated as of April 27, 2017, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.18 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on April 27, 2017).</u>
4.4	<u>Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No 001-07784) filed with the Securities and Exchange Commission on August 9, 2012), as amended by the Amended and Restated Revolving Promissory Note, dated as of September 30, 2017, by and between Qwest Corporation and an affiliate of CenturyLink, Inc. (incorporated by reference to Exhibit 4.9(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2017 (File No. 001-077884) filed with the Securities and Exchange Commission on November 9, 2017).</u>
4.5	<u>Credit Agreement, dated as of February 20, 2015, by and among Qwest Corporation, the several lenders from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.5 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-03040) filed with the Securities and Exchange Commission on February 27, 2015).</u>
4.6*	<u>Description of Qwest Corporation's securities registered under Section 12 of the Securities Exchange Act of 1934, as amended.</u>
31.1*	<u>Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2*	<u>Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

- 101* Financial statements from the Annual Report on Form 10-K of Qwest Corporation for the period ended December 31, 2019, formatted in Inline XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.
- 104* Cover page formatted as Inline XBRL and contained in Exhibit 101.
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* Exhibit filed herewith.

ITEM 16. SUMMARY OF BUSINESS AND FINANCIAL INFORMATION

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 5, 2020.

QWEST CORPORATION

By: /s/ Eric J. Mortensen
Eric J. Mortensen
Senior Vice President - Controller
(Principal Accounting Officer) and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeff K. Storey</u> Jeff K. Storey	Chief Executive Officer and President (Principal Executive Officer)	March 5, 2020
<u>/s/ Indraneel Dev</u> Indraneel Dev	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 5, 2020
<u>/s/ Stacey W. Goff</u> Stacey W. Goff	Executive Vice President, General Counsel & Secretary and Director	March 5, 2020
<u>/s/ Eric J. Mortensen</u> Eric J. Mortensen	Senior Vice President - Controller (Principal Accounting Officer) and Director	March 5, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

December 31, 2019

Qwest Corporation ("Qwest", the "Company", "we" or "us") has six classes of securities registered under Section 12 of the Securities Exchange Act of 1934 (as amended, the "Exchange Act"): (i) 6.125% Notes Due 2053, (ii) 6.875% Notes Due 2054, (iii) 6.625% Notes Due 2055, (iv) 7.00% Notes Due 2056, (v) 6.5% Notes Due 2056, and (vi) 6.75% Notes Due 2057. Each of the Company's securities registered under Section 12 of the Exchange Act are listed on The New York Stock Exchange.

DESCRIPTION OF DEBT SECURITIES

The following summary of the Company's 6.125% Notes Due 2053 (the "2053 Notes"), 6.875% Notes Due 2054 (the "2054 Notes"), 6.625% Notes Due 2055 (the "2055 Notes"), 7.00% Notes Due 2056 (the "7.00% 2056 Notes"), 6.5% Notes Due 2056 (the "6.5% 2056 Notes"), and (vi) 6.75% Notes Due 2057 (the "2057 Notes," and together with the 2053 Notes, 2054 Notes, 2055 Notes, 7.00% 2056 Notes and 6.5% 2056 Notes, the "Notes") is a general description only of the Notes' material terms, and does not purport to be complete. This summary description is qualified in its entirety by reference to the indenture, dated as of October 15, 1999, between Qwest Corporation (formerly named U.S. WEST Communications, Inc.), as issuer, and Bank of New York Trust Company, National Association (as successor in interest to Bank One Trust Company), as trustee (as amended or supplemented from time to time, the "Indenture") and the respective supplemental indentures related to each series of Notes.

The 2053 Notes

General. The Company issued \$775 million aggregate principal amount of the 2053 Notes on May 23, 2013. As of December 31, 2019, \$775 million aggregate principal amount of the 2053 Notes was outstanding. The 2053 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the twelfth supplemental indenture thereto establishing the terms of the 2053 Notes between Qwest, as issuer, and U.S. Bank National Association, as trustee (hereinafter referred to, together with any one or more future successors, as the "Trustee"),
- will mature on June 1, 2053, unless redeemed or repurchased prior to that date as described below,
- will be redeemable at our option, in whole or in part, at any time on and after June 1, 2018, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
- are listed on the New York Stock Exchange under the trading symbol "CTY."

None of our obligations under the 2053 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 2053 Notes or has any other obligation in connection with the 2053 Notes.

Ranking. The 2053 Notes are our senior unsecured obligations. The 2053 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 2053 Notes at a rate of 6.125% per year is paid quarterly in arrears on March 1, June 1, September 1 and December 1 of each year (each, an "Interest Payment Date").

Redemption and Repayment. The 2053 Notes are redeemable at our option, in whole or in part, at any time on and after June 1, 2018 upon not less than 15 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

The 2054 Notes

General. The Company issued \$500 million aggregate principle amount of the 2054 Notes on September 29, 2014. As of December 31, 2019, \$500 million aggregate principal amount of the 2054 Notes was outstanding. The 2054 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the thirteenth supplemental indenture thereto establishing the terms of the 2054 Notes between Qwest, as issuer, and the Trustee,
- will mature on October 1, 2054, unless redeemed or repurchased prior to that date as described below,
- will be redeemable at our option, in whole or in part, at any time on and after October 1, 2019, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
- are listed on the New York Stock Exchange under the trading symbol “CTV.”

None of our obligations under the 2054 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 2054 Notes or has any other obligation in connection with the 2054 Notes.

Ranking. The 2054 Notes are our senior unsecured obligations. The 2054 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 2054 Notes at a rate of 6.875% per year is paid quarterly in arrears on January 1, April 1, July 1 and October 1 of each year (each, an “Interest Payment Date”).

Redemption and Repayment. The 2054 Notes will be redeemable at our option, in whole or in part, at any time on and after October 1, 2019 upon not less than 15 nor more than 60 days’ notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

The 2055 Notes

General. The Company issued \$410 million aggregate principle amount of the 2055 Notes on September 21, 2015 and September 30, 2015. As of December 31, 2019, \$410 million aggregate principal amount of the 2055 Notes was outstanding. The 2055 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the fourteenth supplemental indenture thereto establishing the terms of the 2055 Notes between Qwest, as issuer, and the Trustee,
- will mature on September 15, 2055, unless redeemed or repurchased prior to that date as described below,
- will be redeemable at our option, in whole or in part, at any time on and after September 15, 2020, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
- are listed on the New York Stock Exchange under the trading symbol “CTZ.”

None of our obligations under the 2055 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 2055 Notes or has any other obligation in connection with the 2055 Notes.

Ranking. The 2055 Notes are our senior unsecured obligations. The 2055 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 2055 Notes at a rate of 6.625% per year is paid quarterly in arrears on March 15, June 15, September 15 and December 15 of each year (each, an “Interest Payment Date”).

Redemption and Repayment. The 2055 Notes are redeemable at our option, in whole or in part, at any time on and after September 15, 2020 upon not less than 15 nor more than 60 days’ notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

The 7.00% 2056 Notes

General. The Company issued \$235 million aggregate principle amount of the 7.00% 2056 Notes on January 29, 2016. As of December 31, 2019, \$235 million aggregate principal amount of the 7.00% 2056 Notes was outstanding. The 7.00% 2056 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the fifteenth supplemental indenture thereto establishing the terms of the 2056 Notes between Qwest, as issuer, and the Trustee,
- will mature on February 1, 2056, unless redeemed or repurchased prior to that date as described below,
- will be redeemable at our option, in whole or in part, at any time on and after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
- are listed on the New York Stock Exchange under the trading symbol “CTAA.”

None of our obligations under the 7.00% 2056 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 7.00% 2056 Notes or has any other obligation in connection with the 7.00% 2056 Notes.

Ranking. The 7.00% 2056 Notes are our senior unsecured obligations. The 7.00% 2056 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 7.00% 2056 Notes at a rate of 7.00% per year is paid quarterly in arrears on February 1, May 1, August 1 and November 1 of each year (each, an “Interest Payment Date”).

Redemption and Repayment. The 7.00% 2056 Notes will be redeemable at our option, in whole or in part, at any time on and after February 1, 2021 upon not less than 15 nor more than 60 days’ notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

The 6.5% 2056 Notes

General. The Company issued \$977.5 million aggregate principle amount of the 6.5% 2056 Notes on August 22, 2016. As of December 31, 2019, \$977.5 million aggregate principal amount of the 6.5% 2056 Notes was outstanding. The 6.5% 2056 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the sixteenth supplemental indenture thereto establishing the terms of the 6.5% 2056 Notes between Qwest, as issuer, and the Trustee,
 - will mature on September 1, 2056, unless redeemed or repurchased prior to that date as described below,
 - will be redeemable at our option, in whole or in part, at any time on and after September 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
 - are listed on the New York Stock Exchange under the trading symbol “CTBB.”
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None of our obligations under the 6.5% 2056 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 6.5% 2056 Notes or has any other obligation in connection with the 6.5% 2056 Notes.

Ranking. The 6.5% 2056 Notes are our senior unsecured obligations. The 6.5% 2056 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 6.5% 2056 Notes at a rate of 6.5% per year is paid quarterly in arrears on March 1, June 1, September 1 and December 1 of each year (each, an "Interest Payment Date").

Redemption and Repayment. The 6.5% 2056 Notes will be redeemable at our option, in whole or in part, at any time on and after September 1, 2021 upon not less than 15 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

The 2057 Notes

General. The Company issued \$660 million aggregate principal amount of the 2057 Notes on April 27, 2017 and May 5, 2017. As of December 31, 2019, \$660 million aggregate principal amount of the 2057 Notes was outstanding. The 2057 Notes:

- were issued as a separate series of senior debt securities under the Indenture as supplemented by the seventeenth supplemental indenture thereto establishing the terms of the 2057 Notes between Qwest, as issuer, and the Trustee,
- will mature on June 15, 2057, unless redeemed or repurchased prior to that date as described below,
- will be redeemable at our option, in whole or in part, at any time on and after June 15, 2022, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date, and
- are listed on the New York Stock Exchange under the trading symbol "CTDD."

None of our obligations under the 2057 Notes are secured by collateral. None of CenturyLink, Inc., any of our other affiliates, or any other person has guaranteed the payment of principal, premium, if any, or interest on the 2057 Notes or has any other obligation in connection with the 2057 Notes.

Ranking. The 2057 Notes are our senior unsecured obligations. The 2057 Notes rank senior to any of our future subordinated debt and rank equally in right of payment with all of our existing and future unsecured and unsubordinated debt.

Quarterly Interest Payments. Interest on the 2057 Notes at a rate of 6.75% per year is paid quarterly in arrears on March 15, June 15, September 15 and December 15 of each year (each, an "Interest Payment Date").

Redemption and Repayment. The 2057 Notes will be redeemable at our option, in whole or in part, at any time on and after June 15, 2022 upon not less than 15 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not including, the redemption date.

Provisions Applicable to All Notes

Events of Default. The Indenture provides that an Event of Default means that one or more of the following events has occurred and is continuing with respect to debt securities of a particular series:

- failure for 90 days to pay interest on the debt securities of that series when due
 - failure to pay principal on the debt securities of that series when due and payable upon maturity, upon redemption or otherwise
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- failure to comply with any of our other agreements with respect to the debt securities or in the Indenture, which failure continues for 90 days after we receive notice from the Trustee or the holders of at least 25% of the aggregate principal amount of such series of debt securities then outstanding
- occurrence of certain events relating to bankruptcy or insolvency with respect to the Company.

No Event of Default with respect to the debt securities of a particular series necessarily constitutes an Event of Default with respect to the debt securities of any other series issued under the Indenture.

If an Event of Default shall occur and be continuing with respect to any series and if it is known to the Trustee, the Trustee is required to mail to each holder of that series a notice of the Event of Default within 90 days of such default. The Trustee may withhold from holders notice of any continuing default (except a default in the payment of monies owed) if it determines that withholding notice is in their interests.

If an Event of Default with respect to a series of debt securities occurs and is continuing, the Trustee or the holders of at least 25% in aggregate principal amount of that series of debt securities then outstanding may declare the principal of that series of debt securities to be due and payable immediately. The holders of a majority in principal amount of a series of debt securities may rescind such declaration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely as a result of such acceleration.

Holders of debt securities may not enforce the Indenture, except as provided therein. Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any holders of the affected series, unless, among other things, the holders shall have offered the Trustee indemnity reasonably satisfactory to it. Subject to certain limitations, the holders of a majority in aggregate principal amount of a series of debt securities then outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee. The holders of a majority in aggregate principal amount of the then outstanding debt securities of any series affected by a default may, in certain cases, waive such default except a default in payment of principal of, or any premium, if any, or interest on, the debt securities of that series or a call for redemption of the debt securities of that series.

Discharge and Defeasance. We may terminate all of our obligations with respect to any series of debt securities and the Indenture or any installment of principal (and premium, if any) or interest on any series of debt securities if we irrevocably deposit in trust with the Trustee money or U.S. government obligations sufficient to pay, when due, principal and interest on that series of debt securities to maturity or redemption or such installment of principal or interest, as the case may be, and if all other conditions set forth in the Indenture are met.

Merger and Consolidation. Under the Indenture, we may consolidate or merge with or transfer or lease our property and assets substantially as an entirety to another entity, provided that:

- the successor entity is a corporation and assumes by supplemental indenture all of our obligations under each series of debt securities issued under the Indenture, and
- after giving effect to the transaction, no default or Event of Default has occurred and is continuing.

Modification of Indenture. With the written consent of the holders of a majority in principal amount of the debt securities of each series issued under the Indenture then outstanding (with each series voting as a class), we and the Trustee may amend or supplement the Indenture or modify the rights of the holders of debt securities; provided that any such amendment that affects the terms of a series of debt securities as distinct from the other series of debt securities issued under the Indenture will require only the consent of at least a majority in aggregate principal amount of that series of debt securities then outstanding. Such majority holders may also waive compliance by us of any provision of the Indenture or any supplemental indenture, except a default in the payment of principal or interest. However, without the consent of the holder of each debt security affected, an amendment or waiver may not:

- reduce the amount of debt securities whose holders must consent to an amendment or waiver,
 - change the rate or the time for payment of interest,
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- change the principal or the fixed maturity,
- waive a default in the payment of principal or interest,
- make any series of debt securities payable in a different currency, or
- make any change in the provisions of the Indenture concerning (a) waiver of existing defaults, (b) rights of holders of debt securities to receive payment or (c) amendments and waivers without the consent of the holder of each debt security affected.

We and the Trustee may amend or supplement the Indenture without the consent of any holder of any of series of debt securities to:

- cure any ambiguity, defect or inconsistency in the Indenture or any debt securities issued thereunder,
- provide for the assumption of all of our obligations under the Indenture or any debt securities issued thereunder by any corporation in connection with a merger, consolidation or transfer or lease of our property and assets substantially as an entirety,
- provide for uncertificated debt securities in addition to or instead of certificated debt securities,
- add to the covenants made by us for the benefit of the holders of any series of debt securities (and if such covenants are to be for the benefit of less than all series of debt securities, stating that such covenants are included solely for the benefit of such series) or to surrender any right or power conferred upon us,
- add to, delete from, or revise the conditions, limitations, and restrictions on the authorized amount, terms, or purposes of issue, authentication and delivery of the debt securities, as set forth in the Indenture
- secure any debt securities pursuant to the covenant described below under “-Limitation on Liens,”
- provide for the issuance of and establish the form and terms and conditions of a series of debt securities or to establish the form of any certifications required to be furnished pursuant to the terms of the Indenture or any series of debt securities or to add to the rights of the holders of any series of debt securities, or
- make any change that does not adversely affect the rights of any holder of debt securities in any material respect.

Limitation on Liens. The Indenture contains a covenant that if we mortgage, pledge or otherwise subject to any Lien, as defined in the Indenture (other than Permitted Liens), all or some of our property or assets, we will secure any series of debt securities under the Indenture and any of our other obligations which may then be outstanding and entitled to the benefit of a covenant similar in effect to such covenant contained in the Indenture, equally and proportionally with the indebtedness or obligations secured by such Lien, for as long as any such indebtedness or obligation is so secured. “Permitted Liens,” as defined in the First Supplemental Indenture dated August 19, 2004 between the Company and the Trustee, means any of the following Liens permitted under the Indenture:

- Liens existing on the date of the initial issuance of debt securities,
 - Liens on any asset existing at the time such asset is acquired, if not created in contemplation of such acquisition,
 - Liens on any asset (a) created within 180 days after such asset is acquired, or (b) securing the cost of acquisition, construction or improvement of such asset; provided, in either case, that such Lien extends to no property or asset other than the asset so acquired, constructed or improved and property incidental thereto,
 - (a) Liens incidental to the conduct of our business or the ownership of our properties or otherwise incurred in the ordinary course of business which (i) do not secure debt, and (ii) do not in the aggregate materially detract from the value of our assets taken as a whole or materially impair the use thereof in the operation of our business, and (b) Liens not described in clause (a) on cash, cash equivalents or securities that secure any obligation with respect to letters of credit or surety bonds or similar arrangements, which obligation in each case does not exceed \$100 million,
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- any Lien to secure public or statutory obligations or with any governmental agency at any time required by law in order to qualify us to conduct all or some part of our business or in order to entitle us to maintain self-insurance or to obtain the benefits of any law relating to workmen's compensation, unemployment insurance, old age pensions or other social security, or with any court, board, commission or governmental agency as security incident to the proper conduct of any proceeding before it,
- any Liens for taxes, assessments, governmental charges, levies or claims and similar charges either (a) not delinquent or (b) being contested in good faith by appropriate proceedings and as to which a reserve or other appropriate provision, if any, as shall be required in conformity with generally accepted accounting principles shall have been made,
- Liens securing the performance of bids, tenders, leases, contracts, sureties, stays, appeals, indemnities, performance or similar bonds or public or statutory obligations of like nature, incurred in the ordinary course of business,
- materialmen's, mechanics, repairmen's, employees, operators' or other similar Liens or charges arising in the ordinary course of business incidental to the acquisition, construction, maintenance or operation of any of our assets which have not at the time been filed pursuant to law and any such Liens and charges incidental to the acquisition, construction, maintenance or operation of any of our assets, which, although filed, relate to obligations not yet due or the payment of which is being withheld as provided by law, or to obligations the validity of which is being contested in good faith by appropriate proceedings,
- zoning restrictions, servitudes, easements, licenses, reservations, provisions, covenants, conditions, waivers, restrictions on the use of property or minor irregularities of title (and with respect to leasehold interests, mortgages, obligations, Liens and other encumbrances incurred, created assumed or permitted to exist and arising by, through or under or asserted by a landlord or owner of the leased property, with or without consent of the lessee) and other similar charges or encumbrances, which will not individually or in the aggregate interfere materially and adversely with our business and subsidiaries taken as a whole Liens created by or resulting from any litigation or proceeding which is currently being contested in good faith by appropriate proceedings and as to which levy and execution have been stayed and continue to be stayed or for which we are maintaining adequate reserves or other provision in conformity with generally accepted accounting principles,
- any interest or title of vendor or lessor in the property subject to any lease, conditional sale agreement or other title retention agreement,
- Liens in connection with the securitization or factoring of our or any of our subsidiaries' receivables in a transaction intended to be a "true sale," or
- any Lien securing a refinancing, replacement, extension, renewal or refunding of any debt secured by a Lien permitted by any of the foregoing clauses of this definition of "Permitted Liens" to the extent secured in all material respects by the same asset or assets.

Notwithstanding the foregoing, "Permitted Liens" shall not include any Lien to secure Debt that is required to be granted on an equal and ratable basis under the "negative pledge," or equivalent, provisions of a Debt instrument (including outstanding debt securities) as a result of the creation of a Lien that itself would constitute a "Permitted Lien."

"Debt" of any person means, at any date, without duplication:

- all obligations of such person for borrowed money,
 - all obligations of such person evidenced by bonds, debentures, notes or other similar instruments,
 - all obligations of such person as lessee which are capitalized in accordance with generally accepted accounting principles, and
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- all Debt secured by a Lien on any asset of such person, whether or not such Debt is otherwise an obligation of such person, all Debt of others guaranteed by such person.

The restrictions in the Indenture described above would not protect the debt holders in the event of a highly leveraged transaction in which unsecured indebtedness was incurred or in which the Liens arising in connection therewith were freely permitted under the Indenture, nor would it afford protection in the event of one or more highly leveraged transactions in which secured indebtedness was incurred by our subsidiaries.

Concerning the Trustee. The Trustee, prior to the occurrence of an Event of Default, undertakes to perform only such duties as are specifically set forth in the Indenture and, after the occurrence of an Event of Default, shall exercise the same degree of care as a prudent person would exercise in the conduct of such person's own affairs. Subject to such provision, the Trustee may refuse to perform any duty or exercise any right or power unless it receives indemnity satisfactory to it against any loss, liability or expense. We will pay the Trustee reasonable compensation and reimburse it for reasonable expenses incurred in accordance with the Indenture.

A Trustee may resign with respect to one or more series and a successor trustee may be appointed to act with respect to such series.

U.S. Bank National Association and certain of its affiliates serve as trustee, authenticating agent, or paying agent with respect to certain other of the debt securities of the Company and its affiliates. In addition, the Company and certain of its affiliates maintain banking and other business relationships in the ordinary course of business with U.S. Bank National Association.

Additional Indebtedness. The Indenture does not limit the aggregate principal amount of senior debt securities that we may issue thereunder and provides that debt securities may be issued thereunder from time to time in one or more series.

Interest Payment Determinations. With respect to any Interest Payment Date arising while the Notes remain in book-entry form, the record date will be one business day prior to the relevant Interest Payment Date. The amount of interest payable for any period will be computed on the basis of twelve 30-day months and a 360-day year. The amount of interest payable for any period shorter than a full quarterly interest period will be computed on the basis of the number of days elapsed in a 90-day quarter of three 30-day months. If any Interest Payment Date is a legal holiday in New York, New York, the required payment will be made on the next succeeding day that is not a legal holiday as if it were made on the date such payment was due and no interest will accrue on the amount so payable for the period from and after such Interest Payment Date to such next succeeding day. "Legal holiday" means a Saturday, a Sunday or a day on which banking institutions in New York, New York are not required to be open.

Purchase and Repayment. We or our affiliates may at any time repurchase any of the outstanding Notes at any price by tender, in the open market or by private agreements, and may hold, resell or surrender such Notes to the Trustee for cancellation. The holders of the Notes do not have the right to require us to repay the Notes prior to maturity. We are not required to establish a sinking fund to retire the Notes prior to maturity.

Book-Entry Notes. All of the Notes were issued in book-entry form and are represented by global notes deposited with a nominee of The Depository Trust Company. Except in the limited circumstances described in the Indenture, certificated notes will not be issued in exchange for beneficial interests in the global notes.

Additional Information

For additional information on the 2053 Notes, the 2054 Notes, the 2055 Notes, the 7.00% 2056 Notes, the 6.5% 2056 Notes and the 2057 Notes, see our Registration Statements on Form 8-A filed with the SEC on May 22, 2013, September 26, 2014, September 21, 2015, January 29, 2016, August 22, 2016, and April 27, 2017, respectively. The Indenture and each of the above-referenced supplemental indentures are filed as exhibits to our accompanying Annual Report on Form 10-K.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this Annual Report on Form 10-K of Qwest Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
 - 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: March 5, 2020

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this Annual Report on Form 10-K of Qwest Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors:
 - 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: March 5, 2020

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer

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

I, Jeff K. Storey, Chief Executive Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2019 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: March 5, 2020

/s/ Jeff K. Storey

Jeff K. Storey
Chief Executive Officer

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

I, Indraneel Dev, Chief Financial Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Annual Report on Form 10-K for the year ended December 31, 2019 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: March 5, 2020

/s/ Indraneel Dev

Indraneel Dev
Executive Vice President and Chief
Financial Officer