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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2012

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

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**QWEST CORPORATION**

(Exact name of registrant as specified in its charter)

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**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

**84-0273800**  
(I.R.S. Employer  
Identification No.)

**100 CenturyLink Drive, Monroe, Louisiana**

(Address of principal executive offices)

**71203**  
(Zip Code)

**(318) 388-9000**  
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange

Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

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

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

(Do not check if a  
smaller reporting company)

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

On August 14, 2012, there was one share of common stock outstanding.

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

## PART I—FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

#### QWEST CORPORATION

#### CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Successor			Predecessor
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
	(Dollars in millions)			
<b>OPERATING REVENUES</b>				
Operating revenues	\$ 1,763	3,549	1,816	1,870
Operating revenues—affiliates	432	906	415	398
Total operating revenues	2,195	4,455	2,231	2,268
<b>OPERATING EXPENSES</b>				
Cost of services and products (exclusive of depreciation and amortization)	694	1,437	713	742
Selling, general and administrative	311	650	452	385
Operating expenses—affiliates	161	305	73	52
Depreciation and amortization	574	1,142	623	451
Total operating expenses	1,740	3,534	1,861	1,630
<b>OPERATING INCOME</b>	455	921	370	638
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(116)	(229)	(88)	(150)
Loss on early retirement of debt	(46)	(46)	(1)	—
Other (expense) income	(2)	(1)	—	2
Total other income (expense)	(164)	(276)	(89)	(148)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	291	645	281	490
Income tax expense	113	249	116	191
<b>NET INCOME</b>	\$ 178	396	165	299

See accompanying notes to consolidated financial statements.

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

	<b>Successor</b>			<b>Predecessor</b>
	<b>Three Months Ended June 30, 2012</b>	<b>Six Months Ended June 30, 2012</b>	<b>Three Months Ended June 30, 2011</b>	<b>Three Months Ended March 31, 2011</b>
	(Dollars in millions)			
NET INCOME	\$ 178	396	165	299
OTHER COMPREHENSIVE INCOME:				
Unrealized gain on investments and other, net of tax	—	—	—	1
COMPREHENSIVE INCOME	\$ 178	396	165	300

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

	Successor	
	June 30, 2012	December 31, 2011
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4	3
Accounts receivable, less allowance of \$47 and \$42	634	707
Advances to affiliates	1,355	198
Deferred income taxes, net	159	162
Other	111	98
Total current assets	2,263	1,168
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	8,711	8,420
Accumulated depreciation	(1,445)	(914)
Net property, plant and equipment	7,266	7,506
GOODWILL AND OTHER ASSETS		
Goodwill	9,369	9,369
Customer relationships, net	4,742	5,101
Other intangible assets, net	1,329	1,460
Other	200	205
Total goodwill and other assets	15,640	16,135
TOTAL ASSETS	\$ 25,169	24,809
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,291	64
Accounts payable	493	656
Accounts payable—affiliates, net	—	180
Notes payable—affiliates	583	—
Dividends payable—Qwest Services Corporation	700	310
Accrued expenses and other liabilities		
Salaries and benefits	203	256
Other taxes	207	221
Other	130	133
Advance billings and customer deposits	283	265
Total current liabilities	3,890	2,085
LONG-TERM DEBT	6,872	8,261
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,737	2,842
Affiliates obligations, net	1,492	1,572
Other	188	184
Total deferred credits and other liabilities	4,417	4,598
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY		
Common stock—one share without par value, owned by Qwest Services Corporation	10,069	9,950
Accumulated deficit	(79)	(85)
Total stockholder's equity	9,990	9,865
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 25,169	24,809

See accompanying notes to consolidated financial statements.

## QWEST CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Successor		Predecessor
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 396	165	299
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,142	623	451
Deferred income taxes	(103)	73	76
Provision for uncollectible accounts	43	17	17
Long-term debt (premium) discount amortization	(36)	(60)	3
Loss on early retirement of debt	46	1	—
Changes in current assets and current liabilities:			
Accounts receivable	30	(20)	18
Accounts payable	(46)	(35)	(20)
Accounts receivable and payable—affiliates, net	482	(193)	93
Accrued income and other taxes	(17)	(52)	50
Other current assets and other current liabilities, net	(47)	54	(89)
Changes in other noncurrent assets and liabilities	(30)	43	(36)
Changes in other noncurrent assets and liabilities—affiliates	(80)	(7)	—
Other, net	8	1	7
Net cash provided by operating activities	1,788	610	869
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(600)	(300)	(341)
Changes in advances to affiliates	(1,493)	(191)	—
Proceeds from sale of property	133	—	—
Other, net	—	1	6
Net cash used in investing activities	(1,960)	(490)	(335)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	897	643	—
Payments of long-term debt	(923)	(839)	(14)
Early retirement of debt costs	(177)	(13)	—
Dividends paid to Qwest Services Corporation	—	(100)	(530)
Changes in notes payable—affiliates	583	—	—
Accounts payable—affiliates	(207)	—	—
Other, net	—	—	19
Net cash provided by (used in) financing activities	173	(309)	(525)
Net increase (decrease) in cash and cash equivalents	1	(189)	9
Cash and cash equivalents at beginning of period	3	201	192
Cash and cash equivalents at end of period	\$ 4	12	201

See accompanying notes to consolidated financial statements.





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

	<b>Successor</b>		<b>Predecessor</b>
	<b>Six Months Ended June 30, 2012</b>	<b>Three Months Ended June 30, 2011</b>	<b>Three Months Ended March 31, 2011</b>
	<b>(Dollars in millions)</b>		
<b>COMMON STOCK</b>			
Balance at beginning of period	\$ 9,950	9,951	11,425
Tax benefit of pension deduction	119	—	—
Balance at end of period	10,069	9,951	11,425
<b>(ACCUMULATED DEFICIT) RETAINED EARNINGS</b>			
Balance at beginning of period	(85)	—	(12,256)
Net income	396	165	299
Dividends declared to Qwest Services Corporation	(390)	(28)	(1,000)
Change in other comprehensive income	—	—	1
Balance at end of period	(79)	137	(12,956)
<b>TOTAL STOCKHOLDER'S EQUITY (DEFICIT)</b>	<b>\$ 9,990</b>	<b>10,088</b>	<b>(1,531)</b>

See accompanying notes to consolidated financial statements.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

#### **(1) Basis of Presentation**

We are an integrated communications company engaged primarily in providing an array of communications services to our residential, business, governmental and wholesale customers. Our communications services include local, network access, private line (including special access), broadband, data, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers.

We generate the majority of our revenues from services provided in the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We 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. Although we have continued as a surviving corporation and legal entity since the acquisition, the accompanying consolidated statements of operations, comprehensive income, cash flows and stockholder's equity (deficit) are presented for two periods: predecessor and successor, which relate to the period preceding the acquisition and the period succeeding the acquisition, respectively. On the date of the acquisition, April 1, 2011, our assets and liabilities were recognized at their fair value. This revaluation has been reflected in our financial statements and, therefore, has resulted in a new basis of accounting for the "successor period". This new basis of accounting means that our financial statements for the successor periods are not comparable to our financial statements relating to periods prior to the acquisition, including the predecessor period financial statements in this report.

Our consolidated balance sheet as of the successor date of December 31, 2011, which was derived from our audited financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The results of operations for the first six months of the year are not indicative of the results of operations that might be expected for the entire year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries over which we exercise control. All intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

#### (1) Basis of Presentation (Continued)

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. We also purchase services from our affiliates including telecommunications services, marketing and employee-related support services. In the normal course of business, we transfer assets and liabilities to and from our ultimate parent, CenturyLink, and its affiliates based on their respective carrying values.

Effective January 1, 2012, in connection with post-acquisition systems integration activities, we adopted the affiliate expense allocation methodology used by our ultimate parent. This methodology results in certain overhead costs incurred by us and by our ultimate parent that were previously assessed to us on a net basis now being assessed on a gross basis both to and from our ultimate parent, resulting in both higher affiliate revenues and expenses for us. We believe this change, resulting from systems integration activities, did not have a significant impact to our net income for the successor three and six months ended June 30, 2012.

During the first quarter of 2012, we reclassified certain operating expenses from our selling, general and administrative expenses to our cost of services and products (exclusive of depreciation and amortization) to better reflect our expenses related to providing services to our affiliates. As a result, we reclassified previously reported amounts to conform to the current period presentation. For the successor three months ended June 30, 2011 and the predecessor three months ended March 31, 2011, this reclassification resulted in a reduction of selling, general and administrative expenses of \$122 million and \$116 million, respectively.

During the first quarter of 2012, in connection with post-acquisition systems integration activities, CenturyLink changed certain cash management processes applicable to us. Therefore, we now present the balances related to these cash management transactions on a net basis with our other affiliate transactions.

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain legacy systems to the historical systems of our ultimate parent, CenturyLink. This transition resulted in an estimated \$20 million to \$30 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if we had continued to use our legacy systems and a corresponding estimated \$20 million to \$30 million decrease in operating expenses for the successor six months ended June 30, 2012. This change is expected to result in an estimated operating expense reduction of approximately \$30 million to \$50 million for the successor year ending December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$12 million to \$18 million for the successor six months ended June 30, 2012 and is expected to increase net income by approximately \$18 million to \$30 million for the successor year ending December 31, 2012.

Effective January 1, 2012, we changed our estimates of the economic lives of certain telecommunications equipment. These changes resulted in a decrease to depreciation expense of approximately \$13 million and \$26 million for the successor three and six months ended June 30, 2012, respectively, and are expected to result in decreased depreciation expense of approximately \$52 million for the successor year ending December 31, 2012. This decrease in depreciation expense, net of tax, had the effect of increasing net income by approximately \$8 million and \$16 million for the successor three and six months ended June 30, 2012, respectively, and is expected to result in higher net income of approximately \$34 million for the successor year ending December 31, 2012.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

#### (1) Basis of Presentation (Continued)

During the first quarter of 2012, we recognized a \$119 million equity contribution for the tax benefit associated with a deduction for pension funding. Since we are the employer of a significant percentage of the participants and none of the 2011 QCII pension funding was allocated to us, a tax deduction will be recognized on our separate company tax return and, therefore, we recognized an equity contribution for the tax benefits associated with this deduction.

On April 2, 2012, we sold an office building for net proceeds of \$133 million. As part of the transaction, we agreed to lease a portion of the building from the new owner. As a result, the \$16 million gain from the sale was deferred and will be recognized as a reduction to rent expense over the 10 year lease term.

#### (2) Acquisition of QCII by CenturyLink

Since April 1, 2011, our results of operations have been included in the consolidated results of operations of CenturyLink. CenturyLink has accounted for its acquisition of QCII and us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on their acquisition date fair values. In the first quarter of 2012, we completed our valuation of the assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets.

The aggregate consideration payable to QCII's stockholders that is attributable to us exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$9.369 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes. The aggregate consideration allocation is based on our final analysis of enterprise value of \$18.639 billion less the fair value of our debt of \$8.688 billion.

## QWEST CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## (2) Acquisition of QCII by CenturyLink (Continued)

The following is our assignment of the aggregate consideration:

	April 1, 2011
	(Dollars in millions)
Cash, accounts receivable and other current assets*	\$ 1,091
Property, plant and equipment	7,460
Identifiable intangible assets:	
Customer relationships	5,699
Capitalized software	1,702
Other noncurrent assets	209
Current liabilities, excluding current maturities of long-term debt	(2,446)
Current maturities of long-term debt	(2,378)
Long-term debt	(6,310)
Deferred credits and other liabilities	(4,445)
Goodwill	9,369
Aggregate consideration	\$ 9,951

\* Includes estimated fair value of \$674 million for accounts receivable, excluding affiliate accounts receivable, which had gross contractual value of \$722 million on April 1, 2011. The \$48 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of April 1, 2011 of contractual cash flows that would not be collected.

During the first quarter of 2012, we retrospectively adjusted our previously reported preliminary assignment of the aggregate Qwest consideration for changes to our original estimates of the fair value of certain items at the acquisition date. These changes are the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2011. Due to these revisions of our estimates, (i) property, plant and equipment decreased by \$36 million primarily from a revision to our valuation of our buildings and (ii) deferred credits and other liabilities decreased by \$89 million primarily from a revision to one of our lease valuations and changes in tax liabilities. Among other minor revisions, goodwill decreased by \$84 million as an offset to the above mentioned changes. The depreciation impact of the adjustments to property, plant and equipment valuations did not result in a material change to previously-reported amounts.

**Acquisition-Related Expenses**

We have incurred operating expenses related to CenturyLink's indirect acquisition of us, which consist primarily of integration and severance expenses. The table below summarizes our acquisition-related expenses:

	Three Months Ended June 30, 2012	Successor Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Predecessor Three Months Ended March 31, 2011
	(Dollars in millions)			
Acquisition-related expenses	\$ 3	29	123	2

## QWEST CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

## (3) Goodwill, Customer Relationships and Other Intangible Assets

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

	Successor	
	June 30, 2012	December 31, 2011
	(Dollars in millions)	
Goodwill	\$ 9,369	9,369
Customer relationships, less accumulated amortization of \$957 and \$598	\$ 4,742	5,101
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$556 and \$354	\$ 1,329	1,460

We amortize customer relationships over estimated lives of 10 years, using either the sum-of-the-years-digits or 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.

The table below summarizes our amortization expense:

	Successor			Predecessor
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
	(Dollars in millions)			
Amortization expense	\$ 287	561	319	58

## (4) Long-Term Debt

Long-term debt, including unamortized discounts and premiums, is as follows:

	Interest Rates	Maturities	Successor	
			June 30, 2012	December 31, 2011
			(Dollars in millions)	
Senior notes(1)	6.500% - 8.375%	2013 - 2052	\$ 7,870	7,829
Capital lease and other obligations	Various	Various	137	176
Unamortized premiums, net			156	320
Total long-term debt			8,163	8,325
Less current maturities			(1,291)	(64)
Long-term debt, excluding current maturities			\$ 6,872	8,261

- (1) Our \$750 million Notes due 2013 are floating rate notes, with rates that reset every three months. As of the most recent measurement date of June 15, 2012, the rate for these notes was 3.718%, which is not included in the range of rates stated above.

**QWEST CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****(4) Long-Term Debt (Continued)*****New Issuances***

On June 25, 2012, we issued \$400 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$387 million. The notes are unsecured obligations and may be redeemed, in whole or in part, on or after July 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 2, 2012, we issued \$525 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$508 million. The notes are unsecured obligations and may be redeemed, in whole or in part, on or after April 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

In connection with consummating the April 18, 2012 tender offer described below under "Repayments", we borrowed from a CenturyLink affiliate approximately \$583 million under a revolving promissory note, payable upon demand. The note is unsecured and is pari passu to our Senior Notes.

***Repayments***

On April 18, 2012, we completed a cash tender offer to purchase a portion of our \$811 million of 8.375% Notes due 2016 and our \$400 million of 7.625% Notes due 2015. With respect to our 8.375% Notes due 2016, we received and accepted tenders of approximately \$575 million aggregate principal amount of these notes, or 71%, for \$722 million including a premium, fees and accrued interest. With respect to our 7.625% Notes due 2015, we received and accepted tenders of approximately \$308 million aggregate principal amount of these notes, or 77%, for \$369 million including a premium, fees and accrued interest. The completion of this tender offer resulted in a loss of \$46 million.

***Covenants***

As of the successor date of June 30, 2012, we believe we were in compliance with the provisions and covenants of our debt agreements.

***Subsequent Event***

On July 20, 2012, we redeemed all \$484 million of our 7.5% Notes due 2023, which resulted in an immaterial loss.

**(5) Severance**

Periodically, we have implemented reductions in our workforce and have accrued liabilities for related severance costs. These workforce reductions resulted primarily from our integration plans related to CenturyLink's indirect acquisition of us, increased competitive pressures and reduced workload demands due to the loss of access lines.

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.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

#### (5) Severance (Continued)

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

	<b>Severance</b>
	<b>(Dollars in millions)</b>
Balance at December 31, 2011(Successor)	\$ 29
Accrued to expense	43
Payments, net	(22)
Reversals and adjustments	(3)
Balance at March 31, 2012 (Successor)	47
Accrued to expense	13
Payments, net	(42)
Reversals and adjustments	—
Balance at June 30, 2012 (Successor)	\$ 18

#### (6) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts receivable—affiliates, advances to affiliates, accounts payable, accounts payable—affiliates and long-term debt, excluding capital lease obligations. The carrying amounts of our cash and cash equivalents, accounts receivable, accounts receivable—affiliates, advances to affiliates, accounts payable and accounts payable—affiliates approximate their fair values.

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

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 Financial Accounting Standards Board generally as follows:

<u>Input Level</u>	<u>Description of Input</u>
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.



## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

#### (6) Fair Value Disclosure (Continued)

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

	Input Level	Successor			
		June 30, 2012		December 31, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities—Long-term debt excluding capital lease obligations	2	\$ 8,026	8,353	8,149	8,352

#### (7) Products and Services Revenues

We are an integrated communications company engaged primarily in providing an array of communications services, including local, network access, private line (including special access), broadband, Ethernet, data, wireless and video services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services. We categorize our products and services into the following three categories:

- *Strategic services*, which include primarily private line (including special access), broadband, video (including resold satellite video services) and Verizon Wireless services;
- *Legacy services*, which include primarily local, integrated services digital network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allows a local communications network to link to networks in remote locations); and
- *Affiliates and other services*, which consist primarily of universal service funds ("USF") revenues and surcharges and services we provide to our affiliates. 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.

During the first quarter of 2012, we reclassified certain prior period revenues between the aforementioned three categories to conform to the current period presentation.

Since the April 1, 2011 closing of CenturyLink's indirect acquisition of us, our operations have been integrated into and reported as part of the segments of CenturyLink. CenturyLink's chief operating decision maker ("CODM") has become our CODM, but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the SEC. Consequently, we do not provide our discrete financial information to the CODM on a regular basis. As such, we believe we now have one reportable segment and have reclassified our prior period results to conform to our current view.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

#### (7) Products and Services Revenues (Continued)

Operating revenues for our products and services are summarized below:

	Successor			Predecessor
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
(Dollars in millions)				
Strategic services	\$ 811	1,623	791	792
Legacy services	874	1,775	954	1,003
Affiliates and other services	510	1,057	486	473
Total operating revenues	<u>\$ 2,195</u>	<u>4,455</u>	<u>2,231</u>	<u>2,268</u>

Affiliates and other services revenues include revenues from universal service funds which allow us to recover a portion of our costs under federal and state cost recovery mechanisms and certain surcharges to our customers, including billings for our required contributions to several USF programs. These surcharge billings to our customers are reflected on a gross basis in our statements of operations (included in both operating revenues and expenses). Because the amount of these recorded revenues and expenses offset each other, these surcharges do not impact our net income.

The table below presents the aggregate USF surcharges recognized on a gross basis:

	Successor			Predecessor
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
(Dollars in millions)				
USF and surcharges included in operating revenues and expenses	\$ 43	87	41	43

#### (8) Commitments and Contingencies

From time to time, we are involved in proceedings incidental to our business, including administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, various tax issues, environmental law issues, occasional grievance hearings before labor regulatory agencies, patent infringement allegations and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable. However, we do not believe that the ultimate resolution of these other proceedings, after considering available insurance coverage, will have a material adverse effect on our financial position, results of operations or cash flows.

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

## **QWEST CORPORATION**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

#### **(9) Labor Union Contracts**

Over 54% of our employees are members of bargaining units represented by the Communications Workers of America and the International Brotherhood of Electrical Workers. Our current four-year collective bargaining agreements expire October 6, 2012.

#### **(10) Dividends**

Effective June 30, 2012, our board of directors declared a dividend to our parent of \$390 million. This dividend has been reflected on our balance sheet in "Dividends payable—Qwest Services Corporation".

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

*Unless the context requires otherwise, references in this report to "QC" refer to Qwest Corporation, 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.*

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

Certain statements in this report constitute forward-looking statements. See "Risk Factors" in Item 1A of Part II of this report for a discussion of certain risk factors applicable to our business, financial condition and results of operations.

### Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2011. The results of operations for the first six months of the year are not indicative of the results of operations that might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of communications services to our residential, business, governmental and wholesale customers. Our communications services include local, network access, private line (including special access), broadband, data, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers. 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 generate the majority of our revenues from services provided in the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming. We refer to this region as our local service area.

As discussed in Note 2—Acquisition of QCII by CenturyLink, on April 1, 2011, our indirect parent, QCII, became a wholly owned subsidiary of CenturyLink.

Since April 1, 2011, our results of operations have been included in the consolidated results of operations of our ultimate parent, CenturyLink. CenturyLink has accounted for its acquisition of QCII and us under the acquisition method of accounting, which resulted in the assignment of the purchase price to the assets acquired and liabilities assumed based on estimates of their acquisition date fair values. The aggregate consideration payable to QCII's stockholders that is attributable to us exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$9.369 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect CenturyLink and its consolidated subsidiaries, including us, to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes. The recognition of assets and liabilities at fair value is reflected in our financial statements and therefore has resulted in a new basis of accounting for the "successor period" beginning on April 1, 2011. This new basis of accounting means that our financial statements for the successor periods will not be comparable to our previously reported financial statements, including the predecessor period financial statements in this report.

The discussion in MD&A of our performance for the six months ended June 30, 2011 is presented on a combined basis for the predecessor and successor periods in 2011. We believe this presentation allows the results of operations for this period to be more readily compared to the comparable six-month period in 2012.

We have incurred operating expenses related to CenturyLink's indirect acquisition of us, which consist primarily of integration and severance expenses. The table below summarizes our acquisition-related expenses:

	Successor			Predecessor
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011
	(Dollars in millions)			
Acquisition-related expenses	\$ 3	29	123	2

CenturyLink has cash management arrangements between certain of its subsidiaries, including us, under which the majority of our cash balance is transferred on a daily basis to CenturyLink. We report the balance of these transfers on our balance sheet as advances to affiliates.

Since the April 1, 2011 closing of CenturyLink's indirect acquisition of us, our operations have been integrated into and reported as part of the segments of CenturyLink. CenturyLink's chief operating decision maker ("CODM") has become our CODM, but reviews our financial information on an aggregate basis only in connection with our quarterly and annual reports that we file with the Securities and Exchange Commission ("SEC"). Consequently, we do not provide our discrete financial information to the CODM on a regular basis.

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

- *Strategic services*, which include primarily private line (including special access), broadband, video (including resold satellite video services) and Verizon Wireless services;
- *Legacy services*, which include primarily local, integrated services digital network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allows a local communications network to link to networks in remote locations); and
- *Affiliates and other services*, which consist primarily of universal service funds ("USF") revenues and surcharges and services we provide to our affiliates. 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.

During the first quarter of 2012, we reclassified certain prior period revenues between the aforementioned three categories to conform to the current period presentation.

As of the successor date of June 30, 2012, we served approximately 3.2 million broadband subscribers. As described below, during the second quarter of 2012, we updated our methodology for counting broadband subscribers to include business and wholesale subscribers instead of only retail and small business subscribers. We also operated approximately 8.3 million access lines, which are telephone lines reaching from the customers' premises to a connection with the public switched telephone network. We count access lines when we install the service. Our methodology includes only those access lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. Our methodology for counting our access lines may not be comparable to those of other companies.

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

## Business Trends

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

- *Strategic services.* We continue to see shifts in the makeup of our total revenues as customers move to strategic services, such as private line, broadband and video services, from legacy services, such as local and access services. Revenues from our strategic services represented 37 % and 35 % of our total revenues for the successor three months ended June 30, 2012 and 2011, respectively, and 36% and 35% of our total revenues for the successor six months ended June 30, 2012 and the combined six months ended June 30, 2011, respectively, and we expect that this percentage will continue to grow. We continue to focus on increasing subscribers of our broadband services, particularly among consumer and small business customers. We believe that continually increasing connection speeds is important to remaining competitive in our industry. As a result, we continue to invest in our fiber to the node ("FTTN") deployment, which allows for the delivery of higher speed broadband services than would otherwise generally be available through a more traditional telecommunications network made up of only copper wires. In addition to our FTTN deployment, we continue to expand our product offerings, including Ethernet and MPLS, and enhance our marketing efforts as we compete in a mature market in which most consumers already have broadband services. While traditional broadband services are declining, they have been more than offset by growth in fiber based broadband services. We expect these efforts will improve our ability to compete and increase our broadband revenues. Another trend impacting our strategic services is the deployment of fiber-based special access services provided to wireless carriers, which in many cases replaces existing copper-based special access services. We ultimately believe the growth in fiber-based special access services provided to wireless carriers for backhaul will, over time, offset the decline in copper-based special access services provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain.
- *Legacy services.* Revenues from our legacy services represented 40% and 43% of our total revenues for the successor three months ended June 30, 2012 and 2011, respectively, and 40% and 44% of our total revenues for the successor six months ended June 30, 2012 and the combined six months ended June 30, 2011, respectively, and we expect that this percentage will continue to decline. Our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are replacing traditional voice telecommunications service with substitute services, including (i) cable and wireless voice services and (ii) electronic mail, texting and social networking services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of access line revenues, we continue to offer service bundling and other product promotions to help mitigate this trend, as described below.
- *Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video and wireless. While our video and wireless services are an important piece of our customer retention strategy, they do not significantly contribute to our strategic services revenues. However, we believe customers value the convenience of, and price discounts associated with, receiving multiple services through a single company. While bundle price

discounts have resulted in lower average revenues for our individual products, we believe service bundles continue to positively impact our customer retention and our ability to compete with other telecommunications service providers. In addition to our bundle discounts, we also offer from time to time limited time promotions on our broadband service, which we believe further aids our ability to attract and retain customers and increase usage of our services.

- *Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions.
- *Pension and post-retirement benefits expenses.* Our indirect parent QCII is required to recognize in its consolidated financial statements certain expenses relating to its pension and post-retirement health care and life insurance benefits plans. These expenses are calculated based on several assumptions, including among other things discount rates and expected rates of return on plan assets that are generally set at December 31 of each year. Changes in these assumptions can cause significant changes in the combined net periodic benefits expenses QCII recognizes. QCII allocates the expenses of these plans to us and certain of its other affiliates. The allocation of expenses to us is based upon the demographics of our employees and retirees. Changes in QCII's assumptions can cause significant changes in the net periodic pension and post-retirement benefits expenses we recognize.
- *Strategic Capital Investment.* Our capital expenditures continue to be focused on our strategic services such as broadband and the deployment of fiber to the tower ("FTTT"). FTTT is a type of telecommunications network consisting of fiber-optic cables that run from a wireless carrier's mobile telephone switching office to cellular towers to enable the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional copper-based telecommunications network.

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

## Results of Operations

The following table summarizes our results of operations:

	Successor			Predecessor	Combined
	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Six Months Ended June 30, 2011
	(Dollars in millions)				
Operating revenues	\$ 2,195	4,455	2,231	2,268	4,499
Operating expenses	1,740	3,534	1,861	1,630	3,491
Operating income	455	921	370	638	1,008
Other income (expense)	(164)	(276)	(89)	(148)	(237)
Income tax expense	113	249	116	191	307
Net income	\$ 178	396	165	299	464

The following table summarizes certain of our operational metrics:

	Successor		Increase/ (Decrease)	% Change
	As of June 30, 2012	As of June 30, 2011 (in thousands)		
Broadband subscribers	3,246	3,094	152	5%
Access lines	8,276	8,804	(528)	(6)%
Employees	23,500	25,400	(1,900)	(7)%

During the second quarter of 2012, we updated our methodology for counting broadband subscribers to better align with the methodology used by our ultimate parent company, CenturyLink. We have restated our previously reported amounts to reflect this change.

Our access line methodology includes only those access lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. Our methodology also excludes unbundled loops and includes stand-alone broadband subscribers.

### Operating Revenues

The following tables summarize our operating revenues:

	Successor		Increase/ (Decrease)	% Change
	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011 (Dollars in millions)		
Strategic services	\$ 811	791	20	3%
Legacy services	874	954	(80)	(8)%
Affiliates and other services	510	486	24	5%
Total operating revenues	\$ 2,195	2,231	(36)	(2)%

	Successor		Predecessor Three Months Ended March 31, 2011 (Dollars in millions)	Combined Six Months Ended June 30, 2011	Increase/ (Decrease) Successor 2012 v Combined 2011	% Change Successor 2012 v Combined 2011
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011				
Strategic services	\$ 1,623	791	792	1,583	40	3%
Legacy services	1,775	954	1,003	1,957	(182)	(9)%
Affiliates and other services	1,057	486	473	959	98	10%
Total operating revenues	\$ 4,455	2,231	2,268	4,499	(44)	(1)%

### Strategic Services

Strategic services revenues increased in both of the comparative periods reflected in the tables above due primarily to increases in the volume of our Ethernet services and increased sales of higher speed broadband services. Our growth in revenues was partially offset by decreased sales volumes of our private line services.

### Legacy Services

Legacy services revenues decreased in both of the comparative periods as a result of lower local and long-distance services revenues due to access line loss and reduced access services usage related to the above-described competitive pressures and product substitution. Legacy services revenues also





decreased in both of the comparative periods due to lower revenues from our traditional WAN services caused by customer migration, product substitution and increased competition. Part of the decrease in legacy services revenues for the successor six months ended June 30, 2012 compared to the combined six months ended June 30, 2011 is attributable to lower amortization of deferred revenue due to predecessor deferred installation and activation revenue being assigned no value at the acquisition date.

### Affiliates and Other Services

Affiliates and other services revenues increased in both of the comparative periods primarily due to a change in methodology effective January 1, 2012 that resulted in both higher affiliate revenues and expenses for us. See Note 1—Basis of Presentation. A portion of the increase in affiliates and other services revenues for the successor six months ended June 30, 2012 compared to the combined six months ended June 30, 2011 is attributable to telecommunications services we provided to affiliates since CenturyLink's April 1, 2011 indirect acquisition of us.

### Operating Expenses

The following tables summarize our operating expenses:

	Successor		Increase/ (Decrease)	% Change
	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011		
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 694	713	(19)	(3)%
Selling, general and administrative	311	452	(141)	(31)%
Operating expenses—affiliates	161	73	88	121%
Depreciation and amortization	574	623	(49)	(8)%
Total operating expenses	\$ 1,740	1,861	(121)	(7)%

	Successor		Predecessor	Combined	Increase/ (Decrease)	% Change
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Six Months Ended June 30, 2011	Successor 2012 v Combined 2011	Successor 2012 v Combined 2011
(Dollars in millions)						
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,437	713	742	1,455	(18)	(1)%
Selling, general and administrative	650	452	385	837	(187)	(22)%
Operating expenses—affiliates	305	73	52	125	180	144%
Depreciation and amortization	1,142	623	451	1,074	68	6%
Total operating expenses	\$ 3,534	1,861	1,630	3,491	43	1%

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain legacy systems to the historical systems of our ultimate parent, CenturyLink. This transition resulted in an estimated \$20 million to \$30 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if we had continued to use our legacy



systems and a corresponding estimated \$20 million to \$30 million decrease in operating expenses for the successor six months ended June 30, 2012. This change is expected to result in an estimated operating expense reduction of approximately \$30 million to \$50 million for the successor year ending December 31, 2012.

### **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 expenses we incur from using other carriers' networks to provide services to our customers); rents and utilities expenses; equipment sales expenses (such as modem expenses); costs for USF (which reflect our contributions to certain 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 other expenses directly related to our network operations.

These expenses decreased in both of the comparative periods reflected in the tables above primarily due to decreased salaries and wages and benefits, which were partially offset by a paid time off accounting adjustment for our union employees.

### **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; taxes (such as property and other taxes) and fees; external commissions; bad debt expense; and other operating expenses.

During the first quarter of 2012, we reclassified certain operating expenses from our selling, general and administrative expenses to our cost of services and products (exclusive of depreciation and amortization) to better reflect our expenses related to providing services to our affiliates. As a result, we reclassified previously reported amounts to conform to the current period presentation. For the predecessor three months ended March 31, 2011 and the successor three months ended June 30, 2011, this reclassification resulted in a reduction of selling, general and administrative expenses of \$116 million and \$122 million, respectively.

These expenses decreased in both of the comparative periods reflected in the tables above primarily due to decreased salaries and wages, benefits, bad debt, and professional fees. This decrease was partially offset by an increase in marketing and advertising expenses.

### **Operating Expenses—Affiliates**

Effective January 1, 2012, in connection with post-acquisition systems integration activities, we adopted the affiliate expense allocation methodology used by our ultimate parent. This methodology results in certain overhead costs incurred by us and by our ultimate parent that were previously assessed to us on a net basis now being assessed on a gross basis both to and from our ultimate parent, resulting in both higher affiliate revenues and expenses for us. We believe this change, resulting from systems integration activities, did not have a significant impact to our net income for the successor three and six months ended June 30, 2012.

Since CenturyLink's indirect acquisition of us, we have incurred affiliates expenses related to our use of telecommunications services, marketing and employee related support services provided to us by

CenturyLink and certain of its subsidiaries. A portion of the increase in operating expenses—affiliates for the successor six months ended June 30, 2012 compared to the combined six months ended June 30, 2011 is attributable to incurring these intercompany expenses for the entire 2012 period compared to only half of the 2011 period.

### Depreciation and Amortization

The following tables provide detail regarding depreciation and amortization expense:

	Successor			
	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Increase/ (Decrease)	% Change
	(Dollars in millions)			
Depreciation	\$ 287	304	(17)	(6)%
Amortization	287	319	(32)	(10)%
Total depreciation and amortization	\$ 574	623	(49)	(8)%

	Successor		Predecessor	Combined	Increase/ (Decrease)	% Change
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Six Months Ended June 30, 2011	Successor 2012 v Combined 2011	Successor 2012 v Combined 2011
	(Dollars in millions)					
Depreciation	\$ 581	304	393	697	(116)	(17)%
Amortization	561	319	58	377	184	49%
Total depreciation and amortization	\$ 1,142	623	451	1,074	68	6%

In connection with us being acquired as of April 1, 2011, our property, plant and equipment was recognized at fair value, which reduced the recognized amounts of our net property, plant and equipment. This decrease in asset value resulted in \$92 million lower depreciation expense for the successor six months ended June 30, 2012, as compared to the combined six months ended June 30, 2011. Effective January 1, 2012, we also changed our estimates of the economic lives of certain telecommunications equipment. These changes resulted in an additional decrease to depreciation expense of approximately \$13 million and \$26 million for the successor three and six months ended June 30, 2012, respectively.

The accounting for CenturyLink's indirect acquisition of us also resulted in additional amortizable intangible customer relationship assets, which increased amortization expense approximately \$158 million for the successor six months ended June 30, 2012, as compared to the combined six months ended June 30, 2011. In addition, our capitalized software was also recognized at fair value, which resulted in an increase of \$59 million in amortization expense for the successor six months ended June 30, 2012, as compared to the combined six months ended June 30, 2011.

Excluding the effects of CenturyLink's indirect acquisition of us, depreciation and amortization expense decreased \$19 million and \$31 million for the successor three and six months ended June 30, 2012, respectively, due to annual updates of our depreciation rates for capitalized assets, as partially offset by net growth in capital assets.

## Other Consolidated Results

The following tables summarize our total other income (expense) and income tax expense:

	Successor			
	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Increase/ (Decrease)	% Change
	(Dollars in millions)			
Interest expense	\$ (116)	(88)	28	32%
Loss on early retirement of debt	(46)	(1)	45	nm
Other expense	(2)	—	2	nm
Total other income (expense)	\$ (164)	(89)	75	84%
Income tax expense	\$ 113	116	(3)	(3)%

	Successor		Predecessor	Combined	Increase/ (Decrease)	% Change
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Six Months Ended June 30, 2011	Successor 2012 v Combined 2011	Successor 2012 v Combined 2011
	(Dollars in millions)					
Interest expense	\$ (229)	(88)	(150)	(238)	(9)	(4)%
Loss on early retirement of debt	(46)	(1)	—	(1)	45	nm
Other (expense) income	(1)	—	2	2	3	nm
Total other income (expense)	\$ (276)	(89)	(148)	(237)	39	16%
Income tax expense	\$ 249	116	191	307	(58)	(19)%

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 increased in the successor three months ended June 30, 2012 compared to the successor three months ended June 30, 2011 primarily due to a substantial reduction in the amount of debt premium amortization due to the retirement of several issuances of debt since June 30, 2011. This was partially offset by a decrease in coupon interest due to the retirement of several issuances of debt since June 30, 2011, in some cases replaced with lower coupon debt. Interest expense decreased in the successor six months ended June 30, 2012 compared to the combined six months ended June 30, 2011 due to the same reason as the three month variance however with a lesser impact from reduced amortization.

### Loss on Early Retirement of Debt

On April 18, 2012, we completed a premium-priced cash tender offer to purchase a portion of our \$811 million of 8.375% Notes due 2016 and our \$400 million of 7.625% Notes due 2015. With respect to our 8.375% Notes due 2016, we received and accepted tenders of approximately \$575 million aggregate principal amount of these notes, or 71%, for \$722 million including a premium, fees and accrued interest. With respect to our 7.625% Notes due 2015, we received and accepted tenders of approximately \$308 million aggregate principal amount of these notes, or 77%, for \$369 million.



including a premium, fees and accrued interest. The completion of this tender offer resulted in a loss of \$46 million.

### **Income Tax Expense**

Income tax expense for the successor six months ended June 30, 2012 was \$249 million, or an effective tax rate of 38.6%, as compared to income tax expense for the combined six months ended June 30, 2011 of \$307 million, or an effective tax rate of 39.8%.

### **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 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 to CenturyLink. From time to time we may declare and pay dividends to QSC in excess of our earnings to the extent permitted by applicable law using cash repaid 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.

As of the successor date of June 30, 2012, we had a working capital deficit of \$1.6 billion, reflecting current liabilities of \$3.9 billion and current assets of \$2.3 billion, compared to a working capital deficit of \$917 million as of the successor date of December 31, 2011. The change in our working capital position is primarily due to an increase in the current maturities of long-term debt of \$1.2 billion and notes payable—affiliates of \$583 million which were partially offset by an increase in the amounts owed to us by our affiliates of \$1.2 billion as of the successor date of June 30, 2012, as well as decreases in accounts payable and accounts payable-affiliates of \$343 million. Our current maturities of long-term debt balances were unusually high as of the successor date of June 30, 2012 primarily due to our anticipation of retiring \$484 million aggregate principal amount of debt on July 20, 2012 (discussed below). We have historically operated with a working capital deficit due to our practice of declaring and paying regular cash dividends to QSC. As long as we continue declaring cash dividends to QSC, it is likely that we will continue to operate with a working capital deficit in the future. We anticipate that any future liquidity needs not met through our cash provided by operating activities and amounts due to us from CenturyLink could be met through capital contributions or advances from CenturyLink.

#### ***Debt and Other Financing Arrangements***

Subject to market conditions, from time to time we expect to continue to issue debt securities to refinance our maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned us by the three major credit rating agencies, among other factors.

On July 20, 2012, we redeemed all \$484 million of our 7.5% Notes due 2023, which resulted in an immaterial loss.



On June 25, 2012, we issued \$400 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$387 million. The notes are unsecured obligations and may be redeemed, in whole or in part, on or after July 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 18, 2012, we completed a cash tender offer to purchase a portion of our \$811 million of 8.375% Notes due 2016 and our \$400 million of 7.625% Notes due 2015. With respect to our 8.375% Notes due 2016, we received and accepted tenders of approximately \$575 million aggregate principal amount of these notes, or 71%, for \$722 million including a premium, fees and accrued interest. With respect to our 7.625% Notes due 2015, we received and accepted tenders of approximately \$308 million aggregate principal amount of these notes, or 77%, for \$369 million including a premium, fees and accrued interest. The completion of this tender offer resulted in a loss of \$46 million. In connection with consummating this tender offer, we borrowed from a CenturyLink affiliate approximately \$583 million under a revolving promissory note, payable upon demand. The note is unsecured and is *pari passu* to our Senior Notes.

On April 2, 2012, we issued \$525 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$508 million. The notes are unsecured obligations and may be redeemed, in whole or in part, on or after April 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 6, 2012, CenturyLink amended and restated its revolving credit facility (the "Credit Facility") to increase the aggregate principal amount available to \$2.0 billion, including \$400 million of letter of credit capacity, for the general corporate purposes of itself and its subsidiaries. CenturyLink's obligations under the Credit Facility are guaranteed by QCII and our parent, QSC. As of June 30, 2012, there was \$250 million in borrowings and zero in letters of credit outstanding under the Credit Facility. CenturyLink also maintains a separate letter of credit arrangement with a financial institution to which we have access.

As of the successor date of June 30, 2012, we believe we were in compliance with the provisions and covenants of our debt agreements.

### ***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. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted revenue growth or productivity, expense and service impacts) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash generated by operating activities and regulatory considerations. Our 2012 capital expenditures will be determined in part by the strategic initiatives of our ultimate parent, CenturyLink.

Our capital expenditures continue to be focused on primarily our broadband services. Throughout 2012, we anticipate that our fiber investment, which includes FTTT, will be slightly lower to that spent in 2011. FTTT is a type of telecommunications network consisting of fiber-optic cables that run from a wireless carrier's mobile telephone switching office to cellular towers to enable the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional copper-based telecommunications network.

CenturyLink, our ultimate parent, has agreed to accept approximately \$35 million of the \$90 million available to it from Phase 1 of the Federal Communications Commission's ("FCC") Connect America Fund ("CAF") established by Congress to help telecommunications carriers defray the cost of providing broadband access to remote customers. Of the \$35 million, we will receive

approximately \$30 million and intend to use the funds to deploy broadband service for up to 39,000 homes in unserved rural areas principally in Colorado, Minnesota, New Mexico and Washington. CenturyLink has determined that restrictions on the use of these funds have made acceptance of additional CAF funds uneconomical. CenturyLink has, however, filed with the FCC a waiver application, which, if granted, would allow us to deploy broadband services with CAF funds to approximately 56,000 more homes in high-cost unserved areas in our markets.

### ***Pension and Post-retirement Benefit Obligations***

QCII is subject to material obligations under its existing defined benefit pension and other post-retirement benefit plans. The plans are measured annually at December 31. As of the successor date of December 31, 2011, the accounting unfunded status of QCII's pension and other post-retirement benefit obligations was \$650 million and \$2.7 billion, respectively.

A substantial portion of our employees participate in the QCII pension plan. Historically, QCII has only required us to pay our portion of its pension contribution. Our contributions are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of QCII's affiliates.

Benefits paid by QCII's qualified pension plan are paid through a trust. Based on current laws and circumstances, QCII will not be required to make a cash contribution to this plan in 2012 and based on current funding laws and regulation it is unlikely QCII will be required to make a cash contribution in 2013. The amount of required contributions to QCII's plan in 2013 and beyond will depend on earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plan benefits and any further changes in funding laws and regulations.

Certain of QCII's post-retirement health care and life insurance benefits plans are unfunded. A trust holds assets that are used to help cover the health care costs of certain retirees. As of December 31, 2011, the fair value of the trust assets was \$643 million; however, a portion of these assets is comprised of investments with restricted liquidity. QCII estimates that the more liquid assets in the trust will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately four years, based on current circumstances. Thereafter, covered benefits will be paid either directly by QCII or from the trust as the remaining assets become liquid. This projected four year period could be substantially shorter or longer depending on changes in projected health care costs, returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

QCII's estimated annual long-term rate of return on the pension and post-retirement plans trust assets is 7.5% based on the assets currently held; however, actual returns could vary widely in any given year.

## Historical Information

The following table summarizes our cash flow activities:

	Successor		Predecessor	Combined	Increase/ (Decrease)
	Six Months Ended June 30, 2012	Three Months Ended June 30, 2011	Three Months Ended March 31, 2011	Six Months Ended June 30, 2011	Successor 2012 v Combined 2011
(Dollars in millions)					
Net cash provided by operating activities	\$ 1,788	610	869	1,479	309
Net cash used in investing activities	(1,960)	(490)	(335)	(825)	1,135
Net cash provided by (used in) financing activities	173	(309)	(525)	(834)	1,007

Net cash provided by operating activities increased primarily in the successor six months ended June 30, 2012 as compared to the combined six months ended June 30, 2011 due to changes in affiliate balances which were slightly offset by changes to deferred income taxes.

Net cash used in investing activities increased in the successor six months ended June 30, 2012 as compared to the combined six months ended June 30, 2011 primarily due to changes in our advances to affiliates resulting from the majority of our cash balance being transferred on a daily basis to CenturyLink. This increase is partially offset by proceeds from the sale of property.

Net cash provided by financing activities increased in the successor six months ended June 30, 2012 primarily due to a decrease in dividends paid to QSC and an increase in notes payable to our affiliates.

### Certain Matters Related to CenturyLink's Indirect Acquisition of Us

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

As of the successor date of June 30, 2012, we paid certain costs that were associated with CenturyLink's indirect acquisition of us. These costs include compensation costs comprised of retention bonuses and severance. The final amounts and timing of the compensation costs to be paid is partially dependent upon personnel decisions that continue to be made as part of the continuing integration process. These amounts may be material.

In accounting for CenturyLink's indirect acquisition of us, we recognized our debt securities at their estimated fair values, which totaled \$8.498 billion as of April 1, 2011. Our acquisition date fair value estimates were based primarily on quoted market prices in active markets and other observable inputs where quoted market prices were not available. The fair value of our debt securities exceeded their stated principal balances on the acquisition date by \$530 million, which we recorded as premium.

The table below summarizes the premiums recognized as a reduction to interest expense or extinguished during the periods indicated:

	Successor		Total Since Acquisition
	Six Months Ended June 30, 2012	Nine Months Ended December 31, 2011	
	(Dollars in millions)		
Amortized	\$ 36	35	71
Extinguished(1)	128	59	187
<b>Total premiums recognized</b>	<b>\$ 164</b>	<b>94</b>	<b>258</b>

(1) See "Debt and Other Financing Arrangements" for more information.

The remaining premium of \$272 million as of the successor date of June 30, 2012 will reduce interest expense in future periods, unless otherwise extinguished.

### **Other Matters**

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

### **Off-Balance Sheet Arrangements**

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 or (ii) discussed under the heading "Market Risk" below. There were no substantial changes to our off-balance sheet arrangements or contractual obligations in the successor six months ended June 30, 2012, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2011.

### **Market Risk**

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

From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of the successor date of June 30, 2012, we had no such instruments outstanding.

There were no material changes to market risks arising from changes in interest rates for the successor six months ended June 30, 2012, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2011.

## Other Information

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

*In addition to historical information, this MD&A includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including those arising out of the Federal Communications Commission's October 27, 2011 order regarding intercarrier compensation and the USF, among other things); our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by CenturyLink's recent acquisitions of Savvis, QCII and Embarq; CenturyLink's ability to successfully integrate the operations of Savvis and QCII (including us) into its operations, including the possibility that the anticipated benefits from these acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; CenturyLink's and QCII's ability to use net operating loss carryovers in projected amounts; CenturyLink's ability to effectively manage its expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; any adverse developments in legal proceedings involving CenturyLink or QCII; unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in CenturyLink or QCII's pension funding requirements or otherwise; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from time to time in this report (including in "Risk Factors" in Item 1A of Part II of this report) or other of our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any of our forward-looking statements for any reason.*

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

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

Glen F. Post, III, the Chief Executive Officer of CenturyLink and us, and R. Stewart Ewing, Jr., the Chief Financial Officer of CenturyLink and us, have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of June 30, 2012. Based on that evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or furnish under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the second quarter of 2012 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 8—Commitments and Contingencies included in Item 1 of Part I of this report is incorporated herein by reference.

### ITEM 1A. RISK FACTORS

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us. Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business operations.

#### Risks Affecting Our Business

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

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

Some of our current and potential competitors (i) offer a more comprehensive range of communications products and services, (ii) have market presence, engineering and technical capabilities, and financial and other resources greater than ours, (iii) own larger and more diverse networks, (iv) conduct operations or raise capital at a lower cost than us, (v) are subject to less regulation, (vi) offer greater online content or (vii) have substantially stronger brand names. Consequently, these competitors may be better equipped to charge lower prices for their products and services, to provide more attractive offerings, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of our services or shifting to less profitable services, (iii) reduced traffic on our networks, (iv) our need to expend substantial time or money on new capital improvement projects, (v) our need to lower prices or increase marketing expenses to remain competitive and (vi) 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 and if we otherwise are unable to sufficiently stem or offset our continuing access line losses and our revenue declines significantly without corresponding cost reductions. If this occurred, our ability to service debt and pay other obligations would also be adversely affected.

***Our legacy services continue to generate declining revenues, and our efforts to offset these declines may not be successful.***

The telephone industry has experienced a decline in access lines and network access revenues, which, coupled with the other changes resulting from competitive, technological and regulatory

developments, continue to place downward pressure on the revenues we generate from our legacy services.

We have taken a variety of steps to counter these declines, including:

- an increased focus on selling a broader range of strategic services, including broadband, video (including resold satellite video services) and wireless voice services provided by Verizon Wireless; and
- greater use of service bundles.

However, some of these strategic services generate lower profit margins than our traditional services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to these newer products. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated from reduced sales of our legacy products. Similarly, we cannot assure you that our new service offerings will be as successful as anticipated. In addition, our reliance on services provided by others could constrain our flexibility, as described further below.

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

Unfavorable general economic conditions, including the unstable economy and the current credit market environment, could negatively affect our business. Worldwide economic growth has been sluggish since 2008, and many experts believe that a confluence of factors in the United States, Europe and developing countries may result in a prolonged period of economic downturn, slow growth or economic uncertainty. While it is difficult to predict the ultimate impact of these general economic conditions, these conditions could adversely affect the affordability of and consumer demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forgo purchases of our products and services. Any one or more of these circumstances could cause our revenues to continue declining. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could affect their ability to make timely payments to us. In addition, as discussed 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, if the current economic conditions persist or decline, this could adversely affect our operating results and financial condition, as well as our ability to raise capital.

***We may need to defend ourselves against claims that we infringe upon others' intellectual property rights, or may need to seek third-party licenses to expand our product offerings.***

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

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 restricted, made more costly or delayed.

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

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

***We could be harmed by security breaches, damages or other significant disruptions or failures of our networks, IT infrastructure or related systems, or of those we operate for certain of our customers.***

To be successful, we will need to continue providing our customers with a high capacity, reliable and secure network. We face the risk, as does any company, of a security breach, whether through cyber attack, malware, computer viruses, sabotage, or other significant disruption of our IT infrastructure and related systems (including our billing systems). As a communications and IT company, we face an added risk of a security breach or other significant disruption of our public networks or IT infrastructure and related systems that we develop, install, operate and maintain for certain of our business and governmental customers. Moreover, as a communications and IT company, we face a heightened risk of a security breach or disruption from unauthorized access to our and our customers' proprietary or classified information on our public networks or internal systems or the systems that we operate and maintain for certain of our customers.

Although we make significant efforts to maintain the security and integrity of these types of information and systems, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging, especially in light of the growing sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures.

Additional risks to our network and infrastructure include:

- power losses or physical damage, whether caused by fire, adverse weather conditions, terrorism or otherwise;
- capacity limitations;
- software and hardware defects or malfunctions;
- programming, processing and other human error; and
- other disruptions that are beyond our control.

Network disruptions, security breaches and other significant failures of the above-described systems could:

- disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive 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 significant management attention or financial resources to remedy the damages that result or to change our systems;
- subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or
- 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 litigation.

Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, and the diversion of development resources.

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

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

The communications industry is experiencing significant technological changes, many of which are reducing demand for our traditional voice services or are enabling our current customers to reduce or bypass use of our networks. Technological change could also require us to expend capital or other resources in excess of currently contemplated levels, or to forego the development or provision of products or services that others can provide more efficiently. If we are not able to develop new products and services to keep pace with technological advances, or if those products and services are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to keep up with changes in technology and markets could also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

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

The telecommunications industry has experienced substantial consolidation over the last 10-15 years, and some of our competitors have combined with other telecommunications providers, resulting in competitors that are larger, have more financial and business resources, and have broader service offerings. Further consolidation could increase competitive pressures, and could adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

***We have a significant amount of goodwill on our balance sheet. If our goodwill becomes impaired, we may be required to record a significant charge to earnings and reduce our stockholder's equity.***

Under generally accepted accounting principles, goodwill is reviewed for impairment on an annual basis or more frequently whenever events or circumstances indicate that its carrying value may not be recoverable. If our goodwill is determined to be impaired in the future, we may be required to record a significant, non-cash charge to earnings during the period in which the impairment is determined.

***We rely on a limited number of key suppliers, vendors, landlords and other third parties to operate our business.***

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. Our local exchange carrier networks consist of central office and remote sites, all with advanced digital switches. If any of these suppliers experience interruptions or other problems delivering or servicing these network components 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. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, space or utilities on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

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

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.

In addition, we rely on rights-of-way, colocation agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

***We depend on key members of our senior management team.***

Our success depends largely on the skills, experience and performance of a limited number of senior officers. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior officers or attracting new ones in the event of terminations or resignations. For a discussion of similar retention concerns relating to our recent mergers, please see the risks described below under the heading "Risks Relating to Our Recent Acquisitions."

## **Risks Relating to our Recent Acquisition**

***We may be unable to integrate successfully the Legacy CenturyLink and Qwest businesses and realize the anticipated benefits of the acquisition.***

CenturyLink's indirect acquisition of us involved the combination of two companies which previously operated as independent public companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of

Legacy CenturyLink and Qwest. We may encounter difficulties in the integration process, including the following:

- the inability to successfully combine our businesses in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisition, either due to technological challenges, personnel shortages, strikes or otherwise, any of which would result in the anticipated benefits of the acquisition not being realized partly or wholly in the time frame currently anticipated or at all;
- lost sales as a result of customers of either of the two companies deciding not to do business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to provide consistent, high quality products and services under a unified culture;
- the additional complexities of combining two companies with different histories, regulatory restrictions, sales forces, marketing strategies, product markets and customer bases;
- the failure to retain key employees, some of whom could be critical to integrating the companies;
- potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the acquisition; and
- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our products, services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the acquisition, or could otherwise adversely affect our business and financial results.

***QCII cannot assure you whether, when or in what amounts they will be able to use their net operating losses.***

At December 31, 2011, QCII had approximately \$6.3 billion of federal net operating losses, or NOLs. These NOLs can be used to offset their future federal taxable income.

CenturyLink's acquisition of QCII caused an "ownership change" under federal tax laws relating to the use of NOLs. As a result, these laws could limit CenturyLink's ability to use QCII's NOLs and certain other deferred tax attributes to reduce future federal taxable income. QCII currently expects to use substantially all of their NOLs and certain other deferred tax attributes. However, if QCII is unable to realize these benefits, its and CenturyLink's future income tax payments would be higher than expected, which would adversely affect its financial results and liquidity. As a wholly owned subsidiary of these companies, our financial results and liquidity could be similarly affected.

## **Risks Relating to Legal and Regulatory Matters**

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

As described in Item 1 of Part I of CenturyLink's and QCII's Quarterly Reports on Form 10-Q for the quarter ended June 30, 2012, CenturyLink and QCII are involved in several legal proceedings that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly owned subsidiary of CenturyLink and QCII, our business and financial condition could be similarly affected. These matters include certain KPNQwest matters, which present material and significant risks to QCII and us. In the aggregate, the plaintiffs in the KPNQwest matters seek billions of euros (equating to billions of dollars) in damages. QCII continues to defend against these matters vigorously and is currently unable to provide any estimate as to the timing of their resolution.

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

There are other material proceedings pending against CenturyLink and QCII, as described in Item 1 of Part I of CenturyLink's and QCII's Quarterly Reports on Form 10-Q for the quarter ended June 30, 2012. Depending on their outcome, any of these matters could have a material adverse effect on our financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

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

**General.** We are subject to significant regulation by the Federal Communications Commission ("FCC"), which regulates interstate communications, and state utility commissions, which regulate intrastate communications. Generally, we must obtain and maintain certificates of authority from the FCC and regulatory bodies in most states where we offer regulated services, and we are subject to numerous, and often quite detailed, requirements and interpretations under federal, state and local laws, rules and regulations. Accordingly, we cannot ensure that we are always considered to be in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative.

Regulation of the telecommunications industry is changing rapidly, and the regulatory environment varies substantially from jurisdiction to jurisdiction. Notwithstanding a recent movement towards alternative regulation, 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. Interexchange carriers have filed complaints in various forums requesting reductions in our access rates. In addition, several long distance providers are disputing amounts owed to us for carrying VoIP traffic, or traffic they claim to be VoIP traffic, and are refusing to pay such amounts. There can be no assurance that future

regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

**Risks associated with recent changes in federal regulation.** On October 27, 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order ("CAF order") intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and gradually re-direct universal service funding to foster nationwide broadband coverage. This initial ruling provides for a multi-year transition over the next decade as intercarrier compensation charges are reduced, universal service funding is explicitly targeted to broadband deployment, and subscriber line charges paid by end user customers are gradually increased. These changes will substantially increase the pace of reductions in the amount of switched access revenues we receive with respect to some of our various services, while creating opportunities for increases in federal USF and retail revenue streams. The ultimate effect of this order on communications companies is largely dependent on future FCC proceedings designed to implement the order, the most significant of which are scheduled to be determined in 2012 and 2013. Several judicial challenges to the CAF order are pending and additional future challenges are possible, any of which could alter or delay the FCC's proposed changes. In addition, based on the outcome of the FCC proceedings, various state commissions may consider changes to their universal service funds or intrastate access rates. For these reasons, we cannot predict the ultimate impact of these proceedings at this time.

Under other pending proceedings, the FCC may implement changes in the regulation or pricing of special access services, any of which could adversely affect our operations or financial results.

**Risks posed by costs of regulatory compliance.** Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties 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 the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to broadband deployment, bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act (which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance), and laws governing local number portability and customer proprietary network information requirements. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

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

***Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition against us.***

Beginning in 1996, Congress and the FCC have taken several steps that have resulted in increased competition among communications service providers. Many of the FCC's regulations remain subject to judicial review and additional rulemakings, thus making it difficult to predict what effect any changes in interpretation of the Telecommunications Act of 1996 may ultimately have on us and our competitors.

We could be adversely affected by programs or initiatives recently undertaken by Congress or the FCC, including (i) the federal broadband stimulus projects authorized by Congress in 2009; (ii) the FCC's 2010 National Broadband Plan; (iii) new "network neutrality" rules; (iv) the proposed broadband "Connect America" replacement support fund, and (v) the FCC's above-described October 27, 2011 order.

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

The law relating to the liability of private network operators for information carried on, stored or disseminated through their networks is still unsettled. As such, we could be exposed to legal claims relating to content disseminated on our networks. Claims could challenge the accuracy of materials on our network, or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

***We are subject to significant regulations that limit our flexibility.***

As a diversified full service incumbent local exchange carrier ("ILEC"), we have traditionally been subject to significant regulation that does not apply to many of our competitors. This regulation imposes substantial compliance costs on us and restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete.

***We are subject to franchising requirements that could impede our expansion opportunities.***

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and competitive local exchange carrier ("CLEC") operations. These 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 by the SEC, the New York Stock Exchange and the Public Company Accounting Oversight Board, are increasing legal and financial compliance costs and making some activities more time consuming. Any future failure to successfully or timely complete annual assessments of our internal controls required by Section 404 of the Sarbanes-Oxley Act could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or investors' confidence in us.

For a more thorough discussion of the regulatory issues that may affect our business, see Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2011.

**Risks Affecting our Liquidity**

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

Our ultimate parent, CenturyLink, and we continue to carry significant debt. As of June 30, 2012, our consolidated debt was approximately \$8.2 billion, which was included in CenturyLink's consolidated debt of approximately \$21.6 billion as of that date. Approximately \$3.0 billion of CenturyLink's debt securities, which includes approximately \$1.9 billion of our debt securities, come due over the next



three years. While we currently believe CenturyLink and we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future condition or that of CenturyLink, the credit markets or the economy generally. We may have unexpected expenses and liabilities, and we may have limited access to financing.

We expect to periodically require financing to meet our debt obligations as they come due. Due to the unstable economy and the current credit market environment, we may not be able to refinance maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us or at all. We may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if CenturyLink or QCII are required to contribute a material amount of cash to their collective pension plans, if CenturyLink or QCII are required to begin to pay other post-retirement benefits significantly earlier than is anticipated, if CenturyLink or QCII become subject to significant judgments or settlements in one or more of the matters discussed in Item 1 of Part I in CenturyLink's and QCII's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. We can give no assurance that this additional financing will be available on terms that are acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected, which could further raise our borrowing costs and further limit our future access to capital and our ability to satisfy our debt obligations.

Our significant levels of debt can adversely affect us in several other respects, including (i) exposing us to the risk of credit rating downgrades, which would raise our borrowing costs, (ii) hindering our flexibility to plan for or react to changing market, industry or economic conditions, (iii) limiting our ability to access the capital markets, (iv) limiting the amount of free cash flow available for future operations, acquisitions, dividends, or other uses, (v) making us more vulnerable to economic or industry downturns, including interest rate increases, and (vi) placing us at a competitive disadvantage compared to less leveraged competitors.

Certain of CenturyLink's and QCII's debt issues have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings. See "Liquidity and Capital Resources" in Item 2 of Part I of this report for additional information about CenturyLink's credit facility.

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

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

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

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

The funded status of QCII's qualified pension plan is the difference between the value of plan assets and the benefit obligation. The accounting unfunded status of QCII's qualified pension plan was \$627 million as of December 31, 2011. Adverse changes in interest rates or market conditions, among



other assumptions and factors, could cause a significant increase in QCII's benefit obligation or a significant decrease in the value of plan assets. These adverse changes could require QCII to contribute a material amount of cash to its pension plan or could accelerate the timing of required cash payments. The amounts contributed by us through QCII are not segregated or restricted and may be used to provide benefits to employees of QCII's other subsidiaries. QCII determines our cash contribution and, historically, has only required us to pay our portion of its required pension contribution. Current funding laws and regulations require a company with a plan shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Based on current laws and circumstances, QCII will not be required to make a cash contribution to this plan in 2012 and based on current funding laws and regulations, it is unlikely QCII will be required to make a cash contribution in 2013. The amount of required contributions to our plan in 2013 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 QCII's liquidity by reducing its cash flows, which in turn could affect our liquidity.

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

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

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

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

## **Other Risks**

***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 June 30, 2012, we had approximately 24,000 employees, of which approximately 13,000 or 54%, were members of either the International Brotherhood of Electrical Workers ("IBEW") or the Communications Workers of America ("CWA"). From time to time, our labor agreements with these unions lapse, and we typically negotiate the terms of new agreements. Our current four-year agreements with the IBEW and CWA will expire October 6, 2012. We cannot predict the outcome of these negotiations.

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. 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 also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

***We regularly transfer our cash to CenturyLink, which exposes us to certain risks.***

Under our cash management arrangement with CenturyLink, we regularly transfer our cash to CenturyLink, which we recognize on our balance sheet as advances to affiliates. Although CenturyLink periodically repays these advances to fund our cash requirements throughout the year, at any given point in time CenturyLink may owe us a substantial sum under this arrangement. Accordingly, developments that adversely impact CenturyLink could adversely impact our ability to collect these advances.

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

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

***Tax audits or changes in tax laws could adversely affect us.***

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

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

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

## ITEM 6. EXHIBITS

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference. All other exhibits are provided as part of this electronic submission.(1)

Exhibit Number	Description
3.1	Restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Exhibit 3(a) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 001-03040) filed with the Securities and Exchange Commission on March 25, 1998).
3.2	Articles of Amendment to the 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 June 30, 2000 (File No. 001-03040) filed with the Securities and Exchange Commission on August 11, 2000).
3.3	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).
4.1	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).
a.	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).
4.2	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).
a.	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).

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

Exhibit Number	Description
4.3	<p>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).</p> <p>a. First Supplemental Indenture, dated as of August 19, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.22 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2004 (File No. 001-15577) filed with the Securities and Exchange Commission on November 5, 2004).</p> <p>b. Third Supplemental Indenture, dated as of June 17, 2005, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on June 23, 2005).</p> <p>c. Fourth Supplemental Indenture, dated as of August 8, 2006, 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 August 8, 2006).</p> <p>d. Fifth Supplemental Indenture, dated as of May 16, 2007, 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 May 18, 2007).</p> <p>e. Sixth Supplemental Indenture, dated as of April 13, 2009, 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 April 13, 2009).</p> <p>f. Seventh Supplemental Indenture, dated as of June 8, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.8 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 7, 2011).</p> <p>g. Eighth Supplemental Indenture, dated as of September 21, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.9 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 20, 2011).</p> <p>h. 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).</p> <p>i. Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).</p>

Exhibit Number	Description
j.	Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).
4.4	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).
31.1*	Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended June 30, 2012, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholder's Equity (Deficit) and (vi) the Notes to the Consolidated Financial Statements.

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\* Exhibit filed herewith.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 14, 2012.

**QWEST CORPORATION**

By: /s/ DAVID D. COLE

David D. Cole  
*Senior Vice President, Controller and  
Operations Support (Chief Accounting  
Officer)*



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Glen F. Post, III, Chief Executive Officer and President, certify that:

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

Date: August 14, 2012

/s/ GLEN F. POST, III

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Glen F. Post, III  
*Chief Executive Officer and President*

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QuickLinks

[Exhibit 31.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER](#)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, R. Stewart Ewing, Jr., Executive Vice President and Chief Financial Officer, certify that:

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

Date: August 14, 2012

/s/ R. STEWART EWING, JR.

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R. Stewart Ewing, Jr.  
*Executive Vice President and Chief Financial Officer*

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QuickLinks

[Exhibit 31.2](#)

[CERTIFICATION OF CHIEF FINANCIAL OFFICER](#)

**Chief Executive Officer 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**

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of Qwest Corporation ("Qwest"), certifies that, to his knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Dated: August 14, 2012

By: /s/ GLEN F. POST, III

Glen F. Post, III  
*Chief Executive Officer and President*

Dated: August 14, 2012

By: /s/ R. STEWART EWING, JR.

R. Stewart Ewing, Jr.  
*Executive Vice President and  
Chief Financial Officer*

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QuickLinks

Exhibit 32

Chief Executive Officer 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