
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014
or

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

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

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana
(Address of principal executive offices)

84-0273800

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

71203
(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

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

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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 ☒
(Do not check if a smaller reporting company)

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 8, 2014 , 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)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
OPERATING REVENUES				
Operating revenues	\$ 1,682	1,703	3,372	3,426
Operating revenues-affiliates	524	496	1,045	932
Total operating revenues	2,206	2,199	4,417	4,358
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	698	690	1,396	1,335
Selling, general and administrative	274	270	559	539
Operating expenses-affiliates	188	185	376	347
Depreciation and amortization	500	529	998	1,059
Total operating expenses	1,660	1,674	3,329	3,280
OPERATING INCOME	546	525	1,088	1,078
OTHER INCOME (EXPENSE)				
Interest expense	(116)	(112)	(232)	(220)
Interest expense-affiliate	(12)	(12)	(25)	(28)
Other income	—	—	—	1
Total other income (expense)	(128)	(124)	(257)	(247)
INCOME BEFORE INCOME TAX EXPENSE	418	401	831	831
Income tax expense	162	155	322	321
NET INCOME	<u>\$ 256</u>	<u>246</u>	<u>509</u>	<u>510</u>

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS
(UnAUDITED)

	June 30, 2014	December 31, 2013
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10	14
Accounts receivable, less allowance of \$37 and \$43	740	738
Advances to affiliates	566	712
Deferred income taxes, net	165	161
Other	141	126
Total current assets	1,622	1,751
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	10,602	10,193
Accumulated depreciation	(3,481)	(2,985)
Net property, plant and equipment	7,121	7,208
GOODWILL AND OTHER ASSETS		
Goodwill	9,354	9,354
Customer relationships, less accumulated amortization of \$2,342 and \$2,012	3,357	3,687
Other intangible assets, less accumulated amortization of \$1,103 and \$994	912	1,008
Other	203	210
Total goodwill and other assets	13,826	14,259
TOTAL ASSETS	\$ 22,569	23,218
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 724	637
Accounts payable	457	440
Note payable-affiliate	775	754
Accrued expenses and other liabilities		
Salaries and benefits	182	217
Income and other taxes	188	206
Other	129	126
Advance billings and customer deposits	325	320
Total current liabilities	2,780	2,700
LONG-TERM DEBT	6,788	6,921
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenue	158	161
Deferred income taxes, net	2,297	2,473
Affiliates obligations, net	1,241	1,263
Other	83	87
Total deferred credits and other liabilities	3,779	3,984
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Accumulated deficit	(828)	(437)
Total stockholder's equity	9,222	9,613
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 22,569	23,218

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2014	2013
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 509	510
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	998	1,059
Deferred income taxes	(180)	(112)
Provision for uncollectible accounts	25	28
Net long-term debt premium amortization	(23)	(29)
Impairment of asset	16	—
Changes in current assets and current liabilities:		
Accounts receivable	(27)	(30)
Accounts payable	5	10
Accrued income and other taxes	(18)	(21)
Other current assets and other current liabilities, net	(30)	(38)
Other current assets and other current liabilities-affiliate	21	—
Changes in other noncurrent assets and liabilities, net	(1)	(1)
Changes in affiliates obligations, net	(22)	(79)
Other, net	4	1
Net cash provided by operating activities	1,277	1,298
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(503)	(607)
Changes in advances to affiliates	146	63
Net cash used in investing activities	(357)	(544)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	—	752
Payments of long-term debt	(24)	(784)
Dividends paid to Qwest Services Corporation	(900)	(750)
Changes in note payable-affiliate	—	28
Net cash used in financing activities	(924)	(754)
Net (decrease) increase in cash and cash equivalents	(4)	—
Cash and cash equivalents at beginning of period	14	8
Cash and cash equivalents at end of period	\$ 10	8
Supplemental cash flow information:		
Income taxes (paid) refund, net	\$ (502)	(434)
Interest (paid) (net of capitalized interest of \$8 and \$8)	\$ (253)	(245)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2014	2013
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$ 10,050	10,050
Balance at end of period	10,050	10,050
ACCUMULATED DEFICIT		
Balance at beginning of period	(437)	(76)
Net income	509	510
Dividends declared to Qwest Services Corporation	(900)	(750)
Balance at end of period	(828)	(316)
TOTAL STOCKHOLDER'S EQUITY	\$ 9,222	9,734

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, and references to "Qwest," "we," "us," and "our" refer to Qwest Corporation and its consolidated subsidiaries.

(1) Basis of Presentation

General

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, broadband, private line (including special access), network access, Ethernet, information technology, 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.

Our consolidated balance sheet as of December 31, 2013 , which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations for the first six months of the year are not necessarily indicative of the consolidated 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, 2013 .

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. Transactions with our non-consolidated affiliates have not been eliminated.

During the second quarter of 2014 , we began negotiations of a sale-leaseback transaction of an office building and as a result of the indicated offer price we recorded an impairment charge of \$16 million , which is included in selling, general and administrative expense in our consolidated statements of operations for the three and six months ended June 30, 2014 . We evaluated the indicated offer price using market conditions and determined that it represented a level 3 estimate of the fair value of the building. The negotiations on the sale of the office building are not final and the sales price could still change.

Change in Estimates

As a result of our annual reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment, effective January 2014 , we changed the estimates of the remaining economic lives of certain switch and circuit network equipment. These changes resulted in a net increase in depreciation expense of approximately \$5 million and \$10 million for the three and six months ended June 30, 2014 , respectively, and are expected to result in a net increase in depreciation expense of approximately \$20 million for the year ending December 31, 2014 . This net increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$3 million and \$6 million for the three and six months ended June 30, 2014 , respectively, and is expected to reduce consolidated net income by approximately \$12 million for the year ending December 31, 2014 .

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09" or "new standard"). The new standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is prohibited. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2017. We have not yet decided which implementation method we will adopt.

The new standard replaces virtually all existing generally accepted accounting principles (“GAAP”) on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. We currently do not defer any contract acquisition costs and defer contract fulfillment costs only up to the extent of any revenue deferred.

We are studying the new standard and starting to evaluate and determine the impact the new standard will have on the timing of revenue recognition under our customer agreements and the amount of contract related costs that will be deferred. We cannot, however, provide any estimate of the impact of adopting the new standard at this time.

(2) Long-Term Debt and Revolving Promissory Note

As of the dates indicated below, our long-term debt, including unamortized discounts and premiums and note payable-affiliate, was as follows:

	Interest Rates	Maturities	June 30, 2014	December 31, 2013
			(Dollars in millions)	
Senior notes	6.125% - 8.375%	2014 - 2053	\$ 7,411	7,411
Capital lease and other obligations	Various	Various	49	72
Unamortized premiums, net			52	75
Total long-term debt			7,512	7,558
Less current maturities			(724)	(637)
Long-term debt, excluding current maturities			\$ 6,788	6,921
Note payable-affiliate	6.677%	2022	\$ 775	754

Revolving Promissory Note

We are currently indebted to an affiliate of our ultimate parent company, CenturyLink, Inc. (“CenturyLink”), under a revolving promissory note that provides us with a funding commitment of up to \$1.0 billion aggregate principal amount through June 30, 2022, of which \$775 million was outstanding as of June 30, 2014 . For the three months ended June 30, 2014 , the weighted average interest rate was 6.677% . As of June 30, 2014 and December 31, 2013 , this revolving promissory note is reflected on our consolidated balance sheets as a current liability under note payable-affiliate. As of June 30, 2014 , \$4 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Covenants

As of June 30, 2014 , we believe we were in compliance with the provisions and covenants of our debt agreements.

(3) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, advances to affiliates, accounts payable, note payable-affiliate and long-term debt, excluding capital lease obligations. Due to their short-term nature, the carrying amounts of our cash and cash equivalents, accounts receivable, advances to affiliates, accounts payable, and note payable-affiliate approximate their fair values.

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

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

		June 30, 2014		December 31, 2013	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt, excluding capital lease and other obligations	2	\$ 7,463	7,763	7,486	7,226

(4) Products and Services Revenues

We are an integrated communications company engaged primarily in providing an array of communications services, including local, broadband, private line (including special access), network access, Ethernet, information technology, 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 related to revenues into the following three categories:

- *Strategic services*, which include primarily broadband, private line (including special access), Ethernet, 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 Fund ("USF") revenues and surcharges and services we provide to our non-consolidated affiliates. We provide to our affiliates telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

Operating revenues for our products and services consisted of the following revenue categorization for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Dollars in millions)				
Strategic services	\$ 860	831	1,716	1,660
Legacy services	757	806	1,524	1,630
Affiliates and other services	589	562	1,177	1,068
Total operating revenues	\$ 2,206	2,199	4,417	4,358

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

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.

We recognize revenue in our statement of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our statement of operations also reflects the related expense for the amounts we remit to the government agencies. The total amount of such

surcharges that we included in revenue aggregated approximately \$39 million and \$38 million for the three months ended June 30, 2014 and 2013 , respectively, and approximately \$78 million for both the six months ended

June 30, 2014 and 2013 . Those USF surcharges where we record revenue are included in the "other" operating revenues and transaction tax surcharges are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to include in our bills to customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

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

(5) Commitments and Contingencies

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

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

We are aware of disputes and litigation within the industry, including litigation against us, regarding the proper charges to be applied between interexchange and local exchange carriers for certain calls between mobile and wireline devices that are routed through an interexchange carrier. Some carriers are refusing to pay these access charges and some are seeking refunds of past charges paid. As a local exchange carrier, we assess significant amounts of the charges in question. The outcome of these disputes and litigation are currently not predictable. If we are required to stop assessing these charges or to pay refunds of any such charges, our financial results could be negatively affected.

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

(6) Dividends

During the six months ended June 30, 2014 , we declared and paid dividends of \$900 million to our direct parent company, Qwest Services Corporation ("QSC"). Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

(7) Other Financial Information

Other Current Assets

The following table presents details of other current assets in our consolidated balance sheets as of the dates indicated below:

	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Prepaid expenses	\$ 63	47
Other	78	79
Total other current assets	\$ 141	126

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable as of the dates indicated below:

	June 30, 2014	December 31, 2013
	(Dollars in millions)	
Accounts payable	\$ 457	440

Included in accounts payable at June 30, 2014 and December 31, 2013 were \$23 million and \$11 million , respectively, associated with capital expenditures.

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

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

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

Certain statements in this report constitute forward-looking statements. See the last paragraph of this Item 2 and "Risk Factors" in Item 1A of Part II of this report for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2013, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations for the first six months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of communications services to our residential, business, governmental and wholesale customers. Our communications services include local, broadband, private line (including special access), network access, Ethernet, information technology, 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.

For the reasons noted in Note 4—Products and Services Revenues, we believe we have one reportable segment. We categorize our products, services and revenues into the following three categories:

- *Strategic services*, which include primarily broadband, private line (including special access), Ethernet, 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 allow a local communications network to link to networks in remote locations); and
- *Affiliates and other services*, which consist primarily of Universal Service Fund ("USF") revenues and surcharges and services we provide to our non-consolidated affiliates. We provide to our affiliates telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

As of June 30, 2014, we served approximately 3.5 million broadband subscribers. We also operated approximately 7.5 million access lines, which are telephone lines reaching from the customers' premises to a connection with the public switched telephone network. Our methodology for counting our broadband subscribers and access lines 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. We count access lines when we install the service. Our methodology for counting our broadband subscribers and 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 material trends affecting our business.

Business Trends

Our financial results have been impacted by several significant trends, including those described below.

- *Strategic services.* We continue to see shifts in the makeup of our total revenues as customers move to lower margin strategic services, such as broadband and video services, from high margin legacy services. Revenues from our strategic services represented 39% and 38% of our total revenues for both the three and six months ended June 30, 2014 and 2013, respectively. Although we are experiencing price compression due to competition, we expect these percentages to 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 our broadband network's scope and connection speeds is important to remaining competitive in our industry. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in "Risk Factors" in Item 1A of Part II of this report, demand for our broadband services could be adversely affected by competitors continuing to provide services at higher broadband speed than ours or expanding their advanced wireless data service offerings. 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 believe the growth in fiber-based special access services provided to wireless carriers for backhaul will partially 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 remains uncertain;
- *Legacy services.* Revenues from our legacy services represented 34% and 37% of our total revenues for the three months ended June 30, 2014 and 2013, respectively, and 35% and 37% of our total revenues for the six months ended June 30, 2014 and 2013, respectively. We expect these percentages to continue to decline, but at a slower pace than in the past. 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 revenue associated with access lines, we continue to offer our customers 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 we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins;
- *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 controlling parent companies, Qwest Communications International Inc. ("QCII") and CenturyLink, are required to recognize in their consolidated financial statements certain income and expenses relating to their pension and post-retirement health care and life insurance benefits plans. These income and 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 QCII's and CenturyLink's assumptions can cause significant changes in the net periodic pension and post-retirement benefits income and expenses we recognize. QCII and CenturyLink allocate the income and expenses of these plans to us and certain of their other affiliates. The allocation of income and expenses to us is based upon the demographics of our employees and retirees; and
- *Disciplined capital expenditures.* Our capital expenditures continue to be focused on our strategic services such as broadband and the deployment of "fiber to the tower", which 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, 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 the results of our consolidated operations for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Operating revenues	\$ 2,206	2,199	4,417	4,358
Operating expenses	1,660	1,674	3,329	3,280
Operating income	546	525	1,088	1,078
Other income (expense), net	(128)	(124)	(257)	(247)
Income tax expense	162	155	322	321
Net income	\$ 256	246	509	510

The following table summarizes our broadband subscribers, access lines and number of employees as of June 30, 2014 and 2013 :

	As of June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(in thousands)			
Broadband subscribers ⁽¹⁾	3,490	3,369	121	4 %
Access lines ⁽¹⁾	7,494	7,825	(331)	(4)%
Employees	22.3	22.6	(0.3)	(1)%

- (1) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables, and access lines are lines reaching from the customers' premises to a connection with the public network.

Operating Revenues

The following tables summarize our operating revenues under the following revenue categorization for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Strategic services	\$ 860	831	29	3 %
Legacy services	757	806	(49)	(6)%
Affiliates and other services	589	562	27	5 %
Total operating revenues	\$ 2,206	2,199	7	— %

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Strategic services	\$ 1,716	1,660	56	3 %
Legacy services	1,524	1,630	(106)	(7)%
Affiliates and other services	1,177	1,068	109	10 %
Total operating revenues	\$ 4,417	4,358	59	1 %

Strategic Services

Strategic services revenues increased by \$29 million , or 3% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and increased by \$56 million , or 3% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . The increase in revenue for both periods was principally due to increases in the number of broadband subscribers, volume increases in our Ethernet services as well as price increases for various services. These increases were partially offset by volume decreases in our special access services.

Legacy Services

Legacy services revenues decreased by \$49 million , or 6% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and decreased by \$106 million , or 7% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . The decline in revenue for both periods was a result of lower local services revenue due to access line loss and reduced access services usage related to customer migration, competitive pressures and product substitution.

Affiliates and Other Services

Affiliates and other services revenues increased by \$27 million , or 5% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and increased by \$109 million , or 10% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . The increase in revenue for both periods was primarily due to increases in volume and in the rates we charge for support services we provided to affiliates.

Operating Expenses

The following tables summarize our operating expenses for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 698	690	8	1 %
Selling, general and administrative	274	270	4	1 %
Operating expenses-affiliates	188	185	3	2 %
Depreciation and amortization	500	529	(29)	(5)%
Total operating expenses	<u>\$ 1,660</u>	<u>1,674</u>	<u>(14)</u>	<u>(1)%</u>

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,396	1,335	61	5 %
Selling, general and administrative	559	539	20	4 %
Operating expenses-affiliates	376	347	29	8 %
Depreciation and amortization	998	1,059	(61)	(6)%
Total operating expenses	<u>\$ 3,329</u>	<u>3,280</u>	<u>49</u>	<u>1 %</u>

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 are third-party telecommunications expenses we incur for 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 are federal and state funds that are established to promote the availability of telecommunications services to all consumers at reasonable and affordable rates, among other things and to which we are often required to contribute); litigation expenses associated with our operations; and other expenses directly related to our network.

Cost of services and products (exclusive of depreciation and amortization) increased by \$8 million , or 1% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 primarily due to increases in network expense and allocated corporate costs from affiliates. These increases were offset partially by decreases in employee-related expenses. Cost of services and products (exclusive of depreciation and amortization) increased by \$61 million , or 5% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to increases in access expense, network expense and allocated corporate costs from affiliates. These increases were partially offset by decreases in employee-related expenses.

Selling, General and Administrative

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

Selling, general and administrative expenses increased by \$4 million , or 1% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and increased by \$20 million , or 4% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to increases in employee-related expenses and an impairment charge related to an office building, the sale of which is pending under a sale-leaseback arrangement. These increases were partially offset by decreases in marketing and advertising expenses and lower property and other operating taxes and fees.

Operating Expenses-Affiliates

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

Operating expenses-affiliates increased by \$3 million , or 2% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and increased by \$29 million , or 8% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . The increase in both periods was primarily due to increases in the rates we are charged for support services and higher levels of services provided to us by affiliates.

Depreciation and Amortization

The following tables provide detail regarding depreciation and amortization expense for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Depreciation	\$ 260	271	(11)	(4)%
Amortization	240	258	(18)	(7)%
Total depreciation and amortization	<u>\$ 500</u>	<u>529</u>	<u>(29)</u>	<u>(5)%</u>

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Depreciation	\$ 515	541	(26)	(5)%
Amortization	483	518	(35)	(7)%
Total depreciation and amortization	<u>\$ 998</u>	<u>1,059</u>	<u>(61)</u>	<u>(6)%</u>

Depreciation expense decreased by \$11 million , or 4% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and decreased by \$26 million , or 5% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . Annual depreciation expense is impacted by changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain assets and the addition of new plant. The 2014 depreciation expense related to our plant placed in service prior to 2014 is expected to be lower than the 2013 depreciation expense due to our plant aging and becoming fully depreciated or retired at a faster rate than the addition of new plant during the same period. During January, we implemented changes in estimates that reduced the remaining economic lives of certain switch and circuit network equipment which we expect to result in increased 2014 annual depreciation expense. We expect depreciation expense will increase in the second half of 2014 compared to the first half of 2014 due to the timing of net additions of plant during 2014 . For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation to our consolidated financial statements in Item 1 of Part I of this report.

Amortization expense decreased by \$18 million , or 7% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and decreased by \$35 million , or 7% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 . The decrease in amortization expense for both periods was primarily due to the use of accelerated amortization methods for a portion of the customer relationship assets. In addition, amortization of capitalized software was lower due to our software investments becoming fully amortized faster than new software was acquired.

Other Consolidated Results

The following tables summarize our total other income (expense) and income tax expense for the three and six months ended June 30, 2014 and 2013 :

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Interest expense	\$ (116)	(112)	4	4%
Interest expense-affiliate	(12)	(12)	—	—%
Total other income (expense)	<u>\$ (128)</u>	<u>(124)</u>	<u>4</u>	<u>3%</u>
Income tax expense	\$ 162	155	7	5%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Interest expense	\$ (232)	(220)	12	5 %
Interest expense-affiliate	(25)	(28)	(3)	(11)%
Other income	—	1	(1)	(100)%
Total other income (expense)	<u>\$ (257)</u>	<u>(247)</u>	<u>10</u>	<u>4 %</u>
Income tax expense	\$ 322	321	1	— %

Interest Expense

Interest expense increased by \$4 million , or 4% , for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 and increased by \$12 million , or 5% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to a reduction in the amortization of debt premiums. See Note 2—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 1 of this report and Liquidity and Capital Resources below for additional information about our debt.

Interest Expense-Affiliate

Affiliate interest expense remained unchanged for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013 . Affiliate interest expense decreased by \$3 million , or 11% , for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 .

Income Tax Expense

Income tax expense for the three months ended June 30, 2014 , was \$162 million , or an effective tax rate of 38.8% , compared to \$155 million , or an effective tax rate of 38.7% , for the three months ended June 30, 2013 . Income tax expense for the six months ended June 30, 2014 , was \$322 million , or an effective tax rate of 38.7% , compared to \$321 million , or an effective tax rate of 38.6% , for the six months ended June 30, 2013 .

Liquidity and Capital Resources

Overview

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

CenturyLink has cash management arrangements between certain of its subsidiaries that include lines of credit, affiliate advances and obligations, capital contributions and dividends. As part of these cash management arrangements, affiliates provide lines of credit to certain other affiliates. Amounts outstanding under these lines of credit and intercompany obligations vary from time to time. Under these arrangements, the majority of our cash balance is advanced on a daily basis to CenturyLink. From time to time we may declare and pay dividends to our stockholder, Qwest Service Corporation ("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.

At June 30, 2014 , we had a working capital deficit of \$1.2 billion , reflecting current liabilities of \$2.8 billion and current assets of \$1.6 billion , compared to a working capital deficit of \$0.9 billion as of December 31, 2013 . 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 and paying cash dividends to QSC, it is likely that we will continue to operate with a working capital deficit in the future. We anticipate that our future liquidity needs will be met through (i) cash provided by our operating activities, (ii) amounts due to us from CenturyLink and (iii) capital contributions or advances from CenturyLink if and to the extent CenturyLink has available funds that it is willing and able to contribute or advance.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink evaluates capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations. Based on the type and volume of services we provide, approximately 40% to 43% of CenturyLink's annual consolidated capital expenditures have been attributed over the last couple of years to us for use in our operations. For information on CenturyLink's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

Our capital expenditures continue to be focused on our strategic services, primarily our broadband services. In particular, we expect to continue to focus on expanding our fiber infrastructure, including installations of "fiber to the tower," which 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 and on software development. For more information on capital spending, see Items 1 and 1A of our Annual Report on Form 10-K for the year ended December 31, 2013 .

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt (including our \$600 million of 7.5% senior notes maturing on October 1, 2014). The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us by the credit rating agencies, among other factors.

As of the date of this report, the credit ratings for our senior unsecured debt were as follows:

Agency	Rating
Standard & Poor's	BBB-
Moody's Investors Service, Inc.	Baa3
Fitch Ratings	BBB-

Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades could impact CenturyLink's and our access to debt capital or further raise CenturyLink's and our borrowing costs. Any such downgrades of CenturyLink's senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of CenturyLink's borrowing under its revolving credit facility, which could indirectly impact us. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

Revolving Promissory Note

We are currently indebted to an affiliate of CenturyLink under a revolving promissory note that provides us with a funding commitment of up to \$1.0 billion aggregate principal amount through June 30, 2022, of which \$775 million was outstanding as of June 30, 2014 . The revolving promissory note is due on demand and ranks equally to our outstanding Senior Notes. Interest is accrued on the outstanding balance using a weighted average per annum interest rate of CenturyLink's outstanding borrowings for the interest period. For the three months ended June 30, 2014 , the weighted average interest rate was 6.677% . As of June 30, 2014 and December 31, 2013 , this revolving promissory note is reflected on our consolidated balance sheets as a current liability under note payable-affiliate. As of June 30, 2014 , \$4 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Dividends

We periodically pay dividends to our direct parent company. See Note 6—Dividends and the discussion above under the heading "Overview".

Pension and Post-retirement Benefit Obligations

CenturyLink and QCII are subject to material obligations under their existing defined benefit pension and post-retirement benefit plans. The accounting unfunded status or benefit obligations as of December 31, 2013 of CenturyLink's qualified and non-qualified defined benefit pension and post-retirement benefit plans were \$1.055 billion and \$3.153 billion , respectively. The accounting unfunded status or benefit obligations as of December 31, 2013 of QCII's qualified and non-qualified defined benefit pension plans was \$179 million , which is included in the CenturyLink defined benefit pension plans' balance noted above. For additional information about QCII's and CenturyLink's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pensions and Post-Retirement Benefits" in Item 7 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2013 , and see Note 8—Employee Benefits to the consolidated financial statements in Item 8 of Part II of the same report.

A substantial portion of our active and retired employees participate in QCII's pension plans and CenturyLink's post-retirement benefit plans. Our contributions are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to employees of our affiliates.

Benefits paid by QCII's qualified pension plan are paid through a trust. Cash funding requirements can be significantly impacted by earnings on investments, discount rates, changes in plan benefits and changes in funding laws and regulations. QCII is not required and has not made contributions to the trust in 2014 and QCII currently does not expect to make a plan contribution in 2015 .

Certain of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that are used to help cover the health care costs of certain retirees. As of December 31, 2013, the fair value of these trust assets was \$535 million ; however, a portion of these assets is comprised of investments with restricted liquidity. CenturyLink 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 three years . Thereafter, covered benefits will be paid either directly by CenturyLink or from the trusts as the remaining assets become liquid. This projected three year period could be substantially shorter or longer depending on changes in healthcare cost trends, actual returns on plan assets, the timing of maturities of illiquid plan assets, the actual timing of reimbursement payments and future changes in benefits.

QCII's estimated annual long-term rate of return on the pension plans trust assets is 7.5% and CenturyLink's estimated annual long-term rate of return on the post-retirement plans trust assets is 7.3% based on the assets currently held; however, actual returns could be substantially different.

For additional information, see “Risk Factors—Risks Affecting our Liquidity and Capital Resources—Adverse changes in the value of assets or obligations associated with CenturyLink’s and QCII’s qualified pensions plans could negatively impact CenturyLink’s and QCII’s liquidity, which may in turn affect our business and liquidity” in Item 1A of Part II of this report.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in our Annual Report on Form 10-K for the year ended December 31, 2013 .

Historical Information

The following table summarizes our consolidated cash flow activities for the six months ended June 30, 2014 and 2013 :

	Six Months Ended June 30,		Increase / (Decrease)
	2014	2013	
	(Dollars in millions)		
Cash Flows Provided By (Used In)			
Net cash provided by operating activities	\$ 1,277	1,298	(21)
Net cash used in investing activities	(357)	(544)	(187)
Net cash used in financing activities	(924)	(754)	170

Net cash provided by operating activities decreased by \$21 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to a negative variance in net income adjusted for non-cash items which was partially offset by positive variances in the changes in other noncurrent assets and liabilities-affiliates and changes in affiliate obligations, net. For additional information about our operating results, see "Results of Operations" above.

Net cash used in investing activities decreased by \$187 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to a decrease in payments for purchases of property, plant and equipment and a larger change in the amount of funds advanced to our affiliate.

Net cash used in financing activities increased by \$170 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013 primarily due to an increase in the amount of dividends paid. For additional information regarding our financing activities, see Note 2—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 1 of this report.

Certain Matters Related to CenturyLink's Indirect Acquisition of Us

Since CenturyLink's 2011 indirect acquisition of us, we have been 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. Until that agreement is finalized, 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.

In accounting for CenturyLink's indirect acquisition of us, we recorded 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 a premium.

The table below summarizes the portions of this premium recognized as a reduction to interest expense or extinguished during the periods indicated:

	Six Months Ended June 30, 2014	From April 1, 2011 through December 31, 2013 (Dollars in millions)	Total Since Acquisition
Amortized	\$ 24	254	278
Extinguished ⁽¹⁾	—	187	187
Total	\$ 24	441	465

(1) Extinguished in connection with the payment of Qwest debt securities prior to maturity.

The remaining premium of \$65 million as of June 30, 2014 will reduce interest expense in future periods, unless otherwise extinguished.

Other Matters

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

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 hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2013, or (iii) discussed under the heading "Market Risk" below.

Market Risk

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

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2014, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the six months ended June 30, 2014, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2013.

Other Information

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

Certain of the industry and market data (such as the size of certain markets and our position within these markets) used throughout this report are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some market data and statistical information are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources listed above. This information may prove to be inaccurate because of the method by which we obtain some of the data for our estimates or because this information cannot always be verified with certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

In addition to historical information, this MD&A includes certain forward-looking statements that are based upon our judgment and assumptions as of the date of this report concerning future developments and events, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, are inherently speculative and are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if 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, including product displacement; the effects of ongoing changes in the regulation of the communications industry (including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality); our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by CenturyLink's recent acquisitions; CenturyLink's ability to successfully integrate recently acquired operations into its operations, including the possibility that the anticipated benefits from these acquisitions cannot be fully realized in a timely manner or at all; 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, including our ability to effectively respond to increased demand for high-speed broadband services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; our ability to use our net operating loss carryforwards in projected amounts; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to maintain favorable relations with our key business partners, suppliers, vendors and landlords; any adverse developments in legal or regulatory proceedings involving us or our affiliates; changes in our operating plans, strategies or spending plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding payments, cash flows, or financial position, or other similar changes; the effects of adverse weather; other risks referenced in this report (including in "Risk Factors" in Item 1A of Part II of this report) or from time to time in 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. These and other uncertainties related to our business are described in greater detail in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, as updated and supplemented by our subsequent SEC reports, including this report. 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. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of this report, and is based upon, among other things, the existing regulatory and technological environment, industry and competitive conditions, and economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

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.

Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") at June 30, 2014. 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 submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the second quarter of 2014 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 5—Commitments and Contingencies included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following discussion of “risk factors” identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

Increasing competition, including product substitution, continues to cause us to lose access lines, which has adversely affected and is expected to continue to adversely affect our operating results and financial condition.

Various developments over the past several years have caused us to continue to lose access lines and to experience increased competitive pressures impacting each of our business segments, and we expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from a variety of other sources, including cable and satellite companies, wireless providers, technology companies, broadband providers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network.

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

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 without corresponding cost reductions. If this occurred, our ability to service debt and pay other obligations would also be adversely affected.

Rapid technological changes 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, which in general are enhancing non-voice communications and enabling a broader array of companies to offer services competitive with ours. Many of those technological changes are (i) displacing or reducing demand for our traditional voice services, (ii) enabling the development of competitive products or services, or (iii) enabling our current customers to reduce or bypass use of our networks. Similarly, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster broadband speeds than ours. Rapid changes in technology are also increasing the competitiveness of the information technology services industry.

We may not be able to accurately predict technological trends or the success of newly-offered services. Further technological change could 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 effectively respond to technological changes could also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

In addition to introducing new technologies and offerings, we may need, from time to time, to phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits.

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

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

In recent years, the telephone industry has experienced a decline in access lines, long distance revenues 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 higher-growth strategic services, which are described in detail elsewhere in this report;
- an increased focus on serving a broader range of business, governmental and wholesale customers; 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 third parties to provide certain of these strategic services could constrain our flexibility, as described further below.

Our future results will suffer if we do not effectively adjust to changes in our business.

The above-described changes in our industry have placed a higher premium on technological, engineering, marketing and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen skills necessary to address these changes, and, where necessary, to attract and retain new personnel that possess these skills. Given the current competitive market for personnel with these skills; we cannot assure you that these recruitment efforts will be successful.

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

Unfavorable general economic conditions, including the unstable economy and credit market, 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, Asia and developing countries may result in a prolonged period of economic stagnation, slow growth or economic uncertainty. While it is difficult to predict the ultimate impact of these general economic conditions, they could adversely affect demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forego purchases of our products and services. These conditions impact, in particular, our ability to sell discretionary products or services to business customers that are under pressure to reduce costs or to governmental customers that have recently suffered substantial budget cuts with the prospect of additional future budget cuts. Any one or more of these circumstances could continue to depress our revenues. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could negatively impact their ability to make timely payments to us. In addition, as discussed further below, unstable economic and credit markets may preclude us from refinancing maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us, or at all. For these reasons, among others, if current economic conditions persist or decline, our operating results, financial condition, and liquidity could be adversely affected.

We could be harmed by security breaches, damages or other significant disruptions or failures of our networks, information technology 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 high-capacity, reliable and secure networks. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems (including our billing systems). As a communications and information technology company, we face an added risk that a security breach or other significant disruption of our public networks or information technology infrastructure and related systems that we develop, install, operate and maintain for certain of our business and governmental customers could lead to material interruptions or curtailments of service. Moreover, due to the nature of our customers and services, we face a heightened risk that a security breach or disruption could result in unauthorized access to 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.

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, distributed denial-of-service attacks, or other forms of cyber attacks or similar events. These threats may derive from human error, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from accidental technological failure. Similar to other large telecommunications companies, we are a target of cyber attacks of varying degrees on a regular basis. Although some of these attacks have resulted in security breaches, to date none of these breaches have resulted in a material adverse effect on our operating results or financial condition. We cannot assure you, however, that future security breaches or disruptions would not be successful or damaging, especially in light of the growing frequency, scope and 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, and any resulting damages could be material.

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

Additional risks to our network and infrastructure include:

- power losses or physical damage, whether caused by fire, adverse weather conditions, terrorism or otherwise;
- capacity or system configurance limitations;
- software and hardware obsolescence, 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, including expenses to repair systems, add new personnel, notify customers of breaches or develop additional protective systems;
- require us to offer expensive incentives to retain existing customers or 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 failure to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, decreased competitiveness of existing 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.

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

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As use of these newer services continues to grow, our high-speed Internet customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we could choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our operating margins, results of operations and financial condition.

We may need to defend ourselves against claims that we infringe upon others' intellectual property rights, or we 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 are currently responding to several of these notices and claims. Like other communications companies, we have received an increasing number of these notices and claims in the past several years, and expect this industry-wide trend will continue. Responding to these claims may require us to expend significant time and money defending our use of the applicable technology, and divert management's time and resources away from other business. In certain instances, we may be required to enter into licensing agreements requiring royalty payments or, in the case of litigation, 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 our business practices, results of operations, and financial condition.

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

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

Reliance on other communications providers. We rely on reseller and sales agency arrangements with other communications 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.

To offer voice or data services in certain of our markets, we must either lease network capacity from, or interconnect our network with the infrastructure of, other communications companies who typically compete against us in those markets. Similar to the risks summarized in the prior paragraph, our reliance on these lease or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that the other carrier may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all.

Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues.

Our operations and financial performance could be adversely affected if our relationships with any of these other communications companies are disrupted or terminated for any other reason, including if such other companies:

- go bankrupt or experience substantial financial difficulties;
- suffer work stoppages or other labor strife;
- challenge our right to receive payments or services under applicable regulations or the terms of our existing contract arrangements; or
- are otherwise unable or unwilling to make payments or provide services to us.

Reliance on other key suppliers and vendors. We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. 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 and may be adversely affected if third parties assert patent infringement claims against our suppliers or us. 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.

Reliance on governmental payments . We receive a material amount of revenue or government subsidies under various government programs or our service contracts with federal, state and local agencies. Governmental agencies frequently reserve the right to terminate their contracts for convenience, or to suspend or debar companies from receiving future subsidies or contracts under certain circumstances. If our governmental contracts are terminated for any reason, or if we are suspended or debarred from governmental programs or contracts, our results of operations and financial condition could be materially adversely affected.

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

The telecommunications, video and cable industries have recently experienced, and continue to experience, substantial consolidation, and some of our competitors have combined with other communications providers, resulting in larger competitors that have greater financial and business resources and 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.

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, 2014, approximately 50% of our employees are members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire and we typically negotiate the terms of new bargaining agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

We have a significant amount of goodwill and other intangible assets on our balance sheet. If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings and reduce our stockholders' equity.

As of June 30, 2014, approximately 60% of our total consolidated assets reflected on the consolidated balance sheet included in this report consist of goodwill or other intangible assets. Under generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time, our affiliates or predecessors have recorded large non-cash charges to earnings in connection with required reductions of the value of their intangible assets. If our intangible assets are determined to be impaired in the future, we may similarly be required to record significant, non-cash charges to earnings during the period in which the impairment is determined.

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 acquisition, please see the risks described below under the heading "Risk Factors—Risks Relating to our Recent Acquisition."

Risks Relating to our Recent Acquisition

We may be unable to integrate successfully into CenturyLink's operations and realize the anticipated benefits of the recent 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 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 anticipated or at all;
- delays or limitations in connection with offering new products or providing current ones arising out of the multiplicity of different legacy systems, networks and processes used by each of the companies;

- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from multiple companies, while at the same time attempting to provide consistent, high quality products and services under a unified culture;
- the complexities of combining two companies with different histories, regulatory restrictions, cost structures, products, sales forces, markets, marketing strategies, and customer bases;
- the failure to retain key employees, some of whom could be critical to integrating , operating or expanding 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.

As discussed further under "Business—Network Architecture," in Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013 , we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which is an amalgam of our legacy network combined with the network of our indirect parent CenturyLink and its affiliates.

For all these reasons, you should be aware that our remaining efforts to integrate these companies and businesses could distract our management, disrupt our ongoing business or create 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.

Risks Relating to Legal and Regulatory Matters

An adverse outcome in any material litigation of CenturyLink or QCII could have a material adverse impact on our financial condition and operating results, on the trading price of our debt securities and on our ability to access the capital markets.

As described in Item 8 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2013 , 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, including the KPNQwest lawsuit brought against QCII by Cargill Financial Markets, Plc and Citibank, N.A. As a wholly owned subsidiary of CenturyLink and QCII, our business and financial condition could be similarly affected.

There are other material proceedings pending against CenturyLink and its affiliates, as described in Item 8 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2013 , as updated by CenturyLink's subsequent quarterly reports on Form 10-Q. 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 operations and a variety of claims relating to such regulation.

General . We are subject to significant regulation by (i) the Federal Communications Commission ("FCC"), which regulates interstate communications, (ii) state utility commissions, which regulate intrastate communications, and (iii) various foreign governments and international bodies, which regulate our international operations. Generally, we must obtain and maintain certificates of authority or licenses from these bodies in most territories where we offer regulated services. We cannot assure you that we will be successful in obtaining or retaining all licenses necessary to carry out our business plan, and, even if we are, the prescribed service standards and conditions imposed on us in connection with obtaining or acquiring control of these licenses may impose on us substantial costs and limitations. We are also subject to numerous requirements and interpretations under various international, federal, state and local laws, rules and regulations, which are often quite detailed and occasionally in conflict with each other. Accordingly, we cannot ensure that we 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 continues to change 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 or refusing to pay amounts owed to us for carrying Voice over Internet Protocol ("VoIP") traffic, or traffic they claim to be VoIP traffic. Similarly, some carriers are refusing to pay access charges for certain calls between mobile and wireline devices routed through an interexchange carrier. 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 federal 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, federal universal service funding is explicitly targeted to broadband deployment, and subscriber line charges paid by end-user customers are gradually increased. We expect these changes will substantially increase the pace of reductions in the amount of switched access revenues we receive in our wholesale business, while creating opportunities for increases in federal Universal Service Fund ("USF") and retail revenue streams. 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. Moreover, FCC proceedings relating to implementation of the Order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

In addition, during the last few years Congress or the FCC has initiated various other changes, including (i) broadband stimulus projects, support funds and similar plans and (ii) various "network neutrality" proposals. The FCC is also considering changes in the regulation of special access services. Any of these recent or pending initiatives could adversely affect our operations or financial results. Moreover, many of the FCC's regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

Risks of higher costs. Regulations continue to create significant 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 or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, protecting intellectual property rights of third parties, 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. In addition, increased regulation of our suppliers could increase our costs.

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

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.

"Open Internet" regulation could limit our ability to operate our high-speed data business profitably and to manage our broadband facilities efficiently.

In order to continue to provide quality high-speed data service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently for the benefit of all customers and to invest in our networks. In the past, the FCC adopted "net neutrality" regulations that provided manageable operating guidelines to ensure an Open Internet. Because the FCC has recently proposed new regulations that could either afford greater flexibility or more regulations, we cannot assure you of the final terms of any such regulations or their impact on us. Moreover, we cannot assure you that Congress will not pass legislation to further address Open Internet issues that could hamper our ability to operate our data networks profitably, that restrict our ability to implement upgrades or network management practices necessary to ensure quality service, or that could otherwise negatively impact our ability to compete effectively.

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

Although we believe our liability for third party information stored on or transmitted through our networks is limited, the liability of private network operators is impacted both by changing technology and evolving legal principles. As a private network provider, we could be exposed to legal claims relating to third party content stored or transmitted on our networks. Such claims could involve allegations of defamation, invasion of privacy or copyright infringement, among other things. If we decide to implement additional measures to reduce our exposure to these risks, or if we are required to defend ourselves against these kinds of claims, our financial results could be negatively affected.

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 operations, and to our facilities-based video services. 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 thereunder, are increasing legal and financial compliance costs and making some activities more time consuming. Any 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 our reputation with investors, lenders or others.

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation" in Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013 .

Risks Affecting our Liquidity and Capital Resources

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, 2014 , our consolidated debt was approximately \$ 7.5 billion (excluding our note payable-affiliate), which was included in CenturyLink's consolidated debt of approximately \$21.0 billion as of that date. Approximately \$4.7 billion of CenturyLink's consolidated debt securities, which includes approximately \$1.4 billion of our debt securities, mature over the next thirty-six months following the date of this report. While we currently believe that CenturyLink and we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future financial condition or the condition of CenturyLink, the credit markets or the economy. We may incur unexpected expenses or liabilities, and we may have limited access to financing.

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

- limiting our ability to access the capital markets;
- exposing us to the risk of credit rating downgrades, which would raise our borrowing costs and could further limit our access to capital;
- hindering our flexibility to plan for or react to changing market, industry or economic conditions;

- limiting the amount of cash flow available for future operations, acquisitions, dividends, or other uses;

- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell assets, possibly on unfavorable terms, to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments.

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

We expect to periodically require financing to meet our debt obligations as they come due. Due to the unstable economy and credit markets, 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. See below “Risk Factors—Risks Affecting our Liquidity and Capital Resources—CenturyLink and we plan to access the public debt markets, and we cannot assure you that these markets will remain free of disruptions.”

We may also need to obtain additional financing or capital, or to investigate other methods to generate cash (such as further cost reductions or the sale of assets) under a variety of circumstances, including if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if regulatory requirements change, if CenturyLink is required to contribute a material amount of cash to its pension plans, if CenturyLink is required to begin to pay other post-retirement benefits significantly earlier than is anticipated, or if CenturyLink becomes subject to significant judgments or settlements in one or more of the matters discussed in Note 15—Commitments and Contingencies to the consolidated financial statements in Item 8 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2013, as updated by CenturyLink's subsequent quarterly reports on Form 10-Q. For all the reasons mentioned above, we can give no assurance that this additional financing will be available on terms that are acceptable to us or at all.

Certain of CenturyLink's debt instruments 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in CenturyLink's quarterly and annual reports filed with the SEC for additional information about CenturyLink's indebtedness.

If we are unable to make required debt payments or refinance our debt, we would likely have to consider other options, such as selling assets, issuing additional securities, cutting costs or otherwise reducing our cash requirements, or negotiating to restructure our applicable debt. The indentures governing our senior notes may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

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

As noted above in Item 2 of Part I of this report, our long-term debt is currently rated BBB- by Standard and Poor's Ratings Services; Baa3 by Moody's Investors Services; and BBB- by Fitch Ratings, all three of which are the lowest investment-grade ratings issued by each of these agencies. Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we operate as a whole and may change their credit rating for us based on their overall view of such industries. There can be no assurance that any rating assigned to any of our debt securities will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant. A downgrade of our credit ratings could adversely affect the market price of some or all of our outstanding debt securities, limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, trigger the application of restrictive covenants or result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, increase our cost of borrowing, and impair our business, financial condition and results of operations.

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 those discussed above. Incremental borrowings that impose additional financial risks could exacerbate the other risks described in this report.

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

Our business is capital intensive, and we anticipate that our capital requirements will continue to be significant in the coming years. As discussed further under "Risk Factors—Risks Affecting Our Business—Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers," increased bandwidth consumption by consumers and businesses have placed increased demands on the transmission capacity of our networks. If we determine that our networks must be expanded to handle these increased demands, we may be required to make substantial capital expenditures, even though there is no assurance that the return on our investment will be satisfactory. In addition, many of our growth and modernization initiatives are capital intensive and changes in technology could require further spending. In addition to investing in expanded networks, new products or new technologies, we must from time to time replace some of the equipment that supports our traditional services as that equipment ages, even though the revenue base from those services is not growing. While we believe that our planned level of capital expenditures will meet both our maintenance and core growth requirements, this may not be the case if demands on our network continue to accelerate or other circumstances underlying our expectations change. Increased spending could, among other things, adversely affect our operating margins, cash flows, results of operations and financial position.

Similarly, we continue to anticipate incurring substantial operating expenses to support our incumbent services and growth initiatives. Although we have successfully reduced certain of our operating expenses over the past few years, we may be unable to further reduce these costs, even if revenues in some of our lines of business are decreasing. If so, our operating margins will be adversely impacted.

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

A substantial amount of our employees participate in a qualified pension plan sponsored by QCII.

The funded status of CenturyLink's and QCII's qualified pension plans are the difference between the value of the plans' assets and the benefit obligations. The accounting unfunded status of CenturyLink's qualified pension plans was \$995 million, which includes the unfunded status of QCII's qualified pension plan of \$159 million, as of December 31, 2013. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in CenturyLink's and QCII's benefit obligations or a significant decrease in the value of the plans' assets. These adverse changes could require CenturyLink and QCII to contribute a material amount of cash to their pension plans 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. Based on current laws and circumstances, QCII does not expect it will be required to make a contribution to its plans in 2014. CenturyLink expects to make required contributions of \$123 million to its qualified pension plans in 2014. The actual amount of required contributions to their plans in 2015 and beyond will depend on earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on CenturyLink's and QCII's liquidity by reducing their cash flows, which in turn could affect our liquidity.

CenturyLink and we 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, us or both. CenturyLink's and our ability to arrange additional financing will depend on, among other factors, the financial position, performance, and credit ratings of CenturyLink and QC, as well as prevailing market conditions and other factors beyond its or our control. Prevailing market conditions could be adversely affected by the ongoing disruptions in domestic or overseas sovereign or corporate debt markets, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad. Instability in the global financial markets has from time to time resulted in periodic volatility in the capital markets. This volatility could limit CenturyLink's access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are acceptable to it, or at all. Any such failure to obtain additional financing could jeopardize its and our ability to repay, refinance or reduce its or our debt obligations.

Other Risks

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 consolidated balance sheets 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, our consolidated financial statements and related disclosures could be materially affected.

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles 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 "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2013, 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.

For periods after the April 1, 2011 closing of CenturyLink's acquisition of QCII, we are included in the consolidated federal income tax return of CenturyLink. 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. Significant taxpayers (such as QCII for periods prior to the CenturyLink acquisition and CenturyLink for periods after the CenturyLink acquisition) 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 reserves 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, CenturyLink's or 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	Amended and Restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Exhibit 3.1) of Qwest Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2013 (File No. 001-03040) filed with the Securities and Exchange Commission on May 13, 2013).
3.2	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).
4.3	Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
a.	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).
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).
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).
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).
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).
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).

(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 regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

Exhibit Number	Description
	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).
	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).
	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).
	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 Exhibit 4.1 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).
	k. Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).
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).
12*	Calculation of Ratio of Earnings to Fixed Charges.
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, 2014, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 8, 2014 .

QWEST CORPORATION

/s/ DAVID D. COLE

By:

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

QWEST CORPORATION

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Successor				Predecessor		
	Six Months Ended June 30,	Year Ended December 31,		Nine Months Ended December 31,	Three Months Ended March 31,	Years Ended December 31,	
	2014	2013	2012	2011	2011	2010	2009
Income before income tax expense	\$ 831	1,566	1,391	892	490	1,873	1,921
Add: estimated fixed charges	278	557	513	342	171	689	705
Add: estimated amortization of capitalized interest	4	8	9	7	2	10	11
Less: interest capitalized	(8)	(17)	(18)	(5)	(3)	(12)	(10)
Total earnings available for fixed charges	<u>\$ 1,105</u>	<u>2,114</u>	<u>1,896</u>	<u>1,236</u>	<u>660</u>	<u>2,560</u>	<u>2,627</u>
Estimate of interest factor on rentals	13	26	28	38	18	62	63
Interest expense, including amortization of premiums, discounts and debt issuance costs	257	514	467	299	150	615	632
Interest capitalized	8	17	18	5	3	12	10
Total fixed charges	<u>\$ 278</u>	<u>557</u>	<u>513</u>	<u>342</u>	<u>171</u>	<u>689</u>	<u>705</u>
Ratio of earnings to fixed charges	4.0	3.8	3.7	3.6	3.9	3.7	3.7

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 8, 2014

/s/ GLEN F. POST, III

Glen F. Post, III
Chief Executive Officer and President

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 8, 2014

/s/ R. STEWART EWING, JR.

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

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.

By: /s/ GLEN F. POST, III

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

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