

**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 September 30, 2021
or

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

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana

(Address of principal executive offices)

84-0273800

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

71203

(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
6.5% Notes Due 2056	CTBB	New York Stock Exchange
6.75% Notes Due 2057	CTDD	New York Stock Exchange

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

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

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

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

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

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

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

On November 4, 2021, there was one share of common stock outstanding.

TABLE OF CONTENTS

	Special Note Regarding Forward-Looking Statements	4
Part I.	Financial Information	
Item 1.	Financial Statements	
	Consolidated Statements of Operations (Unaudited)	7
	Consolidated Balance Sheets (Unaudited)	8
	Consolidated Statements of Cash Flows (Unaudited)	9
	Consolidated Statements of Stockholder's Equity (Unaudited)	10
	Notes to Consolidated Financial Statements (Unaudited) *	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
Part II.	Other Information	
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 6.	Exhibits	38
Signature		39

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

Special Note Regarding Forward-Looking Statements

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

- forecasts of our anticipated future results of operations, cash flows or financial position;
- statements concerning the anticipated impact of our transactions, investments, product development, participation in government programs and other initiatives, including synergies or costs associated with these initiatives;
- statements about our liquidity, profitability, profit margins, tax position, tax assets, tax rates, asset values, contingent liabilities, growth opportunities, growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, market share, product capabilities, investment and expenditure plans, business strategies, debt leverage, capital allocation plans, financing alternatives and sources, and pricing plans;
- statements regarding how the health and economic challenges raised by the COVID-19 pandemic may impact our business, operations, cash flows or financial position; and
- other similar statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts, many of which are highlighted by words such as "may," "will," "would," "could," "should," "plan," "believes," "expects," "anticipates," "estimates," "projects," "intends," "likely," "seeks," "hopes," or variations or similar expressions with respect to the future.

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

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

- the effects of ongoing changes in the regulation of the communications industry, including the outcome of legislative, regulatory or judicial proceedings relating to content liability standards, intercarrier compensation, universal service, service regulation, broadband deployment, data protection, privacy and net neutrality;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- possible changes in the demand for our products and services, including increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- our ability to successfully and timely implement our operating plans and corporate strategies, including our deleveraging strategy;
- changes in our operating plans, corporate strategies or capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- the negative impact of increases in the costs of Lumen's pension, healthcare for active and retired employees, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics, regulations;
- the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- our ability to maintain favorable relations with our security holders, key business partners, suppliers, vendors, landlords and financial institutions;
- Lumen's ability to meet evolving environmental, social and governance ("ESG") expectations and benchmarks, and effectively communicate and implement its ESG strategies;
- our ability to collect our receivables from, or continue to do business with, financially troubled customers, including but not limited to those adversely impacted by the economic dislocations caused by the COVID-19 pandemic;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates, including Lumen Technologies;
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels, including those arising from pending proposals of the Biden Administration to increase infrastructure spending and federal income tax rates;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require additional future impairment charges;

- continuing uncertainties regarding the impact that COVID-19 disruptions and vaccination policies could have on our business, operations, cash flows and corporate initiatives;
- the effects of adverse weather, terrorism, epidemics, pandemics or other natural or man-made disasters;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geo-political conditions; and
- other risks referenced in "Risk Factors" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020 or other of our filings with the U.S. Securities and Exchange Commission (the "SEC").

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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QWEST CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
OPERATING REVENUE				
Operating revenue	\$ 1,135	1,200	3,452	3,642
Operating revenue—affiliates	595	601	1,794	1,876
Total operating revenue	1,730	1,801	5,246	5,518
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	426	528	1,305	1,491
Selling, general and administrative	36	128	249	410
Operating expenses—affiliates	177	198	561	557
Depreciation and amortization	232	330	780	985
Total operating expenses	871	1,184	2,895	3,443
OPERATING INCOME	859	617	2,351	2,075
OTHER (EXPENSE) INCOME				
Interest expense	(47)	(69)	(142)	(219)
Interest expense—affiliate, net	(25)	(18)	(87)	(50)
Other expense, net	(3)	(18)	(7)	(31)
Total other expense, net	(75)	(105)	(236)	(300)
INCOME BEFORE INCOME TAX EXPENSE	784	512	2,115	1,775
Income tax expense	202	133	542	463
NET INCOME	\$ 582	379	1,573	1,312

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2021 (Unaudited)	December 31, 2020
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2	14
Accounts receivable, less allowance of \$39 and \$61	339	364
Advances to affiliates	368	—
Other	180	122
Total current assets	889	500
Property, plant and equipment, net of accumulated depreciation of \$8,913 and \$8,347	8,168	8,309
GOODWILL AND OTHER ASSETS		
Goodwill	9,360	9,360
Other intangible assets, net	215	343
Other, net	161	147
Total goodwill and other assets	9,736	9,850
TOTAL ASSETS	\$ 18,793	18,659
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 950	948
Accounts payable	239	292
Advances from affiliates	—	592
Note payable - affiliate	1,187	1,130
Accrued expenses and other liabilities		
Salaries and benefits	144	178
Income and other taxes	112	95
Other	192	186
Current portion of deferred revenue	179	183
Total current liabilities	3,003	3,604
LONG-TERM DEBT	2,156	2,386
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	1,225	1,249
Affiliate obligations, net	614	637
Other	694	685
Total deferred credits and other liabilities	2,533	2,571
COMMITMENTS AND CONTINGENCIES (Note 7)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Retained earnings	1,051	48
Total stockholder's equity	11,101	10,098
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 18,793	18,659

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2021	2020
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 1,573	1,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	780	985
Deferred income taxes	(24)	(30)
Provision for uncollectible accounts	18	45
Accrued interest on affiliate note	57	61
Net loss on early retirement of debt	8	36
Changes in current assets and liabilities:		
Accounts receivable	7	70
Accounts payable	(19)	(34)
Accrued income and other taxes	17	12
Other current assets and liabilities, net	(113)	(193)
Changes in other noncurrent assets and liabilities, net	10	45
Changes in affiliate obligations, net	(23)	(54)
Other, net	8	(4)
Net cash provided by operating activities	<u>2,299</u>	<u>2,251</u>
INVESTING ACTIVITIES		
Capital expenditures	(557)	(885)
Changes in advances to affiliates	(368)	1,842
Proceeds from sale of property, plant and equipment and other assets	31	2
Net cash (used in) provided by investing activities	<u>(894)</u>	<u>959</u>
FINANCING ACTIVITIES		
Payments of long-term debt	(235)	(1,860)
Dividends paid	(570)	(1,350)
Changes in advances from affiliates	(592)	4
Net cash used in financing activities	<u>(1,397)</u>	<u>(3,206)</u>
Net increase in cash, cash equivalents and restricted cash	8	4
Cash, cash equivalents and restricted cash at beginning of period	15	4
Cash, cash equivalents and restricted cash at end of period	<u>\$ 23</u>	<u>8</u>
Supplemental cash flow information:		
Income taxes paid, net	\$ (557)	(473)
Interest paid (net of capitalized interest of \$14 and \$24)	\$ (129)	(232)
Supplemental noncash information of investing activities:		
Sale of property, plant and equipment in exchange for receivable	\$ 56	—
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 2	6
Restricted cash - noncurrent	21	2
Total	<u>\$ 23</u>	<u>8</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
COMMON STOCK				
Balance at beginning of period	\$ 10,050	10,050	10,050	10,050
Balance at end of period	10,050	10,050	10,050	10,050
RETAINED EARNINGS				
Balance at beginning of period	469	73	48	67
Net income	582	379	1,573	1,312
Cumulative net effect of adoption of ASU 2016-13, Measurement of Credit Losses, net \$(1) tax	—	—	—	3
Dividends declared and paid to Qwest Services Corporation	—	(425)	(570)	(1,350)
Other	—	—	—	(5)
Balance at end of period	1,051	27	1,051	27
TOTAL STOCKHOLDER'S EQUITY	\$ 11,101	10,077	11,101	10,077

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

(1) Background

General

We are an integrated communications company engaged primarily in providing a broad array of communications services to our mass markets and business customers. Our specific products and services are detailed in Note 3—Revenue Recognition of this report.

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

Basis of Presentation

Our consolidated balance sheet as of December 31, 2020, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2020.

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

We reclassified certain prior period amounts to conform to the current period presentation, including our revenue by product and service categories. See Note 3—Revenue Recognition for additional information. These changes had no impact on total operating revenue, total operating expenses or net income for any period.

Operating lease assets are included in Other, net under goodwill and other assets on our consolidated balance sheets. Current operating lease liabilities are included in Other under accrued expenses and other liabilities on our consolidated balance sheets. Noncurrent operating lease liabilities are included in Other under deferred credits and other liabilities on our consolidated balance sheets.

Segments

Our operations are integrated into and reported as part of Lumen Technologies. Lumen'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 SEC. Consequently, we do not provide our discrete financial information to the CODM on a regular basis. As such, we have one reportable segment.

Summary of Significant Accounting Policies

Refer to the significant accounting policies described in Note 1—Background and Summary of Significant Accounting Policies to the consolidated financial statements and accompanying notes in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020.

Recently Adopted Accounting Pronouncements

Debt

On January 1, 2021, we adopted ASU 2020-09, "*Debt (Topic 470) Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*" ("ASU 2020-09"). This ASU amends and supersedes various SEC paragraphs to reflect SEC Release No. 33-10762, which includes amendments to the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. The adoption of ASU 2020-09 did not have an impact to our consolidated financial statements.

Investments

On January 1, 2021, we adopted ASU 2020-01, "*Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815*" ("ASU 2020-01"). This ASU, among other things, clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments - Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. As of September 30, 2021, we determined there was no application or discontinuation of the equity method during the reporting periods. The adoption of ASU 2020-01 did not have an impact to our consolidated financial statements.

Income Taxes

On January 1, 2021, we adopted ASU 2019-12, "*Simplifying the Accounting for Income Taxes (Topic 740)*" ("ASU 2019-12"). This ASU removes certain exceptions for investments, intra-period allocations and interim calculations, and adds guidance to reduce complexity in accounting for income taxes. The adoption of ASU 2019-12 did not have a material impact to our consolidated financial statements.

Measurement of Credit Losses on Financial Instruments

We adopted ASU 2016-13, "*Measurement of Credit Losses on Financial Instruments*" ("ASU 2016-13") on January 1, 2020 and recognized a cumulative adjustment to our accumulated deficit as of the date of adoption of \$3 million, net of tax effect of \$1 million. Please refer to Note 4—Credit Losses on Financial Instruments for more information.

Recently Issued Accounting Pronouncements

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04" or "Reference Rate Reform"), designed to ease the burden of accounting for contract modifications related to the global market-wide reference rate transition period. Subject to certain criteria, ASU 2020-04 provides qualifying entities the option to apply expedients and exceptions to contract modifications and hedging accounting relationships made until December 31, 2022. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. ASU 2020-04 provides optional guidance for a limited time to ease the potential burden in accounting for reference rate reform. Based on our review of our key material contracts through September 30, 2021, we do not expect ASU 2020-04 to have any material impact on the consolidated financial statements.

(2) Goodwill, Customer Relationships and Other Intangible Assets

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

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Goodwill	\$ 9,360	9,360
Customer relationships, less accumulated amortization of \$5,699 and \$5,611	\$ —	88
Other intangible assets, less accumulated amortization of \$1,859 and \$1,831	215	255
Total other intangible assets, net	\$ 215	343

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

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

As of September 30, 2021, the gross carrying amount of goodwill, customer relationships and other intangible assets was \$17.1 billion. The amortization expense for intangible assets for the three months ended September 30, 2021 and 2020 totaled \$22 million and \$120 million, respectively. The amortization expense for intangible assets for the nine months ended September 30, 2021 and 2020 totaled \$154 million and \$365 million, respectively.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2021 through 2025 will be as follows:

	(Dollars in millions)	
2021 (remaining three months)	\$	21
2022		86
2023		62
2024		13
2025		11

(3) Revenue Recognition

Beginning in the first quarter of 2021, we categorize our products, services and revenue among the following categories:

- *Voice and Other*, which include primarily local voice services, private line and other legacy services. This category also includes Universal Service Fund ("USF") and Connect America Fund Phase II ("CAF II") support payments and other operating revenue. We receive support payments from state USF programs and from the federal CAF II program. These support payments are government subsidies designed to compensate us for providing certain broadband and telecommunications services in high-cost areas or at discounts to low-income, educational, and healthcare customers. During the nine months ended September 30, 2021 we recorded approximately \$109 million of revenue from the CAF II program that will end as of December 31, 2021.
- *Fiber Infrastructure Services*, which include high speed, fiber-based and lower speed DSL-based broadband services, and optical network services;

- *IP and Data Services*, which consist primarily of Ethernet services; and
- *Affiliate Services*, which are communications services that we also provide to external customers. In addition, we provide to our affiliates application development and support services, network support and technical services.

Reconciliation of Total Revenue to Revenue from Contracts with Customers

The following tables provide our total revenue by product and service category as well as the amount of revenue that is not subject to ASC 606, "Revenue from Contracts with Customers" ("ASC 606"), but is instead governed by other accounting standards:

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
(Dollars in millions)						
Voice and Other	\$ 522	(83)	439	567	(87)	480
Fiber Infrastructure	495	(30)	465	505	(30)	475
IP and Data Services	118	—	118	128	—	128
Affiliate Services	595	(9)	586	601	(1)	600
Total revenue	\$ 1,730	(122)	1,608	1,801	(118)	1,683

⁽¹⁾ Includes regulatory revenue and lease revenue not within the scope of ASC 606.

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
(Dollars in millions)						
Voice and Other	\$ 1,595	(251)	1,344	1,726	(263)	1,463
Fiber Infrastructure	1,500	(90)	1,410	1,527	(94)	1,433
IP and Data Services	357	—	357	389	—	389
Affiliate Services	1,794	(18)	1,776	1,876	(3)	1,873
Total revenue	\$ 5,246	(359)	4,887	5,518	(360)	5,158

⁽¹⁾ Includes regulatory revenue and lease revenue not within the scope of ASC 606.

Operating Lease Revenue

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

For the three months ended September 30, 2021 and 2020, our gross rental income was \$82 million and \$77 million, which represents approximately 5% and 4%, respectively, of our operating revenue for the three months ended September 30, 2021 and 2020. For both the nine months ended September 30, 2021 and 2020, our gross rental income was \$239 million and \$234 million, which represents approximately 5% and 4%, respectively, of our operating revenue for the nine months ended September 30, 2021 and 2020.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of September 30, 2021 and December 31, 2020:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 333	346
Contract assets	11	13
Contract liabilities	321	300

⁽¹⁾ Reflects gross customer receivables, including gross affiliate receivables, of \$365 million and \$396 million, net of allowance for doubtful accounts of \$32 million and \$50 million, at September 30, 2021 and December 31, 2020, respectively.

Contract liabilities consist of consideration we have received from our customers or billed in advance of providing goods or services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheets. During the three and nine months ended September 30, 2021, we recognized \$12 million and \$187 million, respectively, of revenue that was included in contract liabilities as of January 1, 2021. During the three and nine months ended September 30, 2020, we recognized \$13 million and \$210 million, respectively, of revenue that was included in contract liabilities as of January 1, 2020.

Performance Obligations

As of September 30, 2021, our estimated revenue expected to be recognized in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied is approximately \$188 million. We expect to recognize approximately 91% of this revenue through 2023, with the balance recognized thereafter.

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

Contract Costs

The following tables provide changes in our contract acquisition costs and fulfillment costs:

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 68	49	81	59
Costs incurred	12	7	12	6
Amortization	(14)	(9)	(15)	(8)
End of period balance	\$ 66	47	78	57

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning of period balance	\$ 73	54	86	64
Costs incurred	36	19	39	18
Amortization	(43)	(26)	(47)	(25)
End of period balance	\$ 66	47	78	57

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

Deferred acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months for mass markets customers and average contract life of 29 months for business customers. Amortized fulfillment costs are included in cost of services and products and amortized acquisition costs are included in selling, general and administrative expenses in our consolidated statements of operations. The amount of these deferred costs that are anticipated to be amortized in the next 12 months are included in other current assets on our consolidated balance sheets. The amount of deferred costs expected to be amortized beyond the next 12 months is included in other non-current assets on our consolidated balance sheets. Deferred acquisition and fulfillment costs are assessed for impairment on an annual basis.

(4) Credit Losses on Financial Instruments

In accordance with ASC 326, "Financial Instruments - Credit Losses," we aggregate financial assets with similar risk characteristics to align our expected credit losses with the credit quality or deterioration over the life of such assets. We monitor certain risk characteristics within our aggregated financial assets and revise their composition accordingly, to the extent internal and external risk factors change each reporting period. Financial assets that do not share risk characteristics with other financial assets are evaluated separately. Our financial assets measured at amortized cost primarily consist of accounts receivable.

We use a loss rate method to estimate our allowance for credit losses. Our determination of the current expected credit loss rate begins with our use of historical loss experience as a percentage of accounts receivable. We measure our historical loss period based on the average days to recognize accounts receivable as credit losses. When asset specific characteristics and current conditions change from those in the historical period, due to changes in our credit and collections strategy, certain classes of aged balances, or credit loss and recovery policies, we perform a qualitative and quantitative assessment to adjust our historical loss rate. We use regression analysis to develop an expected loss rate using historical experience and economic data over a forecast period. We measure our forecast period based on the average days to collect payment on billed accounts receivable. To determine our current allowance for credit losses, we combine the historical and expected credit loss rates and apply them to our period end accounts receivable.

In conjunction with an internal reorganization and changes to how we manage our customers, we pooled certain assets with similar credit risk characteristics based on the nature of our customers, their industry, policies used to grant credit terms and their historical and expected credit loss patterns. Additionally, we reassessed our historical loss period for the portfolio reorganization.

If there is a deterioration of a customer's financial condition or if future default rates in general differ from currently anticipated default rates (including changes caused by COVID-19), we may need to adjust the allowance for credit losses, which would affect earnings in the period that adjustments are made.

The assessment of the correlation between historical observed default rates, current conditions and forecasted economic conditions requires judgment. Alternative interpretations of these factors could have resulted in different conclusions regarding the allowance for credit losses. The amount of credit loss is sensitive to changes in circumstances and forecasted economic conditions. Our historical credit loss experience, current conditions and forecast of economic conditions may also not be representative of the customers' actual default experience in the future.

The following table presents the activity of our allowance for credit losses by accounts receivable portfolio for the nine months ended September 30, 2021:

	Business	Mass Markets	Total
	(Dollars in millions)		
Beginning balance at January 1, 2021 ⁽¹⁾	\$ 25	36	61
Provision for expected losses	6	12	18
Write-offs charged against the allowance	(15)	(35)	(50)
Recoveries collected	2	8	10
Ending balance at September 30, 2021	\$ 18	21	39

⁽¹⁾ Due to an internal reorganization of our reporting categories on January 1, 2021, our accounts receivable portfolios were changed to align with changes to how we manage our customers. Allowance for credit losses previously included in the Consumer and Business portfolio of \$32 million and \$4 million, respectively, were reclassified to the Mass Markets allowance for credit losses on January 1, 2021, as a result of this change.

For the nine months ended September 30, 2021, we decreased our allowance for credit losses for our business and mass markets accounts receivable portfolios primarily due to higher year to date write-off activity with the easing of prior delays due to COVID-19 related restrictions in 2020.

(5) Long-Term Debt and Note Payable - Affiliate

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

	Interest Rates ⁽¹⁾	Maturities ⁽¹⁾	September 30, 2021	December 31, 2020
			(Dollars in millions)	
Senior notes	6.500% - 7.750%	2021 - 2057	\$ 2,935	3,170
Term loan ^{(2) (3)}	LIBOR + 2.00%	2027	215	215
Finance lease and other obligations	Various	Various	3	6
Unamortized premiums, net			6	5
Unamortized debt issuance costs			(53)	(62)
Total long-term debt			3,106	3,334
Less current maturities			(950)	(948)
Long-term debt, excluding current maturities			\$ 2,156	2,386
Note payable - affiliate	4.809%	2022	\$ 1,187	1,130

(1) As of September 30, 2021.

(2) Qwest Corporation's Term Loan had interest rates of 2.090% and 2.150% as of September 30, 2021 and December 31, 2020, respectively.

(3) See Note 1— Background for our considerations of the impact of Reference Rate Reform on our debt subject to rate reference changes from LIBOR.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of September 30, 2021 (excluding unamortized premiums, net and unamortized debt issuance costs and note payable-affiliate) maturing during the following years:

	(Dollars in millions)
2021 (remaining three months)	\$ 951
2022	1
2023	—
2024	—
2025	250
2026 and thereafter	1,951
Total long-term debt	\$ 3,153

Redemption of Senior Notes

On February 16, 2021, we fully redeemed all \$235 million aggregate principal amount of our outstanding 7.000% Senior Notes due 2056. The redemption of the Senior Notes resulted in a loss of \$8 million for the nine months ended September 30, 2021.

Note Payable - Affiliate

Qwest Corporation is currently indebted to an affiliate of our ultimate parent company, Lumen Technologies, Inc., under a revolving promissory note that provides Qwest Corporation with a funding commitment of up to \$965 million in aggregate principal amount (the "Intercompany Note"). The outstanding principal balance owed by Qwest Corporation under the Intercompany Note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding principal balance during the respective interest period using a weighted average per annum interest rate on the consolidated outstanding debt of Lumen Technologies, Inc. and its subsidiaries. As of September 30, 2021 and December 31, 2020, the Intercompany Note is reflected on our consolidated balance sheets as a current liability under "Note payable - affiliate". In accordance with the terms of the Intercompany Note, interest shall be assessed on June 30th and December 31st (an "Interest Period"). Any assessed interest for an Interest Period that remains unpaid on the last day of the subsequent Interest Period is capitalized to the outstanding principal balance on such date. Due to the amount of the unpaid interest capitalized since inception of the Intercompany Note, the outstanding principal balance at September 30, 2021 is approximately \$1.2 billion. Additionally, as of September 30, 2021, \$14 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Compliance

As of September 30, 2021, we believe we were in compliance with the financial covenants contained in our material debt agreements in all material respects.

Other

For additional information on our long-term debt and credit facilities, see Note 6—Long-Term Debt and Note Payable - Affiliate 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, 2020.

(6) Fair Value Disclosure

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

The three input levels in the hierarchy of fair value measurements are defined by the Fair Value Measurement and Disclosure framework generally as follows:

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

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

		September 30, 2021		December 31, 2020	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt (excluding finance lease and other obligations)	2	\$ 3,103	3,291	3,328	3,532

(7) Commitments, Contingencies and Other Items

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

Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Amounts accrued for our litigation and non-income tax contingencies at September 30, 2021 aggregated to approximately \$19 million and are included in “Other” current liabilities and “Other Liabilities” in our consolidated balance sheet as of such date. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

Principal Proceedings

Billing Practices Suits

In June 2017, a former employee of a Lumen Technologies subsidiary filed an employment lawsuit against Lumen Technologies (at the time known as CenturyLink, Inc.) claiming that she was wrongfully terminated for alleging that Lumen charged some of its retail customers for products and services they did not authorize. Thereafter, based in part on the allegations made by the former employee, several legal proceedings were filed, including consumer class actions in federal and state courts, a series of securities investor class actions in federal courts, and several shareholder derivative actions in federal and Louisiana state courts. The derivative cases were brought on behalf of CenturyLink, Inc. against certain current and former officers and directors of the Company and seek damages for alleged breaches of fiduciary duties.

The consumer class actions, the securities investor class actions, and the federal derivative actions were transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings as In Re: CenturyLink Sales Practices and Securities Litigation. Lumen Technologies has settled the consumer and securities investor class actions, those settlements are final. The derivative actions remain pending.

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

Other Proceedings, Disputes and Contingencies

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

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities, many of which are seeking substantial recoveries. These cases have progressed to various stages and one or more may go to trial during the fourth quarter of 2021 or during 2022 if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are subject to various federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none is reasonably expected to exceed \$300,000 in fines and penalties.

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

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 16—Commitments, Contingencies and Other Items to the financial statements included in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020. The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us.

(8) Dividends

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

During the nine months ended September 30, 2021 and 2020, we declared and paid dividends to QSC of \$570 million and \$1.4 billion, respectively. Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

(9) Other Financial Information

Other Current Assets

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

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Prepaid expenses	\$ 45	40
Contract acquisition costs	44	47
Contract fulfillment costs	30	28
Receivable for sale of land	56	—
Other	5	7
Total other current assets	\$ 180	122

Other Noncurrent Liabilities

The following table presents details of other noncurrent liabilities in our consolidated balance sheets:

	September 30, 2021	December 31, 2020
	(Dollars in millions)	
Unrecognized tax benefits	\$ 459	448
Deferred revenue	110	108
Noncurrent operating lease liability	64	76
Other	61	53
Total other noncurrent liabilities	<u>\$ 694</u>	<u>685</u>

(10) Labor Union Contracts

As of September 30, 2021, approximately 43% of our employees were represented by the Communication Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). There are no collective bargaining agreements that are scheduled to expire over the twelve month period ending September 30, 2022. We believe relations with our employees continue to be generally good.

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

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

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

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" referenced in Item 1A of Part II of this report or other of our filings with the SEC 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, 2020, 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 nine 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 business and mass markets customers. Our specific products and services are detailed in Note 3—Revenue Recognition of this report.

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

At September 30, 2021, we served approximately 2.8 million broadband subscribers. Our methodology for counting broadband subscribers may not be comparable to those of other companies.

Impact of COVID-19 Pandemic

As previously outlined in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020, in response to the safety and economic challenges arising out of the COVID-19 pandemic and in a continued attempt to mitigate the negative impact on our stakeholders, we have taken a variety of steps to ensure the availability of our network infrastructure, to promote the safety of our employees and customers, to enable us to continue to adapt and provide our products and services worldwide to our customers, and to strengthen our communities. As vaccination rates increase, we expect to continue revising our responses to the pandemic or take additional steps necessary to adjust to changed circumstances.

As discussed in further detail in our prior reports, the pandemic resulted in (i) increases in certain revenue streams and decreases in others, (ii) increases in allowances for credit losses through the end of 2020, (iii) increases in overtime expenses, (iv) delays in our cost transformation initiatives and (v) an acceleration of our real estate rationalization efforts and the incurrence of related costs. We believe we are also experiencing delayed decision-making by certain of our customers in the current environment. These changes did not materially impact our financial performance or financial position during 2020, and, barring any substantial deterioration in prevailing health or economic conditions, are not expected to materially impact us in the near term.

Effective December 8, 2021, we plan to comply with President Biden's September 2021 Executive Order requiring covered employees of federal contractors to be vaccinated against COVID-19. For additional information, see "Risk Factors" in Item 1A of Part II of this report.

Products, Services and Revenue

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

- *Voice and Other*, which include primarily local voice services, private line and other legacy services. This category also includes Universal Service Fund ("USF") and CAF II support payments and other operating revenue. We receive support payments from state USF programs and from the federal CAF II program. These support payments are government subsidies designed to compensate us for providing certain broadband and telecommunications services in high-cost areas or at discounts to low-income, educational, and healthcare customers. During the nine months ended September 30, 2021, we recorded approximately \$109 million of revenue from the CAF II program that will end as of December 31, 2021.
- *Fiber Infrastructure Services*, which include high speed, fiber-based and lower speed DSL-based broadband services, and optical network services;
- *IP and Data Services*, which consist primarily of Ethernet services; and
- *Affiliate Services*, which are communications services that we also provide to external customers. In addition, we provide to our affiliates application development and support services, network support and technical services.

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

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

Results of Operations

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2021 and 2020:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(Dollars in millions)			
Operating revenue	\$ 1,730	1,801	5,246	5,518
Operating expenses	871	1,184	2,895	3,443
Operating income	859	617	2,351	2,075
Total other expense, net	(75)	(105)	(236)	(300)
Income before income taxes	784	512	2,115	1,775
Income tax expense	202	133	542	463
Net income	\$ 582	379	1,573	1,312

For a discussion of certain trends that impact our business, see the MD&A discussion of trends impacting Lumen's business included in Lumen's reports filed with the SEC, including most recently its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021.

Operating Revenue

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

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Voice and Other	\$ 522	567	(8) %
Fiber Infrastructure	495	505	(2) %
IP and Data Services	118	128	(8) %
Affiliate Services	595	601	(1) %
Total operating revenue	\$ 1,730	1,801	(4) %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Voice and Other	\$ 1,595	1,726	(8) %
Fiber Infrastructure	1,500	1,527	(2) %
IP and Data Services	357	389	(8) %
Affiliate Services	1,794	1,876	(4) %
Total operating revenue	\$ 5,246	5,518	(5) %

Total operating revenue decreased by \$71 million and \$272 million, respectively, for the three and nine months ended September 30, 2021 as compared to the three and nine months ended September 30, 2020. The decreases for both periods were driven primarily by decreases in our voice, traditional broadband ethernet services and private line, slightly offset by growth in fiber broadband services. Affiliate services revenue also decreased due to the transfer of employees, and the revenue related to the affiliate services those employees had provided, from us to an affiliate.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 426	528	(19) %
Selling, general and administrative	36	128	(72) %
Operating expenses - affiliates	177	198	(11) %
Depreciation and amortization	232	330	(30) %
Total operating expenses	<u>\$ 871</u>	<u>1,184</u>	<u>(26) %</u>

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,305	1,491	(12) %
Selling, general and administrative	249	410	(39) %
Operating expenses - affiliates	561	557	1 %
Depreciation and amortization	780	985	(21) %
Total operating expenses	<u>\$ 2,895</u>	<u>3,443</u>	<u>(16) %</u>

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

Cost of services and products (exclusive of depreciation and amortization) decreased \$102 million and \$186 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020. The decrease in our cost of services and products (exclusive of depreciation and amortization) for both periods was primarily due to reductions in salaries and wages and employee-related expenses resulting from lower headcount and lower network expenses.

Selling, General and Administrative

Selling, general and administrative expenses decreased by \$92 million and \$161 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020. The decreases were primarily due to a \$75 million gain on the sale of land in August 2021. Additionally, the decreased expense was driven by lower bad debt expense, lower marketing and advertising costs and lower property taxes.

Operating Expenses - Affiliates

Operating expenses - affiliates decreased by \$21 million and increased by \$4 million, respectively, for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020. The increase during the nine month period was primarily due to an increase in the level of services provided to us by our affiliates in the first half of 2021, offset by a decrease in the level of services provided to us by our affiliates in the third quarter 2021.

Depreciation and Amortization

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

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Depreciation	\$ 210	210	— %
Amortization	22	120	(82) %
Total depreciation and amortization	<u>\$ 232</u>	<u>330</u>	<u>(30) %</u>

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Depreciation	\$ 626	620	1 %
Amortization	154	365	(58) %
Total depreciation and amortization	<u>\$ 780</u>	<u>985</u>	<u>(21) %</u>

Depreciation expense remained consistent for the three months ended September 30, 2021, with an increase to expense resulting from a \$9 million increase associated with net growth in depreciable assets, offset by the impact of annual rate depreciable life changes of \$9 million. Depreciation expense increased \$6 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020. The increase for the nine months ended September 30, 2021 was primarily due to a \$32 million increase resulting from an increase associated with net growth in depreciable assets, which was partially offset by the impact of annual rate depreciable life changes of \$28 million.

Amortization expense decreased by \$98 million and \$211 million, respectively, for the three and nine months ended September 30, 2021 as compared to the three and nine months ended September 30, 2020. The decrease for both periods was primarily due to a decrease of \$94 million and \$201 million, respectively, as a result of certain customer relationship intangible assets becoming fully amortized at the end of the first quarter of 2021 and decreases of \$3 million and \$8 million, respectively, associated with an annual change in the amortizable life of software.

Other Consolidated Results

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

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Interest expense	\$ (47)	(69)	(32) %
Interest expense - affiliate, net	(25)	(18)	39 %
Other expense, net	(3)	(18)	(83) %
Total other expense, net	<u>\$ (75)</u>	<u>(105)</u>	(29) %
Income tax expense	\$ 202	133	52 %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Interest expense	\$ (142)	(219)	(35) %
Interest expense - affiliates, net	(87)	(50)	74 %
Other expense, net	(7)	(31)	(77) %
Total other expense, net	<u>\$ (236)</u>	<u>(300)</u>	(21) %
Income tax expense	\$ 542	463	17 %

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

Interest Expense

Interest expense decreased by \$22 million and \$77 million, respectively, for the three and nine months ended September 30, 2021 as compared to the three and nine months ended September 30, 2020. The decrease in interest expense was primarily due to (i) a decrease in average long-term debt from \$4.4 billion to \$3.1 billion and the decrease in our average interest rate from 6.54% to 6.42% for the three months ended September 30, 2020 compared to the three months ended September 30, 2021, and (ii) a decrease in average long-term debt from \$5.0 billion to \$3.2 billion and the decrease in our average interest rate from 6.59% to 6.44% for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2021.

Interest Expense - Affiliates, Net

Affiliated interest expense, net increased by \$7 million and \$37 million, respectively, for the three and nine months ended September 30, 2021 as compared to the three and nine months ended September 30, 2020. The increase in interest expense - affiliates, net for both periods was due primarily to increases in the average outstanding advances from our affiliates, which incur interest at the same rate as the note payable to our affiliate. These outstanding advances from our affiliates were settled prior to the end of the third quarter of 2021. See Note 5—Long-Term Debt and Note Payable - Affiliate.

Other Income (Expense), Net

The following tables summarize our total other (expense) income, net:

	Three Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Loss on extinguishment of debt	\$ —	(17)	nm
Other expense, net	(3)	(1)	nm
Total other expense, net	<u>\$ (3)</u>	<u>(18)</u>	(83) %

	Nine Months Ended September 30,		% Change
	2021	2020	
	(Dollars in millions)		
Loss on extinguishment of debt	\$ (8)	(36)	(78) %
Interest income	—	1	nm
Other income, net	1	4	(75) %
Total other expense, net	<u>\$ (7)</u>	<u>(31)</u>	(77) %

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

Income Tax Expense

For the three and nine months ended September 30, 2021 our effective tax rates were 25.8% and 25.6%, respectively. For the three and nine months ended September 30, 2020 our effective tax rates were 26.0% and 26.1%, respectively.

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

We are an indirectly wholly-owned subsidiary of Lumen Technologies, Inc. As such, factors relating to, or affecting, Lumen'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.

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

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

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand and improve our service offerings. Lumen Technologies 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 Lumen's consolidated capital investment is influenced by, among other things, demand for Lumen's services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as Lumen's CAF II infrastructure buildout requirements). For more information on Lumen's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

Debt and Other Financing Arrangements

On February 16, 2021, we fully redeemed all \$235 million aggregate principal amount of our outstanding 7.000% Senior Notes due 2056. As of September 30, 2021, we had a face amount of approximately \$3.2 billion aggregate outstanding indebtedness (excluding finance leases, unamortized premiums, net, unamortized debt issuance costs, and note payable-affiliate). Approximately \$950 million of our outstanding debt is due in the next 12 months (excluding finance lease obligations).

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

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

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

Lumen's and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies. For additional information regarding Lumen's and Qwest Corporation's funding arrangements, see Risk Factors—Financial Risks in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

Term Loan

In October 2020, we borrowed \$215 million under a variable rate term loan with CoBank ACB. The outstanding unpaid principal amount of this term loan plus any accrued and unpaid interest is due on October 23, 2027. Interest is paid at least quarterly based upon either the LIBOR or the Base Rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for Base Rate loans depending on Qwest Corporation's then current senior unsecured long-term debt rating. At both September 30, 2021 and December 31, 2020, the outstanding principal balance on this term loan was \$215 million.

Note Payable - Affiliate

The Intercompany Note (as defined in Note 5—Long-Term Debt and Note Payable - Affiliate) was entered into between Qwest Corporation and an affiliate of our ultimate parent company, Lumen Technologies, Inc., in the amount of \$965 million. The outstanding principal balance owed by us under the Intercompany Note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of Lumen Technologies, Inc. and its subsidiaries. As of September 30, 2021, the weighted average interest rate was 4.809%. As of September 30, 2021 and December 31, 2020, the Intercompany Note is reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of September 30, 2021, \$14 million of accrued interest is reflected in other current liabilities on our consolidated balance sheets.

For additional information about our indebtedness, see Note 5—Long-Term Debt and Note Payable - Affiliate.

Dividends

We periodically pay dividends to QSC, our direct parent company. See Note 8—Dividends and the discussion above under the heading "Overview".

Pension and Post-retirement Benefit Obligations

Lumen Technologies is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2020, the accounting unfunded status of Lumen's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was approximately \$1.7 billion and approximately \$3.0 billion, respectively. For additional information about Lumen's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pension and Post-Retirement Benefit Obligations" in Item 7 of Lumen's Annual Report on Form 10-K for the year ended December 31, 2020 and see Note 10—Employee Benefits to the consolidated financial statements in Item 8 of Part II of the same report.

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

Benefits paid by Lumen's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, Lumen Technologies does not expect any contributions to be required for their qualified pension plan during 2021. The amount of required contributions to Lumen's qualified pension plan in 2021 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Lumen Technologies occasionally makes voluntary contributions in addition to required contributions. Lumen last made a voluntary contribution to the trust for our qualified pension plan during 2018. Lumen could make a voluntary contribution to the trust for our qualified pension plan in 2021.

Substantially all of Lumen's post-retirement health care and life insurance benefits plans are unfunded and are paid by Lumen Technologies with available cash.

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expenses, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the nine months ended September 30, 2021, we made net settlement payments of \$29 million. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows. For 2021, we expect to make aggregate settlement payments of \$46 million to QCII under the plan.

For 2021, Lumen's estimated annual long-term rate of return on pension plan assets is 5.5%. However, actual returns could be substantially different.

For additional information, see "Risk Factors—Financial Risks—Increases in costs for pension and healthcare benefits for our active and retired employees may have a material impact on us." in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2020.

Federal Broadband Support Programs

Since 2015, Lumen has been receiving over \$500 million annually through CAF II, a program that will end this year. Our current share of this CAF II funding is approximately \$145 million annually. In connection with CAF II funding, we must meet certain specified infrastructure buildout requirements in 13 states by the end of 2021, which requires substantial capital expenditures. While we are on track to meet the requirement this year, we cannot provide any assurances that we will be able to timely meet all of our mandated buildout requirements. In accordance with the Federal Communications Commission's ("FCC") January 2020 order, we elected to receive an additional year of CAF II funding in 2021.

In early 2020, the FCC created the Rural Digital Opportunity Fund (the "RDOF"), which is a new federal support program designed to replace the CAF II program. On December 7, 2020, the FCC allocated in its RDOF Phase I auction \$9.2 billion in support payments over 10 years to deploy high speed broadband to over 5.2 million unserved locations. Lumen Technologies won bids for RDOF Phase I support payments of \$26 million annually. Support payments under the RDOF Phase I program are expected to begin January 1, 2022, if we receive regulatory approvals as anticipated. Assuming Lumen timely completes their pending divestiture of their incumbent local exchange ("ILEC") properties, we expect a portion of these payments will accrue to the purchaser of those properties. See "Note 2—Planned Divestiture of the Latin American and ILEC Businesses" in Item 1 of Part I of Lumen's Quarterly Report on Form 10-Q for the period ended September 30, 2021.

For additional information on these programs, see (i) "Business—Regulations—Universal Service" in Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020 and (ii) "Risk Factors—Legal and Regulatory Risks" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

As part of its proposed infrastructure plan, the Biden Administration has proposed investing substantial sums to expand internet access in the United States. The Administration seeks several other changes that could impact us, including proposals designed to increase competition among broadband providers, lower broadband costs and re-adopt "net neutrality" rules similar to those adopted under the Obama Administration. Proposed legislation or regulations, if enacted, could impact us or the scope of our services. Currently we believe it is premature to speculate on the potential impact of these proposals on us.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		\$ Change
	2021	2020	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 2,299	2,251	48
Net cash (used in) provided by investing activities	\$ (894)	959	(1,853)
Net cash used in financing activities	\$ (1,397)	(3,206)	(1,809)

Operating Activities

Net cash provided by operating activities increased by \$48 million for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 primarily due to an increase in the contribution from changes in working capital and an increase in net income adjusted for non-cash items. Cash provided by operating activities is subject to variability period over period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable and bonuses.

Investing Activities

Net cash used in investing activities changed by \$1.9 billion for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 primarily due to funds received from affiliates during 2020 that were used to repay our senior notes, which in turn reduced our advances to affiliates balance during 2020. Additionally, an increase to our advances to affiliates balance in the third quarter 2021 resulted in a further increase to net cash used in investing activities. This activity was slightly offset by decreased capital expenditures.

Financing Activities

Net cash used in financing activities decreased by \$1.8 billion for the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 primarily due to lower repayments of long-term debt and lower dividends paid to QSC, partially offset by an increase in net repayments of advances from affiliates.

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

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 7—Commitments, Contingencies and Other Items for additional information.

Lumen Technologies is involved in several legal proceedings to which we are not a party that, if resolved against it, could have a material adverse effect on its business and financial condition. As a wholly owned subsidiary of Lumen Technologies, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in Lumen'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.

Market Risk

As of September 30, 2021, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations, amended and restated revolving promissory note and fluctuations in certain foreign currencies. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) 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 September 30, 2021, we had no such instruments outstanding nor held or issued derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the nine months ended September 30, 2021, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2020. Additionally, our credit agreements contain language about a possible change from LIBOR to an alternative index.

Certain shortcomings are inherent in the method of analysis in evaluating our market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. Our analyses only incorporate the risk exposures that existed at September 30, 2021.

Other Information

Lumen's and our website is www.lumen.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.lumen.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 annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K filed by us or our ultimate controlling stockholder Lumens Technologies, Inc., and all amendments to those reports, in the "Investor Relations" section of our website (ir.lumen.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after they are electronically filed with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H(2).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or furnish under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure this information is accumulated and communicated to our senior management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Jeff K. Storey, and our Executive Vice President and Chief Financial Officer, Indraneel Dev, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of September 30, 2021, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the third quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 7—Commitments, Contingencies and Other Items included in Item 1 of Part I of this report is incorporated herein by reference. The ultimate outcome of the matters described in Note 7 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Legal and Regulatory Risks—Our pending legal proceedings could have a material adverse impact on us” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2020.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. We urge you to carefully consider (i) the other information set forth in this report and (ii) the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020, as supplemented by the following additional risk factor.

COVID-19 vaccination requirements could potentially result in personnel shortages or disruptions.

Effective December 8, 2021, we plan to comply with President Biden’s September 2021 Executive Order requiring covered employees of federal contractors to be vaccinated against COVID-19. This mandate will require all of our domestic employees to be vaccinated against COVID-19 or face termination, unless a religious or medical exemption applies. This requirement could make it more difficult to retain or attract employees who oppose vaccination mandates and are ineligible for an exemption. In addition, certain of our contractors and vendors may also be subject to this Executive Order. It is possible that any resulting personnel shortages could have a material adverse impact on our operating results or financial condition.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
31.1*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended September 30, 2021, formatted in Inline XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101.

* 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 November 4, 2021.

QWEST CORPORATION

By: /s/ Andrea Genschaw
Andrea Genschaw
Senior Vice President - Controller
(Principal Accounting Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Jeff K. Storey, Chief Executive 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: November 4, 2021

/s/ Jeff K. Storey
Jeff K. Storey
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this 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: November 4, 2021

 /s/ Indraneel Dev
 Indraneel Dev
 Executive Vice President and Chief Financial Officer

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

I, Jeff K. Storey, Chief Executive Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: November 4, 2021

/s/ Jeff K. Storey
Jeff K. Storey
Chief Executive Officer

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

I, Indraneel Dev, Chief Financial Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: November 4, 2021

/s/ Indraneel Dev
Indraneel Dev
Executive Vice President and Chief
Financial Officer