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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2017
or

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

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana

(Address of principal executive offices)

84-0273800

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

71203

(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☐
(Do not check if a 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 August 7, 2017, there was one share of common stock outstanding.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(Dollars in millions)				
OPERATING REVENUES				
Operating revenues	\$ 1,464	1,573	2,950	3,172
Operating revenues - affiliates	669	650	1,345	1,304
Total operating revenues	2,133	2,223	4,295	4,476
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	723	731	1,443	1,439
Selling, general and administrative	235	235	479	485
Operating expenses - affiliates	209	231	436	482
Depreciation and amortization	393	424	784	843
Total operating expenses	1,560	1,621	3,142	3,249
OPERATING INCOME	573	602	1,153	1,227
OTHER (EXPENSE) INCOME				
Interest expense	(117)	(120)	(231)	(241)
Interest expense - affiliates, net	(16)	(15)	(31)	(29)
Other (expense) income, net	(2)	—	(1)	2
Total other expense, net	(135)	(135)	(263)	(268)
INCOME BEFORE INCOME TAX EXPENSE	438	467	890	959
Income tax expense	170	179	344	367
NET INCOME	\$ 268	288	546	592

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
NET INCOME	\$ 268	288	546	592
OTHER COMPREHENSIVE INCOME:				
Foreign currency translation adjustment, net of \$—, \$—, \$— and \$— tax	—	3	—	—
Other comprehensive income	—	3	—	—
COMPREHENSIVE INCOME	\$ 268	291	546	592

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS
(UnAUDITED)

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6	5
Accounts receivable, less allowance of \$50 and \$53	620	700
Advances to affiliates	844	872
Other	127	129
Total current assets	1,597	1,706
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	13,823	13,247
Accumulated depreciation	(6,017)	(5,602)
Net property, plant and equipment	7,806	7,645
GOODWILL AND OTHER ASSETS		
Goodwill	9,360	9,354
Customer relationships, less accumulated amortization of \$4,085 and \$3,822	1,614	1,877
Other intangible assets, less accumulated amortization of \$1,569 and \$1,510	431	471
Other, net	85	96
Total goodwill and other assets	11,490	11,798
TOTAL ASSETS	\$ 20,893	21,149
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 17	514
Accounts payable	358	398
Note payable - affiliate	944	914
Accrued expenses and other liabilities		
Salaries and benefits	201	273
Income and other taxes	150	175
Other	138	122
Current affiliate obligations, net	84	87
Advance billings and customer deposits	279	313
Total current liabilities	2,171	2,796
LONG-TERM DEBT	7,266	6,747
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenues	125	131
Deferred income taxes, net	1,711	1,773
Affiliate obligations, net	903	944
Other	91	66
Total deferred credits and other liabilities	2,830	2,914
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Accumulated deficit	(1,424)	(1,358)
Total stockholder's equity	8,626	8,692
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 20,893	21,149

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 546	592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	784	843
Deferred income taxes	(63)	(35)
Provision for uncollectible accounts	37	40
Accrued interest on affiliate note	30	29
Changes in current assets and liabilities:		
Accounts receivable	43	(40)
Accounts payable	(20)	(20)
Accrued income and other taxes	(25)	(24)
Other current assets and liabilities, net	(82)	(40)
Changes in other noncurrent assets and liabilities, net	15	(11)
Changes in affiliate obligations, net	(44)	(51)
Other, net	(3)	1
Net cash provided by operating activities	1,218	1,284
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(694)	(546)
Changes in advances to affiliates	28	(23)
Proceeds from sale of property	43	—
Other	(5)	—
Net cash used in investing activities	(628)	(569)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	638	227
Payments of long-term debt	(627)	(241)
Dividends paid to Qwest Services Corporation	(600)	(700)
Net cash used in financing activities	(589)	(714)
Net increase in cash and cash equivalents	1	1
Cash and cash equivalents at beginning of period	5	3
Cash and cash equivalents at end of period	\$ 6	4
Supplemental cash flow information:		
Income taxes paid, net	\$ (407)	(401)
Interest paid (net of capitalized interest of \$16 and \$8)	\$ (229)	(249)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$ 10,050	10,050
Balance at end of period	10,050	10,050
ACCUMULATED DEFICIT		
Balance at beginning of period	(1,358)	(1,143)
Net income	546	592
Dividends declared to Qwest Services Corporation	(600)	(700)
Dividend of equity interest in limited liability company to Qwest Services Corporation	(12)	—
Balance at end of period	(1,424)	(1,251)
TOTAL STOCKHOLDER'S EQUITY	\$ 8,626	8,799

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 "CenturyLink" refer to our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries.

(1) Background

General

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

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

Basis of Presentation

Our consolidated balance sheet as of December 31, 2016 , which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations for the first six months of the year are not necessarily indicative of the consolidated results of operations that might be expected for the entire year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2016 .

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.

Recent Accounting Pronouncements

Goodwill Impairment

On January 26, 2017, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the impairment testing for goodwill by changing the measurement for goodwill impairment. Under current rules, we are required to compute the implied fair value of goodwill to measure the impairment amount if the carrying value of a reporting unit exceeds its fair value. Under ASU 2017-04, the goodwill impairment charge will equal the excess of the reporting unit carrying value above fair value, limited to the amount of goodwill assigned to the reporting unit.

We are required to adopt the provisions of ASU 2017-04 for any goodwill impairment tests, including our required annual test, occurring after January 1, 2020, but have the option to early adopt for any impairment test that we are required to perform. We have not determined if we will elect to early adopt the provisions of ASU 2017-04. The provisions of ASU 2017-04 would not have affected our last goodwill impairment assessment, but no assurance can be provided that the simplified testing methodology will not affect our goodwill impairment assessment in the future.

Income Taxes

On October 24, 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. After adoption of this ASU, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. We are currently reviewing the requirements of this ASU and evaluating the impact on our consolidated financial statements.

We expect to adopt the provisions of ASU 2016-16 on the required adoption date of January 1, 2018. The impact of adopting ASU 2016-16, if any, will be recognized through a cumulative adjustment to (accumulated deficit) retained earnings as of the date of adoption.

Financial Instruments

On June 16, 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The primary impact of ASU 2016-13 for us is a change in the model for the recognition of credit losses related to our financial instruments from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires our management team to estimate the total credit losses expected on the portfolio of financial instruments. We are currently reviewing the requirements of the standard and evaluating the impact on our consolidated financial statements.

We are required to adopt the provisions of ASU 2016-13 effective January 1, 2020, but could elect to early adopt the provisions as of January 1, 2019. We expect to recognize the impacts of adopting ASU 2016-13 through a cumulative adjustment to (accumulated deficit) retained earnings as of the date of adoption. As of the date of this report, we have not yet determined the date we will adopt ASU 2016-13.

Leases

On February 25, 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The core principle of ASU 2016-02 will require lessees to present right-of-use assets and lease liabilities on their balance sheets for operating leases, which are currently not reflected on their balance sheets.

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that we may elect to apply. We will implement this new standard on its effective date, but we have not yet decided which practical expedient options we will elect.

We are currently evaluating new lease administrative and accounting systems and are in the process of developing an implementation plan. We are also currently evaluating and assessing the impact ASU 2016-02 will have on us and our consolidated financial statements. As of the date of this report, we believe it is premature to provide any estimate of the impact of adopting ASU 2016-02.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 replaces virtually all existing GAAP on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. We currently do not defer any contract acquisition costs, but we expect we will defer certain contract acquisition costs in the future, which could have the impact of lowering our operating expenses. We currently defer contract fulfillment costs only to the extent of any deferred revenue. Under ASU 2014-09, in certain transactions our deferred contract fulfillment costs could exceed our deferred revenues, which could result in an increase in deferred costs and could also impact the timing on our recognition of these deferred costs.

On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year until January 1, 2018, which is the date we plan to adopt this standard. ASU 2014-09 may be adopted by applying the provisions of this standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis, which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2018. We have completed our initial assessment of our business and systems requirements, and we are currently developing and implementing a new revenue recognition system to comply with the requirements of ASU 2014-09. Based on this initial assessment, we currently plan to adopt the new revenue recognition standard under the modified retrospective transition method. As of the date of this report, we are not able to provide reasonably accurate estimates of the impact of implementing ASU 2014-09 on the timing of our revenue recognition or the transition adjustment that will be recorded to equity on January 1, 2018.

(2) Long-Term Debt and Revolving Promissory Note

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

	Interest Rates	Maturities	As of June 30, 2017	As of December 31, 2016
(Dollars in millions)				
Senior notes	6.125% - 7.750%	2021 - 2057	\$ 7,294	7,259
Term loan	2.980%	2025	100	100
Capital lease and other obligations	Various	Various	40	32
Unamortized premiums, net			—	4
Unamortized debt issuance costs			(151)	(134)
Total long-term debt			7,283	7,261
Less current maturities			(17)	(514)
Long-term debt, excluding current maturities			\$ 7,266	6,747
Note payable - affiliate	6.710%	2022	\$ 944	914

New Issuance

On April 27, 2017, Qwest Corporation issued \$575 million aggregate principal amount of 6.75% Notes due 2057, and on May 5, 2017, issued an additional \$85 million aggregate principal amount of such notes pursuant to an over-allotment option in exchange for aggregate net proceeds, after deducting underwriting discounts and other expenses, of \$638 million. All of the 6.75% Notes are senior unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after June 15, 2022, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

Repayments

On May 9, 2017, Qwest Corporation redeemed \$125 million aggregate principal amount of the remaining \$288 million of its 7.5% Notes due 2051, which resulted in an immaterial loss.

On May 4, 2017, Qwest Corporation redeemed all \$500 million of its 6.5% Notes due 2017, which resulted in an immaterial loss.

Revolving Promissory Note

We are currently indebted to an affiliate of our ultimate parent company, CenturyLink, Inc., under a revolving promissory note that provides us with a funding commitment of up to \$1.0 billion aggregate principal amount through June 30, 2022, of which \$944 million was outstanding as of June 30, 2017. As of June 30, 2017, the weighted-average interest rate was 6.710%. As of June 30, 2017 and December 31, 2016, this revolving promissory note is reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of June 30, 2017, \$5 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet. In accordance with the terms of the note, all accrued interest and unpaid interest is capitalized to the unpaid principal balance on June 1 and December 1 of each year.

Covenants

Our senior notes were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures do not contain any financial covenants, but do include restrictions that limit our ability to (i) incur, issue or create liens upon our property and (ii) consolidate with or merge into, transfer or lease all or substantially all of our assets to any other party. These indentures do not contain any cross-default provisions.

As of June 30, 2017, we believe we were in compliance with the provisions and covenants of our debt agreements.

(3) Fair Value Disclosure

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB. We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

		As of June 30, 2017		As of December 31, 2016	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt, excluding capital lease and other obligations	2	\$ 7,243	7,602	7,229	7,203

(4) Severance

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the progression or completion of our post-acquisition integration plans related to CenturyLink's indirect acquisition of us, increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

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

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

	Severance
	(Dollars in millions)
Balance at December 31, 2016	\$ 52
Accrued to expense	3
Payments, net	(50)
Balance at June 30, 2017	\$ 5

(5) Products and Services Revenues

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

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

- *Strategic services* , which include primarily broadband, Ethernet, video and other ancillary services;
- *Legacy services* , which include primarily local voice, private line (including special access), Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and other ancillary services; and
- *Affiliates and other services* , which consist primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments, USF surcharges and services we provide to our affiliates. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services, network support and technical services.

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

Our operating revenues for our products and services consisted of the following categories:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Strategic services	\$ 668	676	1,332	1,348
Legacy services	718	812	1,461	1,655
Affiliates and other services	747	735	1,502	1,473
Total operating revenues	\$ 2,133	2,223	4,295	4,476

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

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated \$34 million and \$38 million for the three months ended June 30, 2017 and 2016 , respectively, and \$67 million and \$76 million for the six months ended June 30, 2017 and 2016 , respectively. These USF surcharges, where we record revenue, are included in "affiliates and other services" revenues and these transaction taxes are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

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

(6) Commitments and Contingencies

Pending Matters

Subsidiaries of CenturyLink, Inc., including us, are among hundreds of companies involved in an industry-wide dispute, raised in nearly 100 federal lawsuits (filed between 2014 and 2016) that have been consolidated in the United States District Court for the District of Northern Texas for pretrial procedures. The disputes relate to switched access charges that local exchange carriers ("LECs") collect from interexchange carriers ("IXCs") for IXCs' use of LEC's access services. In the lawsuits, three IXCs, Sprint Communications Company L.P. ("Sprint"), affiliates of Verizon Communications Inc. ("Verizon") and affiliates of Level 3 Communications LLC ("Level 3"), assert that federal and state laws bar LECs from collecting access charges when IXCs exchange certain types of calls between mobile and wireline devices that are routed through an IXC. Some of these IXCs have asserted claims seeking refunds of payments for access charges previously paid and relief from future access charges. In addition, Level 3 has ceased paying switched access charges on these calls.

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges, and also allowed the IXCs to refile state-law claims. The Verizon entities did not file any new state claims, while Sprint filed state claims substantially similar to those previously dismissed. Based on the November 2015 ruling, we filed suit against Level 3 seeking payment of charges which Level 3 has disputed and withheld. Separately, some of the defendants, including us, have petitioned the FCC to address these issues on an industry-wide basis.

The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, are currently not predictable. If we are required to stop assessing these charges or to pay refunds of any such charges, our financial results could be negatively affected.

In June 2017, a former employee of CenturyLink filed an employment lawsuit against CenturyLink claiming that she was wrongfully terminated for alleging that CenturyLink charged some of its retail customers for products and services they did not authorize. Shortly thereafter, and based in part on the allegations made by the former employee, a series of consumer and shareholder putative class actions were filed against CenturyLink and it received a shareholder derivative demand. The Minnesota Attorney General also filed a civil suit on behalf of Minnesota consumers alleging that we and certain of our affiliates engaged in improper sales and billing practices. The filing of additional related lawsuits is possible. Although CenturyLink and/or various of its subsidiaries are named in these lawsuits, Qwest Corporation is a named defendant in only the Minnesota Attorney General civil suit. In late June 2017, CenturyLink's Board of Directors formed a special committee of outside directors to investigate the alleged improper sales and billing practices and related matters. The special committee is in the early stages of its investigation.

Other Proceedings and Disputes

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings or proceedings 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 in the coming 24 months if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers. As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

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

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows.

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

(7) Dividends

From time to time we may declare and pay dividends to our direct parent company, Qwest Services Corporation ("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 six months ended June 30, 2017, we declared and paid dividends of \$600 million to QSC. Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

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

(8) Other Financial Information

Other Current Assets

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

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Prepaid expenses	\$ 54	48
Assets held for sale	4	8
Other	69	73
Total other current assets	\$ 127	129

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable:

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Accounts payable	\$ 358	398

Included in accounts payable at June 30, 2017 and December 31, 2016, were \$32 million and \$53 million, respectively, associated with capital expenditures.

(9) Labor Union Contracts

Approximately 10,000, or 45%, of our employees are members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"). We recently reached new agreements with the CWA District 7 and IBEW Local 206 for the portion of these employees that were subject to collective bargaining agreements expiring on October 7, 2017. The new agreements were effective June 18, 2017 and will expire on March 28, 2020 and include terms substantially similar to those contained in the prior agreements.

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

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

All references to "Notes" in this Item 2 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 the last paragraph of this Item 2 of Part I and "Risk Factors" in Item 1A of Part II of this report for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2016, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations for the first six months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of communications services to our residential and business customers. Our communications services include local voice, broadband, private line (including special access), network access, Ethernet, information technology, video and other ancillary services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

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

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

For the reasons noted in Note 5—Products and Services Revenues to our consolidated financial statements in Item 1 of Part I of this report, we believe we have one reportable segment.

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

- *Strategic services*, which include primarily broadband, Ethernet, video and other ancillary services;
- *Legacy services*, which include primarily local voice, private line (including special access), Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and other ancillary services; and
- *Affiliates and other services*, which consist primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments, USF surcharges and services we provide to our affiliates. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the Federal Communications Commission's ("FCC") universal service programs. We provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services, network support and technical services.

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

At June 30, 2017, we operated 6.4 million access lines and served 3.4 million broadband subscribers. Our methodology for counting access lines and broadband subscribers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

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

Business Trends

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

- *Strategic services.* We continue to see shifts in the makeup of our total revenues as customers move to lower margin strategic services, such as broadband and video services, from higher margin legacy services. Revenues from our strategic services represented 31% and 30% of our total revenues for both the three and six months ended June 30, 2017 and 2016, respectively. We continue to experience price compression due to competition, which has negatively impacted the growth of our strategic revenues. We continue to focus on increasing subscribers of our broadband services, particularly among consumer and small business customers. We believe that continually increasing the scope and connection speeds of our broadband services is important to remaining competitive in our industry. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most customers already have broadband services and growth opportunities are limited. Moreover, as described further in "Risk Factors" in Item 1A of Part II of this report, demand for our broadband services could be adversely affected by competitors continuing to provide services at higher average broadband speeds than ours or expanding their advanced wireless data service offerings. We face competition in Ethernet-based services in the wholesale market from cable companies and competitive fiber-based telecommunications providers.
- *Legacy services.* Revenues from our legacy services represented 34% and 37% of our total revenues for both the three and six months ended June 30, 2017 and 2016, respectively. We expect these percentages to continue to decline. Our legacy services revenues have been, and we expect they will continue to be adversely affected by access line losses and price compression. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are replacing traditional voice telecommunications service with substitute services, including (i) cable and wireless voice services and (ii) electronic mail, texting and social networking services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of revenue associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below. Demand for our private line services (including special access) continues to decline due to customers' optimization of their networks, industry consolidation and technological migration to higher-speed services.
- *Affiliates and other services.* Revenues from our affiliates and other services represented 35% and 33% of our total revenues for both the three and six months ended June 30, 2017 and 2016, respectively. We expect these percentages to continue to grow. Our affiliates continue to purchase additional services from us versus purchasing from third-party suppliers, which include telecommunications services that we also provide to external customers, computer system development, including support services, network support and technical services.
- *Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband and video. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins due to the related discounts.
- *Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions.
- *Disciplined capital expenditures.* Our capital expenditures continue to be focused primarily on our strategic broadband services.

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

Results of Operations

The following table summarizes the results of our consolidated operations for the three and six months ended June 30, 2017 and 2016 :

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(Dollars in millions)				
Operating revenues	\$ 2,133	2,223	4,295	4,476
Operating expenses	1,560	1,621	3,142	3,249
Operating income	573	602	1,153	1,227
Total other expense, net	(135)	(135)	(263)	(268)
Income tax expense	170	179	344	367
Net income	\$ 268	288	546	592

The following table summarizes our access lines, broadband subscribers and number of employees:

	As of June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(in thousands)			
Operational metrics:				
Total access lines ⁽¹⁾	6,408	6,808	(400)	(6)%
Total broadband subscribers ⁽¹⁾	3,442	3,516	(74)	(2)%
Total employees	22.3	22.9	(0.6)	(3)%

⁽¹⁾ Access lines are lines reaching from the customers' premises to a connection with the public network and broadband subscribers are customers that purchase broadband connection service through their existing copper telephone lines or fiber-optic cables. Our methodology for counting our access lines and broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. We count lines when we install the service.

Operating Revenues

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

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Strategic services	\$ 668	676	(8)	(1)%
Legacy services	718	812	(94)	(12)%
Affiliates and other services	747	735	12	2 %
Total operating revenues	\$ 2,133	2,223	(90)	(4)%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Strategic services	\$ 1,332	1,348	(16)	(1)%
Legacy services	1,461	1,655	(194)	(12)%
Affiliates and other services	1,502	1,473	29	2 %
Total operating revenues	\$ 4,295	4,476	(181)	(4)%

Strategic Services

Strategic services revenues decreased by \$ 8 million , or 1% , and by \$ 16 million , or 1% , for the three and six months ended June 30, 2017 , respectively, as compared to the three and six months ended June 30, 2016 . The decrease in our strategic services revenues for both periods was primarily due to declines in our satellite video services revenues due to the restructuring of one of our contractual agreements and losses of broadband subscribers, which were partially offset by an increase in Ethernet services as a result of a reduction in credits issued in 2017 and price increases for broadband services.

Legacy Services

Legacy services revenues decreased by \$94 million , or 12% , and by \$ 194 million , or 12% , for the three and six months ended June 30, 2017 , respectively, as compared to the three and six months ended June 30, 2016 . The decrease in our legacy services revenues for both periods was primarily due to lower local voice services revenues due to access line loss and reduced access services usage related to customer migration, competitive pressures and product substitution and to reductions in the volumes of our private line (including special access) services.

Affiliates and Other Services

Affiliates and other services revenues increased by \$12 million , or 2% , and by \$ 29 million , or 2% , for the three and six months ended June 30, 2017 , respectively, as compared to the three and six months ended June 30, 2016 . The increase in affiliates and other services revenues for both periods was primarily due to increases in volume for our support services we provide to affiliates, which were partially offset by lower federal USF surcharges as a result of decreases in rates.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 723	731	(8)	(1)%
Selling, general and administrative	235	235	—	— %
Operating expenses - affiliates	209	231	(22)	(10)%
Depreciation and amortization	393	424	(31)	(7)%
Total operating expenses	\$ 1,560	1,621	(61)	(4)%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,443	1,439	4	— %
Selling, general and administrative	479	485	(6)	(1)%
Operating expenses - affiliates	436	482	(46)	(10)%
Depreciation and amortization	784	843	(59)	(7)%
Total operating expenses	\$ 3,142	3,249	(107)	(3)%

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

Cost of services and products (exclusive of depreciation and amortization) are expenses incurred in providing products and services to our customers. These expenses include: employee-related expenses directly attributable to operating and maintaining our network (such as salaries, wages, benefits and professional fees); facilities expenses (which include third-party telecommunications expenses we incur for using other carriers' networks to provide services to our customers); rents and utilities expenses; equipment expenses (such as modem expenses); payments of universal service funds (which are federal and state funds that are established to promote the availability of telecommunications services to all consumers at reasonable and affordable rates, among other things, and to which we are often required to contribute); litigation expenses associated with our operations; and other expenses directly related to our operations.

Cost of services and products (exclusive of depreciation and amortization) decreased by \$ 8 million , or 1% , for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 . The decrease in our cost of services and products is due to reductions in employee benefits and USF rates, which were partially offset by increases in allocated corporate costs from affiliates. Cost of services and products (exclusive of depreciation and amortization) increased by \$4 million , or less than 1%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 . The increase in our cost of services and products was primarily due to increases in allocated corporate costs from affiliates and network expense, which were partially offset by reductions in employee benefits, payment processing fees and USF rates.

Selling, General and Administrative

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

Selling, general and administrative expenses remained substantially unchanged, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by \$6 million , or 1% , for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 . This decrease in our selling, general and administrative expenses was primarily due to a reduction in external commissions, which was substantially offset by increases in salaries and wages driven by an increase in internal commissions and marketing and advertising expense.

Operating Expenses - Affiliates

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

Operating expenses - affiliates decreased by \$ 22 million , or 10% , for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and by \$46 million , or 10% , for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 . The decrease in operating expenses - affiliates for both periods was primarily due to the decline in level of services provided to us by our affiliates.

Depreciation and Amortization

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

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Depreciation	\$ 224	230	(6)	(3)%
Amortization	169	194	(25)	(13)%
Total depreciation and amortization	\$ 393	424	(31)	(7)%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Depreciation	\$ 444	452	(8)	(2)%
Amortization	340	391	(51)	(13)%
Total depreciation and amortization	\$ 784	843	(59)	(7)%

Depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets and the addition of new plant. Depreciation expense decreased by \$ 6 million , or 3% , and by \$ 8 million , or 2% , for the three and six months ended June 30, 2017 , respectively, as compared to the three and six months ended June 30, 2016 . The depreciation expense related to our plant for the three and six months ended June 30, 2017 was lower than the depreciation expense for the three and six months ended June 30, 2016 due to full depreciation and retirement of certain plant placed in service prior to 2017. This decrease was partially offset by an increase in depreciation expense attributable to new plant placed in service since June 30, 2016.

Amortization expense decreased by \$ 25 million , or 13% , and by \$ 51 million , or 13% , for the three and six months ended June 30, 2017 , respectively, as compared to the three and six months ended June 30, 2016 . The decrease in amortization expense for both periods was primarily due to the use of accelerated amortization for a portion of our customer relationship assets. The effect of using an accelerated amortization method results in an incremental decline in expense each period as the intangible assets amortize. In addition, amortization of capitalized software was lower due to software becoming fully amortized faster than new software was acquired or developed.

Other Consolidated Results

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

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Interest expense	\$ (117)	(120)	(3)	(3)%
Interest expense - affiliate	(16)	(15)	1	7 %
Other (expense) income, net	(2)	—	(2)	nm
Total other expense, net	\$ (135)	(135)	—	— %
Income tax expense	\$ 170	179	(9)	(5)%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Interest expense	\$ (231)	(241)	(10)	(4)%
Interest expense - affiliate	(31)	(29)	2	7 %
Other (expense) income, net	(1)	2	(3)	nm
Total other expense, net	\$ (263)	(268)	(5)	(2)%
Income tax expense	\$ 344	367	(23)	(6)%

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 \$ 3 million , or 3% , for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and by \$10 million , or 4% , for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 . The decline in interest expense for both periods was primarily due to an increase in the amount of interest capitalized as a component of property, plant and equipment and a reduction in the amount of coupon interest on senior notes. These factors impacting the decline in interest expense were partially offset by a reduction in the amount of net premium amortization due to the early retirement of several issuances of debt during 2016, which had the effect of increasing interest expense. See Note 2—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 1 of Part I of this report and Liquidity and Capital Resources below for additional information about our debt.

Interest Expense - Affiliates, Net

Affiliate interest expense increased by \$1 million , or 7% , for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and by \$2 million , or 7% , for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 .

Income Tax Expense

Income tax expense for the three months ended June 30, 2017 was \$170 million , or an effective tax rate of 38.8% , compared to \$179 million , or an effective tax rate of 38.3% , for the three months ended June 30, 2016 . Income tax expense for the six months ended June 30, 2017 was \$344 million , or an effective tax rate of 38.7% , compared to \$367 million , or an effective tax rate of 38.3% , for the six months ended June 30, 2016 . The 2017 rate and the 2016 rate include the effect of changes in state apportionment factors.

Liquidity and Capital Resources

Overview

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

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

As of June 30, 2017 , we had a working capital deficit of \$574 million , reflecting current liabilities of \$2.171 billion and current assets of \$1.597 billion , compared to a working capital deficit of \$1.090 billion as of December 31, 2016 . We have historically operated with a working capital deficit due to our practice of declaring and paying regular cash dividends to QSC. As long as we continue declaring and paying cash dividends to QSC, it is likely that we will continue to operate with a working capital deficit in the future. We anticipate that our future liquidity needs will be met through (i) our cash provided by our operating activities, (ii) amounts due to us from CenturyLink, (iii) our ability to refinance QC's debt securities at maturity and (iv) capital contributions, advances or loans from CenturyLink or its affiliates if and to the extent they have available funds or access to available funds that they are willing and able to contribute, advance or loan.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink evaluates capital expenditure projects on a company-wide basis based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase 2 infrastructure buildout requirements). Based on the type and volume of services we provide, approximately 42% to 43% of CenturyLink's annual consolidated capital expenditures have been attributed over the last couple of years to us for use in our operations. These percentages are subject to change, and future percentages may vary significantly from past percentages. For more information on CenturyLink's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

Our capital expenditures continue to be focused on our strategic services. For more information on our capital spending, see "Historical Information—Investing Activities" and Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016 .

Debt and Other Financing Arrangements

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 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. We have no debt maturities due during the remainder of 2017 .

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.	Ba1
Fitch Ratings	BBB-

CenturyLink, Inc.'s and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades could impact CenturyLink, Inc.'s and Qwest Corporation's access to debt capital or further raise CenturyLink, Inc.'s and Qwest Corporation's borrowing costs. Additional downgrades of CenturyLink, Inc.'s senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of CenturyLink, Inc.'s borrowing under its current revolving credit facility, which could indirectly impact us.

Following the announcement of CenturyLink, Inc.'s pending acquisition of Level 3 Communications, Inc. ("Level 3"), Standard & Poor's indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB has been placed on watch with negative implications, Moody's Investors Service, Inc. indicated that CenturyLink, Inc.'s current senior unsecured debt rating of Ba3 has been placed on review for downgrade and Fitch Ratings indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB+ has been placed on negative watch. Additionally, Qwest Corporation's current unsecured senior debt rating of Ba1 has been placed on review for downgrade by Moody's Investors Service, Inc., and its current unsecured senior debt rating of BBB- has been placed on negative watch by Fitch Ratings. A downgrade of Qwest Corporation's rating by Fitch Ratings (or Standard & Poor's) would result in Qwest Corporation no longer being viewed as an "investment grade" issuer under the prevailing definition of that term. It is expected that any downgrades would be made only following the completion of the Level 3 acquisition.

For additional information regarding CenturyLink, Inc.'s and Qwest Corporation's funding arrangements, see "Risk Factors—Risks Relating to CenturyLink's Pending Acquisition of Level 3" and "Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

Term Loan

In 2015, we entered into a term loan in the amount of \$100 million with CoBank, ACB. The outstanding unpaid principal amount of this term loan plus any accrued and unpaid interest is due on February 20, 2025. Interest is paid monthly based upon either the London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. At both June 30, 2017 and December 31, 2016 , the outstanding principal balance on this term loan was \$100 million .

Revolving Promissory Note

Qwest Corporation is currently indebted to an affiliate of CenturyLink under a revolving promissory note that provides Qwest Corporation with a funding commitment of up to \$1.0 billion aggregate principal amount through June 30, 2022, of which \$944 million was outstanding as of June 30, 2017 . The revolving promissory note is due on demand and ranks equally to Qwest Corporation's outstanding Senior Notes. Interest is accrued on the outstanding balance using a weighted average per annum interest rate of CenturyLink's outstanding borrowings for the interest period. As of June 30, 2017 , the weighted average interest rate was 6.710% . As of June 30, 2017 and December 31, 2016 , this revolving promissory note is reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of June 30, 2017 , \$5 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

Dividends

We periodically pay dividends to our direct parent company. See Note 7—Dividends and the discussion above under the heading "Overview".

Pension and Post-retirement Benefit Obligations

CenturyLink is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2016, the accounting unfunded status of CenturyLink's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$2.409 billion and \$3.360 billion, respectively. For additional information about CenturyLink's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pensions and Post-Retirement Benefits" in Item 7 of CenturyLink's annual report on Form 10-K for the year ended December 31, 2016 and see Note 9—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 CenturyLink'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 was renamed the CenturyLink Combined Pension Plan. Our contributions are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of our affiliates. Prior to the pension plan merger, the above-noted employees participated in the QCII pension plan.

Benefits paid by CenturyLink's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, CenturyLink does not expect any contributions to be required for their qualified pension plan during the remainder of 2017. The amount of required contributions to CenturyLink's qualified pension plan in 2018 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. CenturyLink occasionally makes voluntary contributions in addition to required contributions. CenturyLink currently expects to make a voluntary contribution of \$100 million to the trust for its qualified pension plan in the third quarter of 2017.

Substantially all of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2016, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$53 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited CenturyLink's ability to continue paying benefits from the trusts; however, CenturyLink will continue to pay certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by CenturyLink with available cash.

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of 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 six months ended June 30, 2017, we made settlement payments of \$44 million to QCII in accordance with the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows. For 2017, we expect to make aggregate settlement payments of \$87 million to QCII under the plan.

For 2017, CenturyLink's estimated annual long-term rates of return are 6.5% and 5.0% for the pension plan trust assets and post-retirement plans trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

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

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2016.

Connect America Fund

As a result of accepting CAF Phase 2 support payments, we will be obligated to make substantial capital expenditures to build broadband infrastructure in 13 states over the next several years. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016 and see "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

In 2013, under the CAF Phase 1 Round 2 program, CenturyLink received \$40 million in funding, of which \$15 million was attributed to our service areas, for deployment of broadband services in rural areas. In compliance with program terms, during the second half of 2016, we returned \$8 million for failing to timely meet interim buildout milestones, but thereafter continued our deployment efforts, which resulted in us ultimately fulfilling the total broadband enablement target. In the second quarter of 2017, we filed a claim with the FCC, in which we sought to recover the funding returned to the FCC in the second half of 2016 as noted above. If the claim is accepted by the FCC, we expect to recover \$8 million in funding in the second half of 2017. As of June 30, 2017, we included \$6 million of funding in deferred credits and other liabilities - other on our consolidated balance sheet.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Six Months Ended June 30,		Increase / (Decrease)
	2017	2016	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 1,218	1,284	(66)
Net cash used in investing activities	(628)	(569)	59
Net cash used in financing activities	(589)	(714)	(125)

Operating Activities

Net cash provided by operating activities decreased by \$66 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to negative variances in other current assets and liabilities, net and net income adjusted for non-cash items, which were partially offset with positive variances in accounts receivable and changes in other noncurrent assets and liabilities, net. For additional information about our operating results, see "Results of Operations" above.

Investing Activities

Net cash used in investing activities increased by \$59 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to an increase in payments for property, plant and equipment and capitalized software, which was partially offset by positive variances in changes in advances to affiliates and an increase in the proceeds received from the sale of property. The increase in the payments for property, plant and equipment are directly related to our CAF Phase 2 broadband infrastructure buildout initiatives.

Financing Activities

Net cash used in financing activities decreased by \$125 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to an increase in the net proceeds received from the issuance of long-term debt and a reduction in the dividends paid to QSC, which were partially offset by an increase in the repayments of long-term debt.

On May 9, 2017, Qwest Corporation redeemed \$125 million aggregate principal amount of the remaining \$288 million of its 7.5% Notes due 2051, which resulted in an immaterial loss.

On May 4, 2017, Qwest Corporation redeemed all \$500 million of its 6.5% Notes due 2017, which resulted in an immaterial loss.

On April 27, 2017, Qwest Corporation issued \$ 575 million aggregate principal amount of 6.75% Notes due 2057, and on May 5, 2017, issued an additional \$85 million aggregate principal amount of such notes pursuant to an over-allotment option in exchange for aggregate net proceeds, after deducting underwriting discounts and other expenses, of \$638 million. All of the 6.75% Notes are senior unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after June 15, 2022, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

See Note 2—Long-Term Debt and Revolving Promissory Note, for additional information on our outstanding debt securities and financing activities.

Other Matters

In February 2015, the FCC adopted new regulations that regulate broadband services as a public utility service under Title II of the Communications Act. In light of pending litigation and substantial changes in the composition of the FCC, we believe it is premature for us to determine the ultimate impact of the new regulations on our operations. For additional information, see “Risk Factors—Risks Relating to Legal and Regulatory Matters” in Item 1A of Part II of this report.

CenturyLink and its affiliates are involved in several legal proceedings to which we are not a party that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly-owned subsidiary of CenturyLink, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters as of June 30, 2017 .

Market Risk

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

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2017, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the six months ended June 30, 2017, when compared to the disclosures provided in our annual report on Form 10-K for the year ended December 31, 2016.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed as of June 30, 2017.

Off-Balance Sheet Arrangements

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support, and we do not engage in leasing, hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 15—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2016, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

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

In addition to historical information, this quarterly report includes certain forward-looking statements that are based upon our judgment and assumptions as of the date of this report concerning future developments and events, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, are not guarantees of future results, are inherently speculative and are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the effects of competition from a wide variety of competitive providers, including decreased demand for our legacy offerings and increased pricing pressures; the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete; the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, access charges, universal service, broadband deployment, data protection and net neutrality; our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix; possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service; our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them efficiently to our customers, and to introduce new offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, service outages, security breaches or similar events impacting our network; our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, dividends, pension contributions and debt repayments; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise; our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; CenturyLink's ability to successfully complete its pending acquisition of Level 3 Communications, Inc. and to timely realize the anticipated benefits of the transaction; increases in the costs of CenturyLink's pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn affect our business and liquidity; 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 maintain favorable relations with our key business partners, customers, suppliers, vendors, landlords and financial institutions; our ability to effectively manage our network buildout project and our other expansion opportunities; our ability to collect our receivables from financially troubled customers; any adverse developments in legal or regulatory proceedings involving us or our affiliates (including CenturyLink); changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels; the effects of changes in accounting policies or practices, including potential future impairment charges; the effects of adverse weather or other natural or man-made disasters; the effects of more general factors such as changes in interest rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and other risks referenced in Item 1A or elsewhere in this quarterly report or other of our filings with the SEC. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. Given these uncertainties, we caution investors not to unduly rely upon our forward-looking statements. 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 this report, 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 at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2017. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective, as of June 30, 2017, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

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.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of 2017 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 6—Commitments and Contingencies included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following discussion identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with the other portions of this report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I and our consolidated financial statements and related notes in Item 1 of Part I. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

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

Each of our offerings to our residential and business customers face increasingly intense competition from a variety of sources under evolving market conditions. We expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from several other sources, including cable and satellite companies, wireless providers, technology companies, broadband providers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network. In particular, (i) intense competition from wireless and other communications providers has led to a long-term systemic decline in the number of our wireline voice customers, (ii) strong competition from cable companies and others has impacted the growth of our broadband operations and (iii) aggressive competition from a wide range of technology companies and other market entrants has limited the prospects for our hosting operations. For more detailed information, see "Business—Competition" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Some of our current and potential competitors (i) offer products or services that are substitutes for our legacy wireline voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) offer products or services with features that we cannot readily match in some or all of our markets, (iv) offer shorter installation intervals, allowing customers to begin receiving services sooner after ordering, (v) have greater marketing, engineering, research, development, technical, financial and other resources, (vi) have larger or more diverse networks with greater transmission capacity, (vii) conduct operations or raise capital at a lower cost than us, (viii) are subject to less regulation, which we believe enables such competitors to operate more flexibly than us with respect to certain offerings, (ix) offer services nationally or internationally to a larger geographic area or larger base of customers, (x) have substantially stronger brand names, which may provide them with greater pricing power than ours, or (xi) have larger operations than ours, which may enable them to compete more successfully in recruiting top talent. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructure more quickly, to adapt more swiftly to changes in technologies or customer requirements, to devote greater resources to the marketing and sale of their products and services, to provide more comprehensive customer service, to provide greater resources to research and development initiatives and to take advantage of business or other opportunities more readily. In the past, several of our competitors and their operations have grown through acquisitions and aggressive product development. The continued growth of our competitors could further enhance their competitive positions.

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

We are continually taking steps to respond to these competitive pressures, but these efforts may not be successful. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient. If this occurred, our ability to pay our debt and other obligations and to re-invest in the business would also be adversely affected.

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

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

We may not be able to accurately predict or respond to changes in technology or industry standards, or to the introduction of newly-offered services. Any of these developments could make some or all of our offerings less desirable or even obsolete, which would place downward pressure on our market share and revenues. These developments could also require us to (i) expend capital or other resources in excess of currently contemplated levels, (ii) forego the development or provision of products or services that others can provide more efficiently, or (iii) make other changes to our operating plans, corporate strategies or capital allocation plans, any of which could be contrary to the expectations of our security holders or could adversely impact our operations. Our inability to effectively respond to technological changes could adversely affect our operating results and financial condition, as well as our ability to service debt and fund other commitments or initiatives.

Even if we succeed in adapting to changes in technology or industry standards by developing new products or services, there is no assurance that the new products or services would have a positive impact on our profit margins or financial performance.

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

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

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

Primarily as a result of the competitive and technological changes discussed above, we have experienced a prolonged systemic decline in our local voice, long-distance voice, network access, private line and other legacy revenues. Consequently, we have experienced lower consolidated revenues in each of our last several years.

We have taken a variety of steps to counter these declines in our legacy services revenues, including:

- an increased focus on selling a broader range of higher-growth strategic services, which are described in detail elsewhere in this report;
- an increased focus on serving a broader range of business, governmental and wholesale customers; and
- greater use of service bundles.

However, for the reasons described elsewhere in this report, most of our strategic services generate lower profit margins than our legacy services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to our newer strategic product and service offerings. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated with our legacy services. In addition, our reliance on third parties to provide certain of these strategic services could constrain our flexibility, as described further below.

Our failure to develop new products and services could adversely impact our competitive position.

In order to compete effectively and respond to the changing communication needs of our customers, we continuously develop, test and introduce new products and services. Our ability to successfully introduce new product or service offerings on a timely and cost-effective basis could be constrained by a range of factors, including network limitations, support system limitations, limited capital, an inability to attract key personnel with the necessary skills, intellectual property constraints, testing delays, technological limits or an inability to act as quickly or efficiently as other competitors. In addition, new product or service offerings may not be widely accepted by our customers. Our business could be materially adversely affected if we are unable to timely and successfully develop and introduce new products or services.

Our failure to continuously develop effective service support systems could adversely impact our competitive position.

For many of our services, we can effectively compete only if we can quickly and efficiently (i) quote and accept customer orders, (ii) provision and initiate ordered services, (iii) provide customers with adequate means to manage their services and (iv) accurately bill for our services. Development of systems designed to support these tasks is a significant undertaking that continuously requires our personnel and third-party vendors to adjust to changes in our offerings and customers' preferences, to eliminate inconsistencies between the practices of our legacy operations and newly-acquired operations, to eliminate older support systems that are costly or obsolete, to develop uniform practices and procedures, and to automate them as much as possible. Our failure to continuously develop service support systems that are satisfactory to our current and potential customers and capable of being utilized by our workforce could adversely impact our competitive position.

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

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

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

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

We strive to maintain the security and integrity of information and systems under our control, and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, ransomware, distributed denial-of-service attacks, or other forms of cyber-attacks or similar events. These threats may derive from human error, hardware or software vulnerabilities, fraud, malice or sabotage on the part of employees, third parties or foreign nations, or could result from aging equipment or accidental technological failure. These threats may also arise from failure or breaches of systems owned, operated or controlled by other unaffiliated operators to the extent we rely on such other systems to deliver services to our customers.

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

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

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

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

Due to these factors, from time to time in the ordinary course of our business we experience disruptions in our service, and could experience more significant disruptions in the future.

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

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

We could experience difficulties in expanding and updating our technical infrastructure.

Our ability to expand and update our systems and information technology infrastructure in response to our growth and changing business needs is important to our ability to maintain and develop attractive product and service offerings. As discussed further under “Business—Network Architecture” in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016, we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which combines our legacy network and CenturyLink's networks. Unanticipated delays in the completion of these projects may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions or delays, service offering inconsistencies and the diversion of development resources.

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

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

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

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

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

If we fail to hire and retain qualified executives, managers and employees, our operating results could be harmed.

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

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

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

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

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

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

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

Reliance on other communications providers. To offer voice or data services in certain of our markets, we must either lease network capacity from, or interconnect our network with the infrastructure of, other communications carriers who typically compete against us in those markets. Our reliance on these lease or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that our ability to market our services could be adversely impacted by changes in the plans or properties of the carriers upon which we are reliant. In addition, we are exposed to the risk that the other carriers may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all. This risk is heightened when the other carrier is a competitor of ours and may benefit from terminating the agreement. If we lose these arrangements and cannot timely replace them, our ability to provide services to our customers and conduct our business could be materially adversely affected.

Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends" included in Item 2 of Part I of this report.

We also rely on reseller and sales agency arrangements with our affiliates and other communications companies to provide some of the services that we offer to our customers, including video services. As a reseller or sales agent, we do not control the availability, retail price, design, function, quality, reliability, customer service or branding of these products and services, nor do we directly control all of the marketing and promotion of these products and services. Similar to the risks described above regarding our reliance upon other carriers, we could be adversely affected if these communication companies fail to maintain competitive products or services, or fail to continue to make them available to us on attractive terms, or at all.

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

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

Reliance on other key suppliers and vendors. We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. Our local exchange carrier networks consist of central office and remote sites, all with advanced digital switches. If any of these suppliers experience interruptions or other problems delivering or servicing these network components on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers and may be adversely affected if third parties assert patent infringement claims against our suppliers or us. We also rely on a limited number of software vendors to support our business management systems and contractors to assist us in connection with our network construction and maintenance activities. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services or utilities on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

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

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

As of June 30, 2017 , approximately 45% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

We rely on rights-of-way, colocation agreements and other authorizations granted by governmental bodies, railway companies, carriers and other third parties to locate our cable, conduit and other network equipment on or under their respective properties. A significant number of these authorizations are scheduled to lapse over the next five to ten years, unless we are able to extend or renew them. Our operations could be adversely affected if any of these authorizations terminate or lapse, or if the landowner requests price increases.

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

Our business customers may seek to shift risk to us.

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

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

Unfavorable general economic conditions, including unstable economic and credit markets, could negatively affect our business. Worldwide economic growth has been sluggish since 2008, and many experts believe that a confluence of global factors may result in a prolonged period of economic stagnation, slow growth or economic uncertainty. While it is difficult to predict the ultimate impact of these general economic conditions, they could adversely affect demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forego purchases of our products and services. These conditions impact, in particular, our ability to sell discretionary products or services to business customers that are under pressure to reduce costs or to governmental customers that have suffered substantial budget cuts in recent years. Any one or more of these circumstances could continue to depress our revenues. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could negatively impact their ability to make timely payments to us. In addition, as discussed further below, unstable economic and credit markets may preclude us from refinancing maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us, or at all. For these reasons, among others, if current economic conditions persist or decline, our operating results, financial condition, and liquidity could be adversely affected.

For additional information about our business and operations, see "Business" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Risks Relating to CenturyLink's Pending Acquisition of Level 3

We cannot assure you that our ultimate parent company, CenturyLink, will complete its pending acquisition of Level 3 and therefore attain the anticipated benefits of the transaction.

Our ultimate parent company, CenturyLink, expects to attain substantial benefits upon completing its pending acquisition of Level 3, including enhanced scale, cost savings and the receipt of Level 3's net operating loss carry-forwards. Attainment of these benefits is not assured. Moreover, the completion of the Level 3 acquisition is subject to a number of conditions. For these reasons, we cannot assure you that CenturyLink will be able to complete its pending acquisition of Level 3 or attain the anticipated benefits thereof.

The Level 3 acquisition poses various risks to CenturyLink and us.

CenturyLink expects to incur substantial expenses in connection with completing the acquisition and integrating its operations with Level 3's operations. For a variety of reasons, the integration process may not be successful. Moreover, in connection with the acquisition, CenturyLink will incur and assume a substantial amount of indebtedness. Under the agreements that are expected to govern such indebtedness, CenturyLink is expected to be bound by various covenants and other provisions that will impose restrictions on its ability to operate, and our corporate parent is expected to guaranty CenturyLink's debt and to secure such guaranty with a first priority interest in substantially all of its assets.

CenturyLink's pending acquisition of Level 3 raises other risks.

CenturyLink's pending acquisition of Level 3 and, upon completion thereof, its ownership of Level 3 raise additional risks not described above. For additional information, see CenturyLink's (i) definitive joint proxy statement/prospectus filed with the SEC on February 13, 2017 and (ii) annual report on Form 10-K for the year ended December 31, 2016 filed with the SEC on February 23, 2017.

Risks Relating to Legal and Regulatory Matters

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

General . We are subject to significant regulation by, among others, (i) the Federal Communications Commission ("FCC"), which regulates interstate communications, (ii) state utility commissions, which regulate intrastate communications, and (iii) various foreign governments and international bodies, which regulate our international operations. Generally, we must obtain and maintain certificates of authority or licenses from these bodies in most territories where we offer regulated services. We cannot assure you that we will be successful in obtaining or retaining all licenses necessary to carry out our business plan, and, even if we are, the prescribed service standards and conditions imposed on us in connection with obtaining or acquiring control of these licenses may impose on us substantial costs and limitations. We are also subject to numerous requirements and interpretations under various international, federal, state and local laws, rules and regulations, which are quite detailed and occasionally in conflict with each other. Accordingly, we cannot ensure that we are always considered to be in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative. Even if we are ultimately found to have complied with applicable regulations, such actions or inquiries could create adverse publicity that negatively impacts our business.

Regulation of the telecommunications industry continues to change, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. In addition, from time to time carriers or other third parties refuse to pay for certain of our services, challenge our rights to receive certain service payments, file complaints requesting rate reductions or take other similar actions that have the potential to reduce our revenues. Our future revenues, costs, and capital investment could be adversely affected by material changes to or decisions regarding the applicability of government requirements, including, but not limited to, changes in rules governing intercarrier compensation, state and federal USF support, competition policies, pricing limitations or operational restrictions. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

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

Risks associated with recent changes in regulation. Changes in regulation can have a material impact on our business, revenues or financial performance. Recent changes in federal regulations have substantially impacted our operations. In October 2011, the FCC adopted an order providing for a multi-year transition to a regulatory structure that reduces intercarrier compensation charges, redeploys universal service funding to newer technologies, and increases certain end-user charges. These changes, coupled with our participation in the new FCC support programs, has significantly impacted various aspects of our operations, financial results and capital expenditures, including the amount of revenues we collect from our wholesale customers and our receipt of federal support payments. We expect these impacts will continue in the future. For more information, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report.

In addition, during the last few years Congress or the FCC has initiated various other changes, including various broadband and Internet regulation initiatives and actions that will restrict our ability to discontinue or reduce certain services, even if unprofitable. Many of the FCC's regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

Certain states have recently taken steps that could reduce the amount of their universal service support payments to incumbent local exchange companies. If these trends continue, we would suffer a reduction in our revenues from state support programs.

Risks of higher costs. Regulations continue to create significant operating and capital costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers.

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to regulating broadband services, storing records, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, restricting data collection, protecting intellectual property rights of third parties, or addressing other issues that impact our business, including (i) the Communications Assistance for Law Enforcement Act, which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance, (ii) the USA Freedom Act, which requires communication companies to store records of communications of their customers, and (iii) laws that have significantly enhanced our responsibilities relating to data security in certain jurisdictions. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations.

Increased risks of fines. We have recently paid certain regulatory fines associated with network or service outages, particularly with respect to outages impacting the availability of emergency - 911 services. Over the past couple of years, we believe that regulators have assessed substantially higher fines than in the past for these types of incidents, and it is possible this trend will continue.

Risks of reduced flexibility . As a diversified full service incumbent local exchange carrier in many of our key operating markets, we have traditionally been subject to significant regulation that does not apply to many of our competitors. This regulation in many instances restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. In particular, cable television companies in recent years have been able to exploit differences in regulatory oversight, which we believe has helped them to develop service offerings competitive with ours. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could increasingly impede our ability to compete.

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

Our participation in the FCC's Connect America Fund ("CAF") Phase 2 support program poses certain risks.

Our participation in the FCC's CAF Phase 2 support program subjects us to certain financial risks. If we fail to attain certain specified infrastructure buildout requirements, the FCC could withhold future CAF support payments until these shortcomings are rectified. In addition, if we are not in compliance with FCC measures by the end of the CAF Phase 2 program, we would incur substantial penalties. To comply with the FCC's buildout requirements, we believe we will need to dedicate a substantial portion of our future capital expenditure budget to the construction of new infrastructure. The CAF-related expenditures could reduce the amount of funds we are willing or able to allocate to other initiatives or projects.

Regulation of the Internet could limit our ability to operate our broadband business profitably and to manage our broadband facilities efficiently.

In order to continue to provide quality broadband service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently for the benefit of all customers and to invest in our networks. In 2015, the FCC adopted new regulations that regulate broadband services as a public utility under Title II of the Communications Act. The ultimate impact of the new regulations will depend on several factors, including manner in which the new regulations are implemented and enforced and whether those regulations are altered by the newly-constituted FCC or Congress. Although it is premature for us to determine the ultimate impact of the new regulations upon our operations, we currently anticipate that implementation of the proposed rules could hamper our ability to operate our data networks efficiently, restrict our ability to implement network management practices necessary to ensure quality service, increase the cost of network extensions and upgrades, and otherwise negatively impact our current operations. Our service offerings could become subject to additional laws and regulations as they are adopted or applied to the Internet. As the significance of the Internet expands, federal, state, or local governments may adopt new laws or regulations, or apply existing laws and regulations to the Internet. We cannot predict the outcome of any such changes.

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

Although we believe our liability for third party information stored on or transmitted through our networks is limited, the liability of private network operators is impacted both by changing technology and evolving legal principles that remain unsettled in many jurisdictions. As a private network provider, we could be exposed to legal claims relating to third party content stored or transmitted on our networks. Such claims could involve, among others, allegations of defamation, invasion of privacy, copyright infringement, or aiding and abetting restricted activities such as online gambling or pornography. If we decide to implement additional measures to reduce our exposure to these risks, or if we are required to defend ourselves against these kinds of claims, our operations and financial results could be negatively affected.

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

There are several material proceedings pending against CenturyLink and its affiliates, as described in Note 11—Commitments and Contingencies to the consolidated financial statements included in Item 1 of Part I of CenturyLink's quarterly report on Form 10-Q for the quarter ended June 30, 2017. Depending on their outcome, any of these matters could have a material adverse effect on our business, reputation, financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

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

We may be required to obtain from municipal authorities operating franchises to install or expand certain facilities related to our fiber transport operations, our competitive local exchange carrier operations, and our facilities-based video services. Some of these franchises may require us to pay franchise fees. Many of our franchise agreements have compliance obligations and failure to comply may result in fines or penalties. In some cases, certain franchise requirements could delay us in expanding our operations or increase the costs of providing these services.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, and related regulations implemented thereunder, have increased our legal and financial compliance costs and made some activities more time consuming. Any failure to successfully or timely complete annual assessments of our internal controls required by Section 404 of the Sarbanes-Oxley Act could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or our reputation with investors, lenders or others.

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Risks Affecting Our Liquidity and Capital Resources

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

Our ultimate parent, CenturyLink, and we continue to carry significant debt. As of June 30, 2017, the aggregate principal amount of our consolidated long-term debt, excluding unamortized premiums, net, unamortized debt issuance costs and capital lease and other obligations, was \$7.394 billion (excluding our note payable - affiliate of \$944 million), which was included in CenturyLink's consolidated long-term debt of \$25.077 billion as of that date. As of the date of this report, \$1.984 billion aggregate principal amount of CenturyLink's consolidated debt securities is scheduled to mature prior to June 30, 2020. We have no debt securities scheduled to mature prior to June 30, 2020. While we currently believe that CenturyLink and we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of CenturyLink, the credit markets or the economy generally. We may incur unexpected expenses or liabilities, and we may have limited access to financing.

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

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

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

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

We expect to periodically require financing to meet our debt obligations as they come due. Due to the unstable economy and credit markets, we may not be able to refinance maturing debt on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all. See below "Risk Factors—Risks Affecting our Liquidity and Capital Resources—CenturyLink and we plan to access the public debt markets, and we cannot assure you that these markets will remain free of disruptions."

We may also need to obtain additional financing or capital, or to investigate other methods to generate cash (such as further cost reductions or the sale of assets) under a variety of other circumstances, including if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if regulatory requirements change, if CenturyLink is required to contribute a material amount of cash to its pension plans, if CenturyLink is required to begin to pay other post-retirement benefits significantly earlier than is anticipated, or if CenturyLink becomes subject to significant judgments or settlements in one or more of the matters discussed in Note 6—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report and Note 11—Commitments and Contingencies to the consolidated financial statements in Item 1 of Part I of CenturyLink's quarterly report on Form 10-Q for the quarter ended June 30, 2017. For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us, or at all.

Certain of CenturyLink's and our debt instruments have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in CenturyLink's quarterly and annual reports filed with the SEC for additional information about CenturyLink's indebtedness.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our term loan and other debt instruments. If we are unable to satisfy the covenants contained in those instruments, or are unable to generate cash sufficient to make required debt payments, the parties to whom we are indebted could accelerate the maturity of some or all of our outstanding indebtedness. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

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

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

The current terms of our debt instruments and the debt instruments of CenturyLink and its other subsidiaries permit us to incur additional indebtedness. Additional debt may be necessary for many reasons, including those discussed above. Incremental borrowings that impose additional financial risks could exacerbate the other risks described in this report.

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

As noted above in Item 2 of Part I of this report, our long-term debt is currently rated (i) BBB- by Standard and Poor's Ratings Services and BBB- by Fitch Ratings, both of which are the lowest investment grade ratings issued by each of these agencies and (ii) Ba1 by Moody's Investors Service, Inc., which is a non-investment grade rating. If either Standard and Poor's Rating Services or Fitch Ratings assigned us a non-investment grade, we would no longer be viewed as an "investment grade" issuer and would lose the benefits attendant thereto. As noted elsewhere in this report, Fitch Ratings placed our current unsecured senior debt rating on negative watch and Moody's Investors Service, Inc. placed our current unsecured senior debt rating on review for downgrade following CenturyLink's announcement of the Level 3 acquisition. Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we operate as a whole and may change their credit rating for us based on their overall view of such industries. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant. A downgrade of our credit ratings could adversely affect the market price of some or all of our outstanding debt securities, limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, increase our cost of borrowing, and impair our business, financial condition and results of operations.

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

Our business is capital intensive, and we anticipate that our capital requirements will continue to be significant in the coming years.

We expect to invest additional capital to expand and enhance our network infrastructure as a result of several factors, including:

- our regulatory commitments, including infrastructure construction requirements arising out of our participation in the FCC's CAF Phase 2 program, which are discussed further herein;
- increased demands by customers to transmit larger amounts of data at faster speeds;
- changes in customers' service requirements;
- technological advances of our competitors; or
- the development and launch of new services.

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

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

Similarly, we continue to anticipate incurring substantial operating expenses to support our incumbent services and growth initiatives. We may be unable to sufficiently manage or reduce these costs, even if revenues in some of our lines of business are decreasing. If so, our operating margins will be adversely impacted.

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

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

The funded status of CenturyLink's qualified pension plan is the difference between the value of the plan's assets and the benefit obligation. The accounting unfunded status of CenturyLink's qualified pension plan was \$2.352 billion as of December 31, 2016. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in CenturyLink's benefit obligation or a significant decrease in the value of the plan's assets. These adverse changes could require CenturyLink to contribute a material amount of cash to its pension plan or could accelerate the timing of required cash payments. The amounts contributed by us through CenturyLink are not segregated or restricted and may be used to provide benefits to employees of CenturyLink's other subsidiaries. Based on current laws and circumstances, CenturyLink does not expect it will be required to make a contribution to its plan in 2017. The actual amount of required contributions to its plan in 2018 and beyond will depend on earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on CenturyLink's liquidity by reducing their cash flows, which in turn could affect our liquidity.

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

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

Other Risks

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

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

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

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2016, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

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

There can be no assurance that our disclosure controls and procedures will be effective in the future or that we will not experience a material weakness or significant deficiency in internal control over financial reporting. Any such lapses or deficiencies may materially and adversely affect our business, operating results or financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, including litigation brought by private individuals, subject us to fines, penalties or judgments, harm our reputation, or otherwise cause a decline in investor confidence.

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

As of June 30, 2017, approximately 55% of our total consolidated assets reflected on the consolidated balance sheet included in this report consisted of goodwill, customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time, our affiliates or predecessors have recorded large non-cash charges to earnings in connection with required reductions of the value of their intangible assets. If our intangible assets are determined to be impaired in the future, we may similarly be required to record significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred.

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

We are included in the consolidated federal income tax return of CenturyLink. As such, we could be severally liable for tax examinations and adjustments attributable to other members of the CenturyLink affiliated group, as applicable. Significant taxpayers (such as CenturyLink) are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

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

Legislators and regulators at all levels of government may from time to time change existing tax laws or regulations or enact new laws or regulations that could negatively impact our operating results or financial condition. The new U.S. Presidential administration has proposed changes to fiscal and tax policies, which may include comprehensive tax reform. Although we cannot at this time predict the impact of these changes on our business, they could be material.

For information on risks faced by CenturyLink that could weaken its financial position (and thereby indirectly impact us), see the risk factor disclosures set forth in CenturyLink's annual and quarterly reports filed with the SEC.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
3.1	<u>Amended and restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Exhibit 3.1 of Qwest Corporation's Quarterly Report on Form 10-Q for the period ended March 31, 2013 (File No. 001-03040) filed with the Securities and Exchange Commission on May 13, 2013).</u>
3.2	<u>Amended and Restated Bylaws of Qwest Corporation (incorporated by reference to Exhibit 3.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.1	<u>Indenture, dated as of April 15, 1990, by and between The Mountain States Telephone and Telegraph Company (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
a.	<u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.2	<u>Indenture, dated as of April 15, 1990, by and between Northwestern Bell Telephone Company (predecessor to Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.5(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on May 10, 2012).</u>
a.	<u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
4.3	Indenture, dated as of October 15, 1999, by and between U S West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
a.	<u>Eighth Supplemental Indenture, dated as of September 21, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.9 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 20, 2011).</u>
b.	<u>Ninth Supplemental Indenture, dated as of October 4, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on October 4, 2011).</u>
c.	<u>Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).</u>

⁽¹⁾ Certain of the items in Sections 4.1 through 4.3 (j) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

Exhibit Number	Description
	d. <u>Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).</u>
	e. <u>Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).</u>
	f. <u>Thirteenth Supplemental Indenture, dated as of September 29, 2014, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.14 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 26, 2014).</u>
	g. <u>Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).</u>
	h. <u>Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).</u>
	i. <u>Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on August 22, 2016).</u>
	j. <u>Seventeenth Supplemental Indenture dated as of April 27, 2017, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.18 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on April 27, 2017).</u>
4.4	<u>Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No 001-07784) filed with the Securities and Exchange Commission on August 9, 2012).</u>
4.5	<u>Credit Agreement, dated as of February 20, 2015, by and among Qwest Corporation, the several lenders from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.5 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-03040) filed with the Securities and Exchange Commission on February 27, 2015).</u>
12*	<u>Calculation of Ratio of Earnings to Fixed Charges.</u>
31.1*	<u>Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32*	<u>Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended June 30, 2017, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2017 .

QWEST CORPORATION

/s/ DAVID D. COLE

By:

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

QWEST CORPORATION

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Six Months Ended June 30,	Years Ended December 31,				
	2017	2016	2015	2014	2013	2012
(Dollars in millions)						
Income before income tax expense	\$ 890	1,763	1,733	1,609	1,566	1,391
Add: estimated fixed charges	290	579	568	546	557	513
Add: estimated amortization of capitalized interest	4	8	8	8	8	9
Less: interest capitalized	(16)	(19)	(18)	(17)	(17)	(18)
Total earnings available for fixed charges	\$ 1,168	2,331	2,291	2,146	2,114	1,896
Estimate of interest factor on rentals	\$ 12	23	24	25	26	28
Interest expense, including amortization of premiums, discounts and debt issuance costs	262	537	526	504	514	467
Interest capitalized	16	19	18	17	17	18
Total fixed charges	\$ 290	579	568	546	557	513
Ratio of earnings to fixed charges	4.0	4.0	4.0	3.9	3.8	3.7

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: August 7, 2017

/s/ GLEN F. POST, III

Glen F. Post, III
Chief Executive Officer and President

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

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

Date: August 7, 2017

/s/ R. STEWART EWING, JR.

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

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of Qwest Corporation ("Qwest"), certifies that, to his knowledge, the Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Dated: August 7, 2017

/s/ GLEN F. POST, III

Glen F. Post, III
Chief Executive Officer and
President

/s/ R. STEWART EWING, JR.

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