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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended June 30, 2013**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-03040**

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**QWEST CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

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

**71203**  
(Zip Code)

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒  
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

On August 14, 2013, there was one share of common stock outstanding.

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

## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**QWEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(Dollars in millions)</b>			
<b>OPERATING REVENUES</b>				
Operating revenues	\$ 1,703	1,763	3,426	3,549
Operating revenues—affiliates	496	432	932	906
Total operating revenues	2,199	2,195	4,358	4,455
<b>OPERATING EXPENSES</b>				
Cost of services and products (exclusive of depreciation and amortization)	690	694	1,335	1,437
Selling, general and administrative	270	311	539	650
Operating expenses—affiliates	185	161	347	305
Depreciation and amortization	529	574	1,059	1,142
Total operating expenses	1,674	1,740	3,280	3,534
<b>OPERATING INCOME</b>	525	455	1,078	921
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(112)	(112)	(220)	(225)
Interest expense—affiliate	(12)	(4)	(28)	(4)
Net loss on early retirement of debt	—	(46)	—	(46)
Other income (expense)	—	(2)	1	(1)
Total other income (expense)	(124)	(164)	(247)	(276)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	401	291	831	645
Income tax expense	155	113	321	249
<b>NET INCOME</b>	\$ 246	178	510	396



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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
	(Dollars in millions)			
NET INCOME	\$ 246	178	510	396
OTHER				
COMPREHENSIVE				
INCOME:				
Unrealized gain on				
investments and				
other, net of \$—, \$—				
, \$—and \$—tax	—	—	—	—
COMPREHENSIVE				
INCOME	<u>\$ 246</u>	<u>178</u>	<u>510</u>	<u>396</u>

See accompanying notes to consolidated financial statements.

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

	June 30, 2013	December 31, 2012
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8	8
Accounts receivable, less allowance of \$39 and \$46	711	709
Advances to affiliates	530	593
Deferred income taxes, net	146	149
Other	124	114
Total current assets	1,519	1,573
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	9,756	9,242
Accumulated depreciation	(2,530)	(2,011)
Net property, plant and equipment	7,226	7,231
GOODWILL AND OTHER ASSETS		
Goodwill	9,369	9,369
Customer relationships, less accumulated amortization of \$1,672 and \$1,320	4,027	4,379
Other intangible assets, less accumulated amortization of \$829 and \$704	1,119	1,212
Other	216	181
Total goodwill and other assets	14,731	15,141
TOTAL ASSETS	\$ 23,476	23,945
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 45	804
Accounts payable	474	456
Note payable—affiliate	729	701
Accrued expenses and other liabilities		
Salaries and benefits	186	253
Income and other taxes	194	215
Other	132	102
Advance billings and customer deposits	301	301
Total current liabilities	2,061	2,832
LONG-TERM DEBT	7,559	6,821
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenue	140	130
Deferred income taxes, net	2,510	2,629
Affiliates obligations, net	1,363	1,442
Other	109	117
Total deferred credits and other liabilities	4,122	4,318
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDER'S EQUITY		
Common stock—one share without par value, owned by Qwest Services Corporation	10,050	10,050
Accumulated deficit	(316)	(76)
Total stockholder's equity	9,734	9,974
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 23,476	23,945

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Six Months Ended June 30,	
	2013	2012
	(Dollars in millions)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 510	396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,059	1,142
Deferred income taxes	(112)	(103)
Provision for uncollectible accounts	28	43
Long-term debt premium amortization	(29)	(36)
Net loss on early retirement of debt	—	46
Changes in current assets and current liabilities:		
Accounts receivable	(30)	30
Accounts payable	10	(46)
Accrued income and other taxes	(21)	(17)
Other current assets and other current liabilities, net	(38)	(47)
Changes in other noncurrent assets and liabilities	(1)	(30)
Changes in other noncurrent assets and liabilities—affiliates	(79)	(80)
Other, net	1	8
Net cash provided by operating activities	1,298	1,306
<b>INVESTING ACTIVITIES</b>		
Payments for property, plant and equipment and capitalized software	(607)	(600)
Changes in advances to affiliates	63	(1,157)
Proceeds from sale of property	—	133
Net cash used in investing activities	(544)	(1,624)
<b>FINANCING ACTIVITIES</b>		
Net proceeds from issuance of long-term debt	752	897
Payments of long-term debt	(784)	(923)
Early retirement of debt costs	—	(177)
Dividends paid to Qwest Services Corporation	(750)	—
Changes in notes payable—affiliates	28	583
Changes in advances from affiliates	—	(61)
Net cash (used in) provided by financing activities	(754)	319
Net increase in cash and cash equivalents	—	1
Cash and cash equivalents at beginning of period	8	3
Cash and cash equivalents at end of period	\$ 8	4
<b>Supplemental cash flow information:</b>		
Income taxes (paid), net	\$ (434)	(207)
Interest (paid) (net of capitalized interest of \$8 and \$8)	\$ (245)	(277)

See accompanying notes to consolidated financial statements.



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

	Six Months Ended June 30,	
	2013	2012
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$ 10,050	9,950
Tax benefit of pension deduction	—	119
Balance at end of period	10,050	10,069
(ACCUMULATED DEFICIT) RETAINED EARNINGS		
Balance at beginning of period	(76)	(85)
Net income	510	396
Dividends declared to Qwest Services Corporation	(750)	(390)
Balance at end of period	(316)	(79)
TOTAL STOCKHOLDER'S EQUITY	\$ 9,734	9,990

See accompanying notes to consolidated financial statements.

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

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

**(1) Basis of Presentation**

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

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

Our consolidated balance sheet as of December 31, 2012, 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, 2012.

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

***Out-of-Period Adjustment***

In conjunction with finalizing our 2012 Annual Report on Form 10-K, we discovered that certain transactions with affiliates had been presented incorrectly in our consolidated statement of cash flows for the period ended June 30, 2012. We considered both quantitative and qualitative factors in reaching the conclusion that the correction of the error was immaterial to our previously issued consolidated financial statements. Correcting this error only affected our consolidated statement of cash flows, with the impact for the six months ended June 30, 2012 presented herein, being as follows (in millions):

	<u>As Reported</u>	<u>Error Correction</u>	<u>Restated</u>
Net cash provided by operating activities	\$ 1,788	(482)	1,306
Net cash used in investing activities	(1,960)	336	(1,624)
Net cash provided by financing activities	173	146	319

## (2) Long-Term Debt and Revolving Promissory Note

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

	Interest Rates	Maturities	June 30, 2013	December 31, 2012
(Dollars in millions)				
Senior notes	6.125% – 8.375%	2014 – 2053	7,411	7,386
Capital lease and other obligations	Various	Various	95	112
Unamortized premiums, net			98	127
Total long-term debt			7,604	7,625
Less current maturities			(45)	(804)
Long-term debt, excluding current maturities			\$ 7,559	6,821

### *New Issuance*

On May 23, 2013, QC issued \$775 million aggregate principal amount of 6.125% Notes due 2053, including \$25 million principal amount that was sold pursuant to an over-allotment option granted to the underwriters for the offering, in exchange for net proceeds, after deducting underwriting discounts and expenses, of approximately \$752 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after June 1, 2018 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

### *Repayment*

On June 17, 2013, QC paid at maturity the \$750 million principal amount of its floating rate Notes.

### *Revolving Promissory Note*

QC has a revolving promissory note with an affiliate of our ultimate parent, CenturyLink, Inc. ("CenturyLink") that provides us with a funding commitment with an aggregate principle amount available of \$1.0 billion through June 30, 2022, of which \$729 million was outstanding as of June 30, 2013. As of June 30, 2013, the weighted average interest rate under this note was 6.665%. This revolving promissory note and accrued interest thereon is reflected on our consolidated balance sheets as a current liability under note payable—affiliate.

### *Covenants*

As of June 30, 2013, we believe we were in compliance with the provisions and covenants of our debt agreements.

## (3) Fair Value Disclosure

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and

able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the Financial Accounting Standards Board ("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 obligations, as well as the input level used to determine the fair values:

		June 30, 2013		December 31, 2012	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt, excluding capital lease obligations	2	\$ 7,509	7,789	7,513	8,019

#### (4) Products and Services Revenues

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

- *Strategic services*, which include primarily private line (including special access), broadband, Ethernet, video (including resold satellite video services) and Verizon Wireless services;
- *Legacy services*, which include primarily local voice, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allows a local communications network to link to networks in remote locations); and
- *Affiliates and other services*, which consist primarily of Universal Service Fund ("USF") revenues and surcharges and services we provide to our non-consolidated affiliates. We provide to our affiliates telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services as well as network support and technical services.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Strategic service	\$ 831	811	1,660	1,623
Legacy service	806	874	1,630	1,775
Affiliates and other service	562	510	1,068	1,057
Total operating revenue	\$ 2,199	2,195	4,358	4,455

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

Affiliates and other services revenues include revenues from universal service funds which allow us to recover a portion of our costs under federal and state cost recovery mechanisms and certain surcharges to our customers, including billings for our required contributions to several USF programs.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
USF and surcharge included in operating revenue and expense	\$ 38	43	78	87

Our operations are integrated into and reported as part of the segments 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 have one reportable segment.

## (5) Commitments and Contingencies

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

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

**(6) Labor Union Contracts**

Approximately 12,000 or 52% of our employees are members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers and are subject to collective bargaining agreements that expired October 6, 2012. Since then, we have been negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least twenty-four hour advance notice before terminating those predecessor agreements. On July 30, 2013, we reached a tentative agreement in our contract negotiations with the Communication Workers of America for a four-year labor contract covering approximately 12,000 of our employees. The new contract must be approved by the union's membership. The union has advised us that it plans to seek this approval before the end of September 2013.

**(7) Dividends**

During the six months ended June 30, 2013, we paid dividends to Qwest Services Corporation ("QSC") of \$750 million, all of which were declared during the six months ended June 30, 2013. Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

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

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

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

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

### Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2012, 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 indirect subsidiary of Qwest Communications International Inc. ("QCII").

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

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

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

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

- *Strategic services*, which include primarily private line (including special access), broadband, Ethernet, video (including resold satellite video services) and Verizon Wireless services;
- *Legacy services*, which include primarily local voice, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allows a local communications network to link to networks in remote locations); and
- *Affiliates and other services*, which consist primarily of Universal Service Fund ("USF") revenues and surcharges and services we provide to our affiliates. We provide to our affiliates telecommunication services that we also provide to external customers. In addition, we provide

to our affiliates computer system development and support services as well as network support and technical services.

As of June 30, 2013, we served approximately 3.4 million broadband subscribers. We also operated approximately 7.8 million access lines, which are telephone lines reaching from the customers' premises to a connection with the public switched telephone network. Our methodology for counting our broadband subscribers and access lines includes only those access lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. We count access lines when we install the service. Our methodology for counting our broadband subscribers and access lines may not be comparable to those of other companies.

Our analysis presented below is organized to provide the information we believe will be useful for understanding the relevant trends affecting our business.

## Business Trends

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

- *Strategic services.* We continue to see shifts in the makeup of our total revenues as customers move to strategic services, such as private line (including special access), broadband and video services, from legacy services, such as local and access services. Revenues from our strategic services represented 38 % and 37 % of our total revenues for the three months ended June 30, 2013 and 2012, respectively, and 38% and 36% of our total revenues for the six months ended June 30, 2013 and 2012, respectively. We expect these percentages to continue to grow. We continue to focus on increasing subscribers of our broadband services, particularly among consumer and small business customers. We believe that continually increasing connection speeds is important to remaining competitive in our industry. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services than would otherwise generally be available through a more traditional telecommunications network made up of only copper wires. In addition to our broadband network, we continue to expand our product offerings, including Ethernet, and enhance our marketing efforts as we compete in a maturing market in which most consumers already have broadband services. We expect these efforts will improve our ability to compete and increase our broadband revenues. Another trend impacting our strategic services is the deployment of fiber-based special access services provided to wireless carriers, which in many cases replaces existing copper-based special access services. We believe the growth in fiber-based special access services provided to wireless carriers for backhaul will, ultimately, offset the decline in copper-based special access services provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain;
- *Legacy services.* Revenues from our legacy services represented 37% and 40% of our total revenues for the three months ended June 30, 2013 and 2012, respectively, and 37% and 40% of our total revenues for the six months ended June 30, 2013 and 2012, respectively. We expect these percentages to continue to decline at a slower pace than in the past. Our legacy services revenues have been and we expect they will continue to be adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are replacing traditional voice telecommunications service with substitute services, including (i) cable and wireless voice services and (ii) electronic mail, texting and social networking services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of revenues associated with access lines, we



continue to offer service bundling and other product promotions to help mitigate this trend, as described below;

- *Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video and wireless;
- *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; and
- *Pension and post-retirement benefits expenses.* Our indirect parent QCII is required to recognize in its consolidated financial statements certain expenses relating to its pension and post-retirement health care and life insurance benefits plans. These expenses are calculated based on several assumptions, including among other things interest rates and expected rates of return on plan assets that are generally set at December 31 of each year. Changes in these assumptions can cause significant changes in the combined net periodic benefits expenses QCII recognizes. QCII allocates the expenses of these plans to us and certain of its other affiliates. The allocation of expenses to us is based upon the demographics of our employees and retirees. Changes in QCII's assumptions can cause significant changes in the net periodic pension and post-retirement benefits expenses we recognize.

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

## Results of Operations

The following table summarizes the results of our consolidated operations for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Operating revenue	\$ 2,199	2,195	4,358	4,455
Operating expense	1,674	1,740	3,280	3,534
Operating income	525	455	1,078	921
Other income (expens)	(124)	(164)	(247)	(276)
Income tax expense	155	113	321	249
Net income	\$ 246	178	510	396

The following table summarizes certain of our selected operational metrics:

	As of June 30,		Increase/ (Decrease)	% Change
	2013	2012 <sup>(1)</sup>		
	(in thousands)			
Broadband subscribe (1)	3,369	3,249	120	4%
Access lines (1)	7,825	8,280	(455)	(5)%
Employees	22.6	23.5	(0.9)	(4)%

- (1) The prior year numbers have been adjusted to include the operational metrics of our wholly owned subsidiary, El Paso County Telephone Company, which had been previously excluded. The increase (in thousands) related to

Broadband subscribers and Access lines attributable to El Paso County Telephone Company's inclusion is approximately 3 and 4 respectively.

## Operating Revenues

The following tables summarize our operating revenues:

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Strategic services	\$ 831	811	20	2%
Legacy services	806	874	(68)	(8)%
Affiliates and other services	562	510	52	10%
Total operating revenues	\$ 2,199	2,195	4	—%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Strategic services	\$ 1,660	1,623	37	2%
Legacy services	1,630	1,775	(145)	(8)%
Affiliates and other services	1,068	1,057	11	1%
Total operating revenues	\$ 4,358	4,455	(97)	(2)%

## Strategic Services

Strategic services revenues increased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to volume increases in the number of broadband subscribers as well as volume increases in our Ethernet services. These increases were partially offset by declines in our private line services revenues.

## Legacy Services

Legacy services revenues decreased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 as a result of lower local services revenues due to access line loss and reduced access services usage related to competitive pressures and product substitution. Legacy services revenues also decreased due to lower traditional WAN services caused by customer migration to our strategic services, product substitution and increased competition.

## Affiliates and Other Services

Affiliates and other services revenues increased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to an increase in the rates we charge for support services we provided to affiliates.

## Operating Expenses

The following tables summarize our operating expenses:

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 690	694	(4)	(1)%
Selling, general and administrative	270	311	(41)	(13)%
Operating expenses—affiliates	185	161	24	15%
Depreciation and amortization	529	574	(45)	(8)%
Total operating expenses	<u>\$ 1,674</u>	<u>1,740</u>	<u>(66)</u>	<u>(4)%</u>

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,335	1,437	(102)	(7)%
Selling, general and administrative	539	650	(111)	(17)%
Operating expenses—affiliates	347	305	42	14%
Depreciation and amortization	1,059	1,142	(83)	(7)%
Total operating expenses	<u>\$ 3,280</u>	<u>3,534</u>	<u>(254)</u>	<u>(7)%</u>

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

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

Cost of services and products (exclusive of depreciation and amortization) decreased for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 primarily due to decreases in salaries, wages and employee benefits costs associated with the reductions in headcount, reductions in severance costs and equipment and maintenance costs. Cost of services and products (exclusive of depreciation and amortization) decreased for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to decreases in salaries, wages and employee benefits costs associated with the reductions in headcount, reductions in severance costs, customer premise equipment costs, access expense, and real estate and power costs, partially offset by increases in facility costs and network expense.

## Selling, General and Administrative

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

Selling, general and administrative expenses decreased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to decreases in salaries, wages and employee benefits costs associated with reductions in headcount, reductions in severance costs, and decreases in bad debt expense and marketing and advertising costs. The decreases were partially offset by increases in professional fees and external commissions.

## Operating Expenses—Affiliates

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

Operating expenses—affiliates increased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to higher levels of services provided to us by affiliates as a result of the continuing integration with CenturyLink.

## Depreciation and Amortization

The following tables provide detail regarding depreciation and amortization expense:

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Depreciation	\$ 271	287	(16)	(6)%
Amortization	258	287	(29)	(10)%
Total depreciation and amortization	\$ 529	574	(45)	(8)%

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Depreciation	\$ 541	581	(40)	(7)%
Amortization	518	561	(43)	(8)%
Total depreciation and amortization	\$ 1,059	1,142	(83)	(7)%

Depreciation expense decreased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 primarily due to depreciation rate changes of certain telecommunications equipment. The rate changes are the result of our aged investment in plant becoming fully depreciated or retired at a faster rate than the acquisition of new plant. Amortization expense decreased for the three and six months ended June 30, 2013 as compared to the three and six months ended June 30, 2012 partially due to the use of accelerated amortization for a portion of the customer relationship assets. In addition, amortization of capitalized software is lower due to investment becoming fully amortized faster than new software is acquired.

## Other Consolidated Results

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

	Three Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Interest expense	\$ (112)	(112)	—	—%
Interest expense—affiliate	(12)	(4)	8	200%
Net loss on early retirement of debt	—	(46)	(46)	(100)%
Other income (expense)	—	(2)	(2)	(100)%
Total other income (expense)	<u>\$ (124)</u>	<u>(164)</u>	<u>(40)</u>	<u>(24)%</u>
Income tax expense	\$ 155	113	42	37%

  

	Six Months Ended June 30,		Increase/ (Decrease)	% Change
	2013	2012 (Dollars in millions)		
Interest expense	\$ (220)	(225)	(5)	(2)%
Interest expense—affiliate	(28)	(4)	24	600%
Net loss on early retirement of debt	—	(46)	(46)	(100)%
Other income (expense)	1	(1)	(2)	200%
Total other income (expense)	<u>\$ (247)</u>	<u>(276)</u>	<u>(29)</u>	<u>(11)%</u>
Income tax expense	\$ 321	249	72	29%

### Interest Expense

Interest expense remained unchanged for the three months ended June 30, 2013 as compared to the three months ended June 30, 2012 due to a reduction in both the weighted average interest rate and total principal amount outstanding resulting from several debt financing transactions in the past eighteen months offset by an increase in capitalized interest and a reduction in the amortization of debt premiums which resulted from the accounting for CenturyLink's indirect acquisition of us. Interest expense decreased for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to a lower weighted average interest rate on the outstanding debt resulting from several debt financing transactions in the past eighteen months. The decrease was partially offset by a reduction in the amortization of debt premiums which resulted from the accounting for CenturyLink's indirect acquisition of us. 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—Affiliate

Affiliate interest expense increased for the three and six months ended June 30, 2013 as compared to the three and six months ended

June 30, 2012 primarily due to increased loan balances that we owe to one of our affiliates under the revolving promissory note.

## **Income Tax Expense**

The effective tax rate for the six months ended June 30, 2013 was 38.6% as compared to 38.6% for the six months ended June 30, 2012.

## **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 promissory notes, 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 promissory notes vary from time to time. Under these arrangements, the majority of our cash balance is transferred on a daily basis to CenturyLink as advances to affiliates. From time to time we may declare and pay dividends to our stockholder, Qwest Service Corporation ("QSC"), in excess of our earnings to the extent permitted by applicable law using cash repaid to us under these advances, which has the net effect of reducing the amount of these advances. Our debt covenants do not limit the amount of dividends we can pay to QSC. Given our cash management arrangement with our ultimate parent, CenturyLink, and the resulting amounts due to us from CenturyLink, a significant component of our liquidity is dependent upon CenturyLink's ability to repay its obligation to us.

At June 30, 2013, we had a working capital deficit of \$542 million, reflecting current liabilities of \$2.1 billion and current assets of \$1.5 billion, compared to a working capital deficit of \$1.3 billion as of December 31, 2012. We have historically operated with a working capital deficit due to our practice of declaring and paying regular cash dividends to QSC. As long as we continue declaring cash dividends to QSC, it is likely that we will continue to operate with a working capital deficit in the future. We anticipate that our future liquidity needs will be met through (i) our cash provided by operating activities, (ii) amounts due to us from CenturyLink and (iii) capital contributions or advances from CenturyLink.

### ***Revolving Promissory Note***

QC has a revolving promissory note with an affiliate of CenturyLink that provides us with a funding commitment with an aggregate principle amount available of \$1.0 billion through June 30, 2022, of which \$729 million was outstanding as of June 30, 2013. As of June 30, 2013, the weighted average interest rate under this note was 6.665%. This revolving promissory note and accrued interest thereon is reflected on our consolidated balance sheets under note payable—affiliate.

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

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

Following CenturyLink's announcement on February 13, 2013 of changes in its capital allocation plans, two credit agencies downgraded CenturyLink's debt credit ratings. As of the date of this report, the credit ratings for the senior unsecured debt of QC were as follows:

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

Downgrades of our or QC's senior unsecured debt credit ratings would likely raise our borrowing costs and could, under certain circumstances, limit our access to the capital markets. Similarly, the recent downgrades of CenturyLink's senior unsecured debt ratings and additional downgrades of CenturyLink's ratings could, under certain circumstances, increase the cost of CenturyLink's borrowing under the Credit Facility, and could limit its access to the capital markets, which could indirectly impact us. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

### ***Future Contractual Obligations***

For information regarding our estimated future contractual obligations, see the MD&A discussion included in our Annual Report on Form 10-K for the year ended December 31, 2012.

### ***Capital Expenditures***

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted revenue growth, operating, productivity, expense or service impacts) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations.

Our capital expenditures continue to be focused on our strategic services, such as video and broadband services.

CenturyLink, our ultimate parent, has accepted approximately \$35 million of the \$90 million available to it from Round 1 of Phase 1 of the Federal Communications Commission's ("FCC") Connect America Fund ("CAF") established by Congress to help telecommunications carriers defray the cost of providing broadband access to remote customers. Of the \$35 million, we received approximately \$30 million and intend to use the funds to deploy broadband service for up to 39,000 homes in unserved rural areas principally in Colorado, Minnesota, New Mexico and Washington. In 2013, the FCC announced another round of CAF funding and CenturyLink is eligible to receive up to \$90 million of additional funding under Round 2 of Phase 1 of CAF. CenturyLink is currently evaluating how much of this funding to accept.

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

QCII is subject to material obligations under its existing defined benefit pension plans and other post-retirement benefit plans. The accounting unfunded status of QCII's plans is measured annually at December 31. See Note 8—Employee Benefits to the consolidated financial statements in Item 8 of QCII's Annual Report Form 10-K for the year ended December 31, 2012, for additional information about QCII's pension and other post-retirement benefit arrangements.



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

Benefits paid by QCII's qualified pension plan are paid through a trust. Cash funding requirements can be significantly impacted by a variety of factors, including earnings on plan investments, interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. QCII currently does not expect to make a plan contribution in 2013 or 2014.

Certain of QCII's post-retirement health care and life insurance benefits plans are unfunded. A trust holds assets that are used to help cover the health care costs of certain retirees. As of December 31, 2012, the fair value of the trust assets was \$572 million; however, a portion of these assets is comprised of investments with restricted liquidity. QCII estimates that the more liquid assets in the trust will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately four years. Thereafter, covered benefits will be paid either directly by QCII or from the trust as the remaining assets become liquid. The actual number of years that our more liquid assets will fund covered benefits could be substantially shorter or longer than projected depending on changes in projected health care costs, returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

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

### *Historical Information*

The following table summarizes our cash flow activities:

	Six Months Ended June 30,		Change
	2013	2012	
	(Dollars in millions)		
<b>Cash Flows Provided By (Used In)</b>			
Operating activities	\$ 1,298	1,306	(8)
Investing activities	(544)	(1,624)	1,080
Financing activities	(754)	319	(1,073)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ —</b>	<b>1</b>	<b>(1)</b>

Net cash provided by operating activities slightly decreased in the six months ended June 30, 2013 as compared to the six months ended June 30, 2012. For additional information about our operating results, see "Results of Operations" above.

Net cash used in investing activities decreased in the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to a decrease in the amount of funds advanced to our affiliates partially offset by a decrease in the proceeds received from the sale of property.

Net cash used in financing activities increased in the six months ended June 30, 2013 as compared to the six months ended June 30, 2012 primarily due to the payment of dividends and a decrease in the amount of funds borrowed from an affiliate under the revolving promissory note, which were partially offset by a reduction in the amount of costs incurred for the early retirement of debt.

On June 17, 2013, QC paid at maturity the \$750 million principal amount of its floating rate Notes.

On May 23, 2013, QC issued \$775 million aggregate principal amount of 6.125% Notes due 2053, including \$25 million principal amount that was sold pursuant to an over-allotment option granted to the underwriters for the offering, in exchange for net proceeds, after deducting underwriting discounts and expenses, of approximately \$752 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after June 1, 2018 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

### ***Out-of-Period Adjustment***

In conjunction with finalizing our 2012 Annual Report on Form 10-K, we discovered that certain transactions with affiliates had been presented incorrectly in our consolidated statement of cash flows for the period ended June 30, 2012. We considered both quantitative and qualitative factors in reaching the conclusion that the correction of the error was immaterial to our previously issued consolidated financial statements. Correcting this error only affected our consolidated statement of cash flows, with the impact for the six months ended June 30, 2012 presented herein, being as follows (in millions):

	<b>As Reported</b>	<b>Error Correction</b>	<b>Restated</b>
Net cash provided by operating activities	\$ 1,788	(482)	1,306
Net cash used in investing activities	(1,960)	336	(1,624)
Net cash provided by financing activities	173	146	319

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

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

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

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

	<b>Six Months Ended June 30, 2013</b>	<b>April 1, 2011 thru December 31, 2012 (Dollars in millions)</b>	<b>Total Since Acquisition</b>
Amortized	\$ 29	201	230
Extinguished	—	187	187
Total premiums recognized	\$ 29	388	417

The remaining premium of \$113 million as of June 30, 2013 will reduce interest expense in future periods, unless otherwise extinguished.

### ***Other Matters***

CenturyLink and QCII are involved in various legal proceedings to which we are not a party that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly owned subsidiary of CenturyLink and QCII, our business and financial condition could be

similarly affected. You can find descriptions of these legal proceedings in CenturyLink's and QCII's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters.

## **Off-Balance Sheet Arrangements**

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we do not engage in hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2012, or (iii) discussed under the heading "Market Risk" below.

## **Market Risk**

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

From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2013, we had no such instruments outstanding.

There were no material changes to market risks arising from changes in interest rates for the six months ended June 30, 2013, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2012.

## **Other Information**

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

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

*In addition to historical information, this MD&A includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected, expressed or implied if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive*

*providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment and net neutrality); our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages, our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by CenturyLink's recent acquisitions; CenturyLink's ability to successfully integrate recently acquired operations into its operations, including the possibility that the anticipated benefits from these acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; CenturyLink's and QCII's ability to use net operating loss carryovers in projected amounts; CenturyLink's ability to effectively manage its expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; any adverse developments in legal or regulatory proceedings involving us or our affiliates; unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in CenturyLink or QCII's pension funding requirements or otherwise; the effects of adverse weather; other risks referenced in this report (including in "Risk Factors" in Item 1A of Part II of this report) or from time to time in other of our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business are described in greater detail in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, as updated and supplemented by our subsequent SEC reports, including this report. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any of our forward-looking statements for any reason.*

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

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

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

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

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

Glen F. Post, III, the Chief Executive Officer of CenturyLink and us, and R. Stewart Ewing, Jr., the Chief Financial Officer of CenturyLink and us, have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") at June 30, 2013. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the second quarter of 2013 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

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

#### **Risks Affecting Our Business**

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

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

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

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

We are continually taking steps to respond to these competitive pressures, but these efforts may not be successful. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient and if we otherwise are unable to sufficiently stem or offset our continuing access line losses and our revenue declines significantly without corresponding cost reductions. If this occurred, our ability to service debt and pay other obligations would also be adversely affected.

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

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

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.***

The telephone industry has experienced a decline in access lines and network access revenues, which, coupled with the other changes resulting from competitive, technological and regulatory developments, continue to place downward pressure on the revenues we generate from our legacy services.

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

- an increased focus on selling a broader range of higher-growth strategic services which are described in detail in Item 2 of Part I of this report;
- an increased focus on serving a broader range of business, governmental and wholesale customers; and
- greater use of service bundles.

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

***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.***

Approximately 12,000 or 52% of our employees are members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers and are subject to collective bargaining agreements that expired October 6, 2012. Since then, we have been negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least twenty-four hour

advance notice before terminating those predecessor agreements. On July 30, 2013, we reached a tentative agreement in our contract negotiations with the Communication Workers of America for a four-year labor contract covering approximately 12,000 of our employees. The new contract must be approved by the union's membership. The union has advised us that it plans to seek this approval before the end of September 2013.

We may be unable to reach new agreements acceptable to our unions and their membership, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

The above-described changes in our industry have placed a higher premium on marketing, technological, engineering and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen skills necessary to address these changes, and, where necessary, to attract and retain new personnel that possess these skills.

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

Unfavorable general economic conditions, including the unstable economy and credit market, could negatively affect our business. Worldwide economic growth has been sluggish since 2008, and many experts believe that a confluence of factors in the United States, Europe, Asia and developing countries may result in a prolonged period of economic downturn, slow growth or economic uncertainty. While it is difficult to predict the ultimate impact of these general economic conditions, they could adversely affect the affordability of and consumer demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forgo purchases of our products and services. These conditions impact, in particular, our ability to sell discretionary products or services to business customers that are under pressure to reduce costs or to governmental customers that have recently suffered substantial budget cuts with the prospects of additional future budget cuts. Any one or more of these circumstances could cause our revenues to continue declining. Also, our customers may encounter financial hardships or may not be able to obtain adequate access to credit, which could 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 the current economic conditions persist or decline, this could adversely affect our operating results and financial condition, as well as our ability to raise capital.

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

To be successful, we will need to continue providing our customers with a high-capacity, reliable and secure network. We face the risk, as does any company, of a security breach or significant disruption of our IT infrastructure and related systems (including our billing systems). As a communications and IT company, we face an added risk that a security breach or other significant disruption of our public networks or IT infrastructure and related systems that we develop, install, operate and maintain for certain of our business and governmental customers could lead to material interruptions or curtailments of service. Moreover, due to the nature of our customers and services, we



face a heightened risk that a security breach or disruption could result in unauthorized access to our customers' proprietary or classified information on our public networks or internal systems or the systems that we operate and maintain for certain of our customers.

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses, malware, or other forms of cyber attacks or similar events. These threats may derive from human error, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from accidental technological failure. Similar to other large telecommunications companies, we have been subject to a variety of security breaches and cyber attacks, although to date none of these have resulted in a material adverse effect on our operating results or financial condition. We cannot assure you, however, that future security breaches or disruptions would not be successful or damaging, especially in light of the growing frequency and sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures, and any resulting damages could be material.

Additional risks to our network and infrastructure include:

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

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

- disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention or financial resources to remedy the damages that result or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;
- require us to offer expensive incentives to retain existing customers or subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation.

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

acquisition integration costs, service or billing interruptions, and the diversion of development resources.

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

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

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

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

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

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

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

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

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

The telecommunications and cable industries have experienced substantial consolidation over the last couple of decades, and some of our competitors have combined with other communications providers, resulting in larger competitors that have greater financial and business resources and broader service offerings. Further consolidation could increase competitive pressures, and could adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

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

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

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

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

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

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

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

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

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

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

*We may be unable to integrate successfully into CenturyLink and realize the anticipated benefits of its recent acquisition of control of us.*

CenturyLink's acquisition of control of us in 2011 involved the combination of two companies which previously operated as independent public companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of CenturyLink and Qwest. We may encounter difficulties in the integration process, including the following:

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

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

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

At December 31, 2012, Qwest Communications International Inc. ("QCII") had approximately \$5.3 billion of federal net operating losses, or NOLs. These NOLs can be used to offset their future federal taxable income.

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

## Risks Relating to Legal and Regulatory Matters

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

As described in Note 15—Commitments and Contingencies to the consolidated financial statements in Item 8 of Part II of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2012, CenturyLink and QCII are involved in several legal proceedings that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly owned subsidiary of CenturyLink, our business and financial condition could be similarly affected. These matters include certain KPNQwest matters, which present material and significant risks to QCII and us. In the aggregate, the plaintiffs in the KPNQwest matters seek billions of dollars in damages. QCII continues to defend against these matters vigorously and is currently unable to provide any estimate as to the timing of their resolution.

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

There are other material proceedings pending against CenturyLink and QCII, as described in the above-referenced Note 15. Depending on their outcome, any of these matters could have a material adverse effect on our financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

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

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

Regulation of the telecommunications industry continues to change rapidly, and the regulatory environment varies substantially from jurisdiction to jurisdiction. Notwithstanding a recent movement towards alternative regulation, a substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. Interexchange carriers have filed complaints in various forums requesting reductions in our access rates. In addition, several long-distance providers are disputing amounts owed to us for carrying Voice over Internet Protocol ("VoIP") traffic, or traffic they claim to be VoIP traffic, and are refusing to pay such amounts. There

can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

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

In addition, during the last few years Congress or the FCC has initiated various other changes, including (i) broadband stimulus projects, support funds and similar plans and (ii) new "network neutrality" rules. The FCC is also considering changes in the regulation of special access services. Any of these recent or pending initiatives could adversely affect our operations or financial results.

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

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

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

For over 15 years, Congress and the FCC have taken several steps that have resulted in increased competition among communications service providers. Many of the FCC's regulations remain subject to

judicial review and additional rulemakings, thus making it difficult to determine the ultimate impact of these changes on us and our competitors.

***"Net neutrality" legislation or regulation could limit our ability to operate our high-speed data business profitably and to manage our broadband facilities efficiently .***

In order to continue to provide quality high-speed data service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently and to invest in our networks. The FCC's "net neutrality" regulations, which are currently on appeal to the federal circuit court, could adversely impact our ability to operate our high-speed data network profitably and to undertake the upgrades and implement network management practices that may be needed to continue to provide high quality high-speed data services, and could therefore negatively impact our ability to compete effectively.

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

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

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

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

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

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and competitive local exchange carrier operations, and to our facilities-based video services. These requirements could delay us in expanding our operations or increase the costs of providing these services.

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation" in Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012.



## **Risks Affecting our Liquidity and Capital Resources**

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

Our ultimate parent, CenturyLink, and we continue to carry significant debt. As of June 30, 2013, our consolidated debt was approximately \$7.6 billion, which was included in CenturyLink's consolidated debt of approximately \$20.6 billion as of that date. Approximately \$2.7 billion of CenturyLink's debt securities, which includes approximately \$0.9 billion of our debt securities, come due over the next thirty-six months.

Our significant levels of debt can adversely affect us in several other respects, including (i) limiting our ability to access the capital markets, (ii) exposing us to the risk of credit rating downgrades, which would raise our borrowing costs and could further limit our access to capital as described further below in the next captioned risk factor, (iii) hindering our flexibility to plan for or react to changing market, industry or economic conditions, (iv) limiting the amount of cash flow available for future operations, acquisitions, dividends, or other uses, (v) making us more vulnerable to economic or industry downturns, including interest rate increases, and (vi) placing us at a competitive disadvantage compared to less leveraged competitors. The effects of each of these factors could be intensified if we increase our borrowings.

We expect to periodically require financing to meet our debt obligations as they come due. While we currently believe that we will have access to financial resources sufficient to meet or refinance our obligations when they come due, we cannot fully anticipate our future financial condition or the future condition of the credit markets or the economy generally. Due to the unstable economy and credit markets, we may not be able to refinance maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us or at all. We may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) under a variety of circumstances, including if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if regulatory requirements change, if CenturyLink or QCII are required to contribute a material amount of cash to their pension plans, if CenturyLink or QCII are required to begin to pay other post-retirement benefits significantly earlier than anticipated, if CenturyLink or QCII become subject to significant judgments or settlements in one or more of the matters discussed in Note 15—Commitments and Contingencies to the consolidated financial statements in Item 8 of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2012. We can give no assurance that this additional financing will be available on terms that are acceptable to us or at all.

Certain of CenturyLink's and QCII's debt instruments have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings.

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

As noted above in Item 2 of Part I of this report, our long-term debt is currently rated BBB- by Standard and Poor's Ratings Services; Baa3 by Moody's Investors Services; and BBB- by Fitch Ratings, all three of which are the lowest investment-grade ratings issued by each of these agencies. Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we operate as a whole and may change their credit rating for us based on their overall view of such industries. There can be no assurance that any rating



assigned to any of our debt securities will remain in effect for any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant. A downgrade of our credit ratings could adversely affect the market price of some or all of our outstanding debt securities, limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, increase our cost of borrowing, and impair our business, financial condition and results of operations.

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

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

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

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

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

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

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

The funded status of QCII's qualified pension plan is the difference between the value of plan assets and the benefit obligation. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in QCII's benefit obligation or a significant decrease in the value of plan assets. These adverse changes could require QCII to contribute a material amount of cash to its pension plan or could accelerate the timing of required cash payments. The amounts contributed by us through QCII are not segregated or restricted and may be used to provide

benefits to employees of QCII's other subsidiaries. QCII determines our cash contribution and, historically, has only required us to pay our portion of its required pension contribution. Based on current laws and circumstances, QCII was not required to make a cash contribution to this plan in 2012 and QCII does not expect it will be required to make a contribution in 2013 or 2014. The actual amount of required contributions to our plan in future periods will depend upon a variety of factors, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on QCII's liquidity by reducing its cash flows, which in turn could affect our liquidity.

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

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

## **Other Risks**

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

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

***If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies, 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, 2012, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered "critical" because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

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

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

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

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

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

## 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. <sup>(1)</sup>

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

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

- 4.3 Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
- a. First Supplemental Indenture, dated as of August 19, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.22 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2004 (File No. 001-15577) filed with the Securities and Exchange Commission on November 5, 2004).
  - b. Third Supplemental Indenture, dated as of June 17, 2005, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on June 23, 2005).
  - c. Fourth Supplemental Indenture, dated as of August 8, 2006, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on August 8, 2006).
  - d. Fifth Supplemental Indenture, dated as of May 16, 2007, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on May 18, 2007).
  - e. Sixth Supplemental Indenture, dated as of April 13, 2009, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on April 13, 2009).
  - f. Seventh Supplemental Indenture, dated as of June 8, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.8 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 7, 2011).
  - g. Eighth Supplemental Indenture, dated as of September 21, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.9 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 20, 2011).
  - h. Ninth Supplemental Indenture, dated as of October 4, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on October 4, 2011).
  - i. Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).
  - j. Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).

k.	Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).
4.4	Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No 001-07784) filed with the Securities and Exchange Commission on August 9, 2012).
12*	Calculation of Ratio of Earnings to Fixed Charges.
31.1*	Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended June 30, 2013, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholder's Equity (Deficit) and (vi) the Notes to our Consolidated Financial Statements.

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\* Exhibit filed herewith.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 14, 2013.

**QWEST CORPORATION**

By: /s/ DAVID D. COLE

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





**QWEST CORPORATION**  
**CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**(UNAUDITED)**

	Successor			Predecessor		
	Six Months Ended June 30, 2013	Year Ended December 31, 2012	Nine Months Ended December 31, 2011	Three Months Ended March 31, 2011	Years Ended December 31, 2010 2009	
Income before income tax expense	\$ 831	1,391	892	490	1,873	1,921
Add: estimated fixed charges	269	513	342	171	689	705
Add: estimated amortization of capitalized interest	4	9	7	2	10	11
Less: interest capitalized	(8)	(18)	(5)	(3)	(12)	(10)
Total earnings available for fixed charges	\$ 1,096	1,895	1,236	660	2,560	2,627
Estimate of interest factor on rentals	13	28	38	18	62	63
Interest expense, including amortization of premiums, discounts and debt issuance costs	248	467	299	150	615	632
Interest capitalized	8	18	5	3	12	10
Total fixed charges	\$ 269	513	342	171	689	705
Ratio of earnings to fixed charges	4.1	3.7	3.6	3.9	3.7	3.7



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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

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

Date: August 14, 2013

/s/ GLEN F. POST, III

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Glen F. Post, III  
Chief Executive Officer and President

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

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

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

Date: August 14, 2013

/s/ R. STEWART EWING, JR.

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

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**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, 2013 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Dated: August 14, 2013

By: /s/ GLEN F. POST, III

Glen F. Post, III  
Chief Executive Officer and President

Dated: August 14, 2013

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

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

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