

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended **September 30, 2023**
or

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

QWEST CORPORATION

(Exact name of registrant as specified in its charter)

Colorado

(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana

(Address of principal executive offices)

84-0273800

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

71203

(Zip Code)

(318) 388-9000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

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

On October 31, 2023, there was one share of common stock outstanding.

TABLE OF CONTENTS

	Special Note Regarding Forward-Looking Statements	3
Part I.	Financial Information	
Item 1.	Financial Statements	
	Consolidated Statements of Operations (Unaudited)	6
	Consolidated Balance Sheets (Unaudited)	7
	Consolidated Statements of Cash Flows (Unaudited)	8
	Consolidated Statements of Stockholder's Equity (Unaudited)	9
	Notes to Consolidated Financial Statements (Unaudited)*	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 4.	Controls and Procedures	36
Part II.	Other Information	
Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 6.	Exhibits	38
Signature		39

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

Special Note Regarding Forward-Looking Statements

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

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

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

- the effects of intense competition from a wide variety of competitive providers, including decreased demand for our more mature service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- our ability to successfully and timely attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, attaining our Quantum Fiber buildout goals, strengthening our relationships with customers and attaining projected cost savings;
- our ability to safeguard our network, and to avoid the adverse impact of cyber-attacks, security breaches, service outages, system failures, or similar events impacting our network or the availability and quality of our services;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of legislative, regulatory or judicial proceedings relating to content liability standards, intercarrier compensation, universal service, service standards, broadband deployment, data protection, privacy and net neutrality;

- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, taxes, debt repayments, pension contributions and other benefits payments;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- our ability to successfully adjust to changes in customer demand for our products and services, including increased demand for high-speed data transmission services;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to introduce profitable new offerings on a timely and cost-effective basis and to transition customers from our legacy products to our newer offerings;
- our ability to successfully and timely implement our corporate strategies, including our deleveraging and buildout strategies;
- changes in our operating plans, corporate strategies or capital allocation plans, whether based upon, changes in our cash flows, cash requirements, financial performance, financial position, market or regulatory conditions, or otherwise;
- the negative impact of increases in the costs of Lumen's pension, healthcare, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics, regulations;
- the potential negative impact of customer complaints, government investigations, security breaches or service outages impacting us or our industry;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower credit ratings, unstable markets, debt covenant restrictions or otherwise;
- the ability of us and our affiliates to meet the terms and conditions of our respective debt obligations and covenants, including our ability to make transfers of cash in compliance therewith;
- the impact of any purported notice of default or notice of acceleration arising from alleged breach of covenants under the credit documents of us or our affiliates;
- our ability to consummate the transactions contemplated by the transaction support agreement on the timeline currently expected or at all, including the ability of the parties to negotiate definitive agreements with respect to the matters covered by the term sheet included in the transaction support agreement. The occurrence of events may give rise to failure to satisfy any of the conditions to the closing of the transactions contemplated by, or a right of any of the parties to terminate, the transaction support agreement;
- our ability to maintain favorable relations with our security holders, key business partners, suppliers, vendors, landlords and lenders;
- our ability to timely obtain necessary hardware, software, equipment, services, governmental permits and other items on favorable terms;
- Lumen's ability to meet evolving environmental, social and governance ("ESG") expectations and benchmarks, and effectively communicate and implement its ESG strategies;
- the potential adverse effects arising out of allegations regarding the release of hazardous materials into the environment from network assets owned or operated by us or our predecessors, including any resulting governmental actions, removal costs, litigation, compliance costs, or penalties;

- our ability to collect our receivables from, or continue to do business with, financially troubled customers;
- our ability to continue to use or renew intellectual property used to conduct our operations;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates, including Lumen Technologies;
- changes in tax, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels, including those arising from governmental programs promoting broadband development;
- the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require future impairment charges;
- continuing uncertainties regarding the impact that COVID-19 and its aftermath could have on our business, operations, cash flows and corporate initiatives;
- the effects of adverse weather, terrorism, epidemics, pandemics, rioting, societal unrest, or other natural or man-made disasters or disturbances;
- the potential adverse effects if our internal controls over financial reporting have weaknesses or deficiencies, or otherwise fail to operate as intended;
- the effects of changes in interest rates or inflation;
- the effects of more general factors such as changes in exchange rates, in operating costs, in public policy, in the views of financial analysts, or in general market, labor, economic or geopolitical conditions; and
- other risks referenced in the "Risk Factors" section of this report or other portions of this report or other of our filings with the U.S. Securities and Exchange Commission (the "SEC").

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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QWEST CORPORATION CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in millions)			
OPERATING REVENUE				
Operating revenue	\$ 924	1,024	2,869	3,148
Operating revenue - affiliates	526	594	1,589	1,758
Total operating revenue	1,450	1,618	4,458	4,906
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	416	427	1,207	1,249
Selling, general and administrative	118	138	362	361
Operating expenses - affiliates	225	176	600	536
Depreciation and amortization	207	217	607	640
Total operating expenses	966	958	2,776	2,786
OPERATING INCOME	484	660	1,682	2,120
OTHER (EXPENSE) INCOME				
Interest expense	(23)	(28)	(75)	(84)
Interest income (expense) - affiliate, net	5	(14)	7	(55)
Other income, net	1	(1)	5	4
Total other expense, net	(17)	(43)	(63)	(135)
INCOME BEFORE INCOME TAXES	467	617	1,619	1,985
Income tax expense	126	158	426	506
NET INCOME	\$ 341	459	1,193	1,479

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8	8
Accounts receivable, less allowance of \$43 and \$36	267	309
Advances to affiliates	1,633	576
Other	144	120
Total current assets	2,052	1,013
Property, plant and equipment, net of accumulated depreciation of \$8,125 and \$7,617	8,563	8,273
GOODWILL AND OTHER ASSETS		
Goodwill	9,360	9,360
Other intangible assets, net	111	138
Other, net	159	141
Total goodwill and other assets	9,630	9,639
TOTAL ASSETS	\$ 20,245	18,925
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1	2
Accounts payable	330	213
Accrued expenses and other liabilities		
Salaries and benefits	134	127
Income and other taxes	111	89
Other	125	130
Current portion of deferred revenue	170	167
Total current liabilities	871	728
LONG-TERM DEBT	2,156	2,155
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	1,261	1,282
Affiliate obligations, net	506	552
Other	704	654
Total deferred credits and other liabilities	2,471	2,488
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Retained earnings	4,697	3,504
Total stockholder's equity	14,747	13,554
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 20,245	18,925

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2023	2022
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 1,193	1,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	607	640
Deferred income taxes	(21)	(4)
Provision for uncollectible accounts	51	42
Accrued interest on affiliate note	—	28
Changes in current assets and liabilities:		
Accounts receivable	(9)	(15)
Accounts payable	11	(34)
Accrued income and other taxes	22	20
Other current assets and liabilities, net	(23)	(31)
Changes in other noncurrent assets and liabilities, net	33	11
Changes in affiliate obligations, net	(46)	(69)
Other, net	4	7
Net cash provided by operating activities	1,822	2,074
INVESTING ACTIVITIES		
Capital expenditures	(773)	(613)
Changes in advances to affiliates	(1,057)	(231)
Proceeds from sale of property, plant and equipment and other assets	10	42
Net cash used in investing activities	(1,820)	(802)
FINANCING ACTIVITIES		
Payment of note payable - affiliate	—	(1,215)
Payments of long-term debt	(2)	—
Changes in advances from affiliates	—	(55)
Net cash used in financing activities	(2)	(1,270)
Net increase in cash, cash equivalents and restricted cash	—	2
Cash, cash equivalents and restricted cash at beginning of period	10	4
Cash, cash equivalents and restricted cash at end of period	\$ 10	6
Supplemental cash flow information:		
Income taxes paid, net	\$ (423)	(497)
Interest paid, including affiliate interest (net of capitalized interest of \$37 and \$20)	\$ (79)	(130)
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 8	5
Restricted cash - noncurrent	2	1
Total	\$ 10	6

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(Dollars in millions)				
COMMON STOCK				
Balance at beginning of period	\$ 10,050	10,050	10,050	10,050
Balance at end of period	10,050	10,050	10,050	10,050
RETAINED EARNINGS				
Balance at beginning of period	4,356	2,605	3,504	1,585
Net income	341	459	1,193	1,479
Balance at end of period	4,697	3,064	4,697	3,064
TOTAL STOCKHOLDER'S EQUITY	\$ 14,747	13,114	14,747	13,114

See accompanying notes to consolidated financial statements.

QWEST CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

(1) Background

General

We are an integrated facilities-based technology and communications company focused on providing our business and mass markets customers with a broad array of integrated communications products and services necessary to fully participate in our ever-evolving digital world. Our specific products and services are detailed in Note 3—Revenue Recognition of this report.

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

Basis of Presentation

Our consolidated balance sheet as of December 31, 2022, 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 note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). However, in our opinion, the disclosures made therein are adequate to make the information presented not misleading. We believe these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

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

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

Segments

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

Summary of Significant Accounting Policies

Refer to the significant accounting policies described in Note 1—Background and Summary of Significant Accounting Policies to the consolidated financial statements and accompanying notes in Part II Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2022.

Recently Adopted Accounting Pronouncements

Supplier Finance Programs

On January 1, 2023, we adopted Accounting Standards Update (“ASU”) 2022-04, *“Liabilities-Supplier Finance Program (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations”* (“ASU 2022-04”). These amendments require that a company that uses a supplier finance program in connection with the purchase of goods or services disclose sufficient information about the program to allow a user of financial statements to understand the program’s nature, program activity during the period, changes from period to period and the potential magnitude of program transactions. The adoption of ASU 2022-04 did not have any impact to our consolidated financial statements.

Credit Losses

On January 1, 2023, we adopted ASU 2022-02, *“Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings (“TDR”) and Vintage Disclosures”* (“ASU 2022-02”). The ASU eliminates the TDR recognition and measurement guidance, enhances existing disclosure requirements and introduces new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. The adoption of ASU 2022-02 did not have any impact to our consolidated financial statements.

Derivatives and Hedging

On January 1, 2023, we adopted ASU 2022-01, *“Derivatives and Hedging (Topic 815): Fair Value Hedging-Portfolio Layer Method”* (“ASU 2022-01”). The ASU expands the current single-layer method to allow multiple hedged layers of a single closed portfolio under the method. The adoption of ASU 2022-01 did not have any impact to our consolidated financial statements.

Business Combinations

On January 1, 2023, we adopted ASU 2021-08, *“Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers”* (“ASU 2021-08”). This ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The adoption of ASU 2021-08 did not have any impact to our consolidated financial statements.

Government Assistance

On January 1, 2022, we adopted ASU 2021-10, *“Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance”* (“ASU 2021-10”). This ASU requires business entities to disclose information about certain types of government assistance they receive. The ASU only impacts annual financial statement note disclosures. The adoption of ASU 2021-10 did not have an impact to our consolidated financial statements.

Leases

On January 1, 2022, we adopted ASU 2021-05, *“Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments”* (“ASU 2021-05”). This ASU (i) amends the lease classification requirements for lessors to align them with practice under ASC Topic 840, (ii) provides criteria for lessors to classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease; and (iii) provides guidance with respect to net investments by lessors under operating leases and other related topics. The adoption of ASU 2021-05 did not have a material impact to our consolidated financial statements.

Recently Issued Accounting Pronouncements

In October 2023, the Financial Accounting Standards Board (“FASB”) issued ASU 2023-06, *“Disclosure Improvements: Codification Amendments in Response to the SEC’s Disclosure Update and Simplification Initiative”* (“ASU 2023-06”). This ASU incorporates certain SEC disclosure requirements into the FASB Accounting Standards Codification (“Codification”). The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC’s existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC’s regulations. ASU 2023-06 will become effective for each amendment on the effective date of the SEC’s corresponding disclosure rule changes. As of September 30, 2023, we do not expect ASU 2023-06 will have any impact to our consolidated financial statements.

In August 2023, the FASB issued ASU 2023-05, *“Business Combinations – Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement”* (“ASU 2023-05”). This ASU applies to the formation of entities that meet the definition of a joint venture (or a corporate joint venture). The amendments in the ASU require that a joint venture apply a new basis of accounting upon formation. ASU 2023-05 will become effective for us in the first quarter of fiscal 2025 and early adoption is permitted. As of September 30, 2023, we do not expect ASU 2023-05 will have any impact to our consolidated financial statements.

In August 2023, the FASB issued ASU 2023-04, *“Liabilities (Topic 405): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 121”* (“ASU 2023-04”). This ASU amends and adds various SEC paragraphs to the FASB Codification to reflect guidance regarding the accounting for obligations to safeguard crypto assets an entity holds for platform users. This ASU does not provide any new guidance. ASU 2023-04 will become effective for us once the addition to the FASB Codification is made available. As of September 30, 2023, we do not expect ASU 2023-04 will have any impact to our consolidated financial statements.

In July 2023, the FASB issued ASU 2023-03, *“Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock”* (“ASU 2023-03”). This ASU amends or supersedes various SEC paragraphs within the applicable codification to conform to past SEC staff announcements. This ASU does not provide any new guidance. ASU 2023-03 will become effective for us once the addition to the FASB Codification is made available. As of September 30, 2023, we do not expect ASU 2023-03 will have any impact to our consolidated financial statements.

In March 2023, the FASB issued ASU 2023-02, *“Investments-Equity method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method”* (“ASU 2023-02”). These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. ASU 2023-02 will become effective for us in the first quarter of fiscal 2024 and early adoption is permitted. As of September 30, 2023, we do not expect ASU 2023-02 will have any impact to our consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, *“Leases (Topic 842): Common Control Arrangements”* (“ASU 2023-01”). These amendments require all entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. ASU 2023-01 will become effective for us in the first quarter of fiscal 2024 and early adoption is permitted. As of September 30, 2023, we do not expect ASU 2023-01 will have any impact to our consolidated financial statements.

In June 2022, the FASB issued ASU 2022-03, *“Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions”* (“ASU 2022-03”). These amendments clarify that a contractual restriction on the sales of an investment in an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring its fair value. ASU 2022-03 will become effective for us in the first quarter of fiscal 2024 and early adoption is permitted. As of September 30, 2023, we do not expect ASU 2022-03 will have any impact to our consolidated financial statements.

(2) Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
Goodwill	\$ 9,360	9,360
Other intangible assets, less accumulated amortization of \$1,951 and \$1,924	\$ 111	138

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

We are required to assess our goodwill for impairment annually, or under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the carrying value of equity of our reporting unit exceeds its fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assess goodwill at our reporting unit. In reviewing the criteria for reporting units, we have determined that we are one reporting unit.

Second Quarter 2023 Goodwill Impairment Analysis

The sustained decline in Lumen's share price during the second quarter of 2023 was considered a triggering event requiring evaluation of goodwill impairment; as such, we estimated the fair value using only the market approach. Applying this approach, we utilized company comparisons and analyst reports within the telecommunications industry which supported a range of fair values derived from annualized revenue and EBITDA multiples between 1.5x and 4.3x and 4.6x and 10.5x, respectively. We selected a revenue multiple within and an EBITDA multiple below these comparable market multiples. Based on our assessment performed as described above, we concluded that goodwill was not impaired as of June 30, 2023.

The market approach that we used in the quarter ended June 30, 2023 incorporated estimates and assumptions related to the forecasted results for the remainder of the year, including revenues, expenses, and the achievement of certain strategic initiatives. In developing the market multiples, we considered observed trends of our industry participants. Our assessment included many factors that required significant judgment. Alternative interpretations of these factors could have resulted in different conclusions.

As of September 30, 2023, the gross carrying amount of goodwill and other intangible assets was \$11.4 billion. The amortization expense for finite-lived intangible assets for the three months ended September 30, 2023 and 2022 totaled \$17 million and \$20 million, respectively. The amortization expense for finite-lived intangible assets for the nine months ended September 30, 2023 and 2022 totaled \$50 million and \$59 million, respectively.

We estimate that amortization expense for intangible assets for the years ending December 31, 2023 through 2027 will be as follows:

	(Dollars in millions)
2023 (remaining three months)	\$ 16
2024	42
2025	16
2026	10
2027	7

(3) Revenue Recognition

We categorize our revenue derived from our operations serving our mass markets customers, primarily within the first three categories listed below, and our revenue derived from our operations servicing our business customers, primarily in the 'Harvest', 'Nurture' and 'Grow' categories listed below:

- *Other Broadband*, under which we provide primarily lower speed broadband services to residential and small business customers utilizing our copper-based network infrastructure;
- *Voice and Other*, under which we derive revenues from (i) providing local and long-distance voice services, professional services, and other ancillary services, (ii) federal broadband and state support programs, and (iii) equipment, IT solutions and other services;
- *Fiber Broadband*, under which we provide high speed broadband services to residential and small business customers utilizing our fiber-based network infrastructure;
- *Harvest*, which includes our legacy services managed for cash flow, including Time Division Multiplexing ("TDM") voice, private line and other legacy services;
- *Nurture*, which includes our more mature offerings, including primarily ethernet;
- *Grow*, which includes products and services marketed to our business customers that we anticipate will grow, including dark fiber and wavelengths services; and
- *Affiliate Services*, which are communications services that we also provide to external customers. In addition, we provide to our affiliates application development and support services and network support.

Reconciliation of Total Revenue to Revenue from Contracts with Customers

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

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
	(Dollars in millions)					
Other Broadband	\$ 271	(23)	248	315	(27)	288
Voice and Other	145	(4)	141	164	(4)	160
Fiber Broadband	119	(3)	116	118	(3)	115
Harvest	261	(36)	225	283	(41)	242
Nurture	96	(2)	94	104	(2)	102
Grow	32	—	32	40	(2)	38
Affiliate Services	526	(11)	515	594	(11)	583
Total revenue	\$ 1,450	(79)	1,371	1,618	(90)	1,528

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽¹⁾	Total Revenue from Contracts with Customers
	(Dollars in millions)					
Other Broadband	\$ 847	(72)	775	975	(82)	893
Voice and Other	451	(12)	439	532	(24)	508
Fiber Broadband	362	(9)	353	342	(9)	333
Harvest	804	(109)	695	858	(123)	735
Nurture	295	(6)	289	323	(6)	317
Grow	110	—	110	118	(8)	110
Affiliate Services	1,589	(33)	1,556	1,758	(34)	1,724
Total revenue	\$ 4,458	(241)	4,217	4,906	(286)	4,620

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

Operating Lease Revenue

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

For the three months ended September 30, 2023 and 2022, our gross rental income was \$76 million and \$87 million, respectively, which represents approximately 5% of our operating revenue for both the three months ended September 30, 2023 and 2022. For the nine months ended September 30, 2023 and 2022, our gross rental income was \$234 million and \$263 million, respectively, which represents approximately 5% of our operating revenue for both the nine months ended September 30, 2023 and 2022.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
Customer receivables ⁽¹⁾	\$ 238	297
Contract assets	8	9
Contract liabilities	280	343

⁽¹⁾ Reflects gross customer receivables, including gross affiliate receivables, of \$267 million and \$324 million, respectively, net of allowance for credit losses of \$29 million and \$27 million, at September 30, 2023 and December 31, 2022, respectively.

Contract liabilities consist of consideration we have received from our customers or billed in advance of providing goods or services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which typically ranges from one to five years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheets. During the three and nine months ended September 30, 2023, we recognized \$10 million and \$159 million, respectively, of revenue that was included in contract liabilities of \$343 million as of January 1, 2023. During the three and nine months ended September 30, 2022, we recognized \$14 million and \$178 million, respectively, of revenue that was included in contract liabilities of \$317 million as of January 1, 2022.

Performance Obligations

As of September 30, 2023, we expect to recognize approximately \$1.9 billion of revenue in the future related to performance obligations associated with existing customer contracts that are partially or wholly unsatisfied. As of September 30, 2023, the transaction price related to unsatisfied performance obligations that are expected to be recognized for the remainder of 2023, 2024 and thereafter was \$334 million, \$736 million and \$867 million, respectively.

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

Contract Costs

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

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning Balance	\$ 59	45	62	47
Cost Incurred	10	9	13	9
Amortization	(12)	(9)	(13)	(10)
Ending Balances	<u>\$ 57</u>	<u>45</u>	<u>62</u>	<u>46</u>

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
	Acquisition Costs	Fulfillment Costs	Acquisition Costs	Fulfillment Costs
	(Dollars in millions)			
Beginning Balance	\$ 61	46	64	47
Cost incurred	32	28	38	28
Amortization	(36)	(29)	(40)	(29)
Ending Balances	<u>\$ 57</u>	<u>45</u>	<u>62</u>	<u>46</u>

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

We amortize deferred acquisition and fulfillment costs based on the transfer of services on a straight-line basis over the average contract life of 36 months for mass markets customers and average contract life of 33 months for business customers. We include amortized fulfillment costs in cost of services and products and amortized acquisition costs in selling, general and administrative expenses in our consolidated statements of operations. We include the amount of these deferred costs that are anticipated to be amortized in the next 12 months in other current assets on our consolidated balance sheets. We include the amount of deferred costs expected to be amortized beyond the next 12 months in other non-current assets on our consolidated balance sheets. We assess deferred acquisition and fulfillment costs for impairment on a quarterly basis.

(4) Credit Losses on Financial Instruments

To assess our expected credit losses on financial instruments, we aggregate financial assets with similar risk characteristics to monitor their credit quality or deterioration over the life of such assets. We periodically monitor certain risk characteristics within our aggregated financial assets and revise their composition accordingly, to the extent internal and external risk factors change. We separately evaluate financial assets that do not share risk characteristics with other financial assets. Our financial assets measured at amortized cost primarily consist of accounts receivable.

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

If there is an unexpected deterioration of a customer's financial condition or an unexpected change in economic conditions, including macroeconomic events, we assess the need to adjust the allowance for credit losses. Any such resulting adjustments would affect earnings in the period that adjustments are made.

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

The following table presents the activity of our allowance for credit losses by accounts receivable portfolio for the nine months ended September 30, 2023:

	Business	Mass Markets	Total
	(Dollars in millions)		
As of December 31, 2022	\$ 20	16	36
Provision for expected losses	16	35	51
Write-offs charged against the allowance	(12)	(33)	(45)
Recoveries collected	—	1	1
Ending balance at September 30, 2023	\$ 24	19	43

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

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

	Interest Rates ⁽¹⁾	Maturities ⁽¹⁾	September 30, 2023	December 31, 2022
(Dollars in millions)				
Senior notes	6.500% - 7.750%	2025 - 2057	\$ 1,986	1,986
Term loan ⁽²⁾	SOFR + 2.50%	2027	215	215
Finance lease and other obligations	Various	Various	4	3
Unamortized premiums, net			4	5
Unamortized debt issuance costs			(52)	(52)
Total long-term debt			2,157	2,157
Less current maturities			(1)	(2)
Long-term debt, excluding current maturities			\$ 2,156	2,155

⁽¹⁾ As of September 30, 2023.

⁽²⁾ Qwest Corporation's Term Loan had interest rates of 7.931% and 6.640% as of September 30, 2023 and December 31, 2022, respectively.

Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt as of September 30, 2023 (excluding unamortized premiums, net, and unamortized debt issuance costs) maturing during the following years:

	(Dollars in millions)
2023 (remaining three months)	\$ —
2024	1
2025	250
2026	1
2027	215
2028 and thereafter	1,738
Total long-term debt	\$ 2,205

Note Payable - Affiliate

On June 30, 2022, Qwest Corporation entered into an amended and restated revolving promissory note ("Note Payable - Affiliate") with an affiliate of our ultimate parent company, Lumen Technologies, Inc. ("Lender"), that replaces the previous revolving promissory agreement that was scheduled to mature on June 30, 2022 ("Prior Note Payable - Affiliate"). The Note Payable - Affiliate, as amended, provides Qwest Corporation with a funding commitment of up to \$2.0 billion. Any outstanding principal balance owed by Qwest Corporation under the Note Payable - Affiliate and the accrued interest thereon is due and payable on demand, but if no demand is made, then on the maturity date. The Note Payable - Affiliate has an initial maturity date of June 30, 2027, but will automatically renew for an unlimited number of successive twelve-month periods unless the Lender provides notice of its intent not to renew at least 30 days prior to the initial maturity date or each subsequent maturity date.

In accordance with the terms of the amended Note Payable - Affiliate, interest is assessed every six months ending on June 30th and December 31st (an "Interest Period") and is payable within 30 days of the end of the respective Interest Period. Interest is accrued on the outstanding principal balance during the respective Interest Period using a weighted average per annum interest rate on the consolidated outstanding debt of Lumen Technologies, Inc. and its subsidiaries.

On September 30, 2022, Qwest Corporation repaid the outstanding principal and interest on the Note Payable - Affiliate of approximately \$1.2 billion and \$43 million, respectively. As of September 30, 2023, there was no outstanding principal or accrued interest under the Note Payable - Affiliate.

Compliance

As of September 30, 2023, we believe we were in compliance with the financial covenants contained in our material debt agreements in all material respects.

(6) Fair Value of Financial Instruments

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

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 using the below-described fair value hierarchy.

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 inputs other than quoted market prices in active markets that are either directly or indirectly observable such as 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 financial liabilities as of September 30, 2023 and December 31, 2022, as well as the input level used to determine the fair values indicated below:

		September 30, 2023		December 31, 2022	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt (excluding finance lease and other obligations)	2	\$ 2,153	1,386	2,154	1,691

(7) Affiliate Transactions

We provide incumbent local exchange carrier telecommunications services to our affiliates that we also provide to external customers. These services are priced at regulated rates, where applicable, or otherwise at rates we believe are consistent with non-regulated market-based rates charged to external customers.

We also provide to our affiliates shared services in the form of application development and support services, as well as network support and technical services, and administrative and corporate support. In this regard, we function as a service company to other Lumen affiliates, and correspondingly recognize affiliate revenue based on the costs for the services that we provide to those affiliates.

Whenever possible, costs for shared services are incurred directly by our affiliates for the services they use. When these shared costs are not directly incurred, they are allocated among all affiliates based upon what we determine to be the most reasonable method, first using cost causative measures, or, if no cost causative measure is available, using a general allocator. From time to time, we may adjust the basis for allocating the costs of a shared service among affiliates. As applicable any such changes in allocation methodologies are applied prospectively.

For the three months ended September 30, 2023 and 2022, direct affiliate revenue was \$395 million and \$441 million and allocated affiliate revenue was \$131 million and \$153 million, respectively. For the nine months ended September 30, 2023 and 2022, direct affiliate revenue was \$1.2 billion and \$1.3 billion and allocated affiliate revenue was \$400 million and \$463 million, respectively.

We also purchase services from our affiliates including telecommunication services, insurance, flight services and other support services such as legal, regulatory, finance administration and executive support. Our affiliates charge us for these services using the allocation methodology described above.

(8) Commitments, Contingencies and Other Items

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

We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. Subject to these limitations, at September 30, 2023 we had accrued \$16 million in the aggregate for our litigation and non-income tax contingencies, which is included in "Other" current liabilities and "Other Liabilities" on our consolidated balance sheet as of such date. We cannot at this time estimate the reasonably possible loss or range of loss in excess of this \$16 million accrual due to the inherent uncertainties and speculative nature of contested proceedings. The establishment of an accrual does not mean that actual funds have been set aside to satisfy a given contingency. Thus, the resolution of a particular contingency for the amount accrued could have no effect on our results of operations but nonetheless could have an adverse effect on our cash flows.

Principal Proceedings

Billing Practices Suits

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

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

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

Other Proceedings, Disputes and Contingencies

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

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

We are subject to various federal, state and local environmental protection and health and safety laws. From time to time, we are subject to judicial and administrative proceedings brought by various governmental authorities under these laws. Several such proceedings are currently pending, but none is reasonably expected to exceed \$300,000 in fines and penalties. In addition, in the past we acquired companies that had installed lead-sheathed cables several decades earlier, or had operated certain manufacturing companies in the first part of the 1900s. Under applicable environmental laws, we could be named as a potentially responsible party for a share of the remediation of environmental conditions arising from the historical operations of our predecessors.

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

The matters listed in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 14—Commitments, Contingencies and Other Items to the financial statements included in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2022. The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us.

(9) Dividends

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

During the nine months ended September 30, 2023 and September 30, 2022, we declared and paid no dividends to QSC. Dividends paid, when applicable, are reflected on our consolidated statements of cash flows as financing activities.

(10) Other Financial Information

Other Current Assets

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

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
Prepaid expenses	\$ 48	46
Contract acquisition costs	35	38
Contract fulfillment costs	28	30
Other	33	6
Total other current assets	\$ 144	120

Other Current Liabilities

The following table presents details of other current liabilities on our consolidated balance sheets:

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
Affiliate obligations	\$ 57	57
Operating lease liabilities	23	21
Other	45	52
Total other current liabilities	\$ 125	130

Other Noncurrent Liabilities

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

	September 30, 2023	December 31, 2022
	(Dollars in millions)	
Unrecognized tax benefits	\$ 450	427
Operating lease liabilities	56	58
Other	198	169
Total other noncurrent liabilities	\$ 704	654

(11) Labor Union Contracts

As of September 30, 2023, approximately 41% of our employees were represented by the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). None of our represented employees are subject to collective bargaining agreements that are scheduled to expire within the twelve-month period ending September 30, 2024. We believe relations with our employees continue to be generally good.

(12) Subsequent Events

Workforce Reduction

On October 31, 2023, Lumen announced a plan to reduce its global workforce as part of its ongoing efforts to reorganize it for growth by right-sizing its operations to improve its profitability. The workforce reduction is expected to be substantially completed by the end of the fourth quarter of 2023. As a result of this plan, we expect to incur severance and related costs in the range of approximately \$15 to \$25 million. The Company does not expect to incur any material impairment or exit costs related to this plan. The workforce reduction is considered a subsequent event for the purposes of these financial statements, and therefore, no accrual for severance and related costs has been recorded as of September 30, 2023.

Debt Transaction Support Agreement

On October 31, 2023, Lumen announced that it has entered into a transaction support agreement with a group of creditors representing over \$7 billion of the outstanding indebtedness of Lumen and its subsidiaries to, among other things, extend maturities of the debt instruments of Lumen and Level 3 Financing, Inc. In addition, the creditors have committed to provide \$1.2 billion of financing to Lumen through new long-term debt. The consummation of the transactions contemplated by the transaction support agreement is subject to the satisfaction of various closing conditions.

In connection with the consummation of the transactions contemplated by the transaction support agreement, Qwest and one or more of its subsidiaries is expected to provide an unsecured guarantee of certain Lumen secured debt subject to receipt of any required regulatory approvals.

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

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

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

Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" referenced in Item 1A of Part II of this report or other of our filings with the SEC for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2022, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

We are an integrated facilities-based technology and communications company focused on providing our business and mass markets customers with a broad array of integrated communications products and services necessary to fully participate in our ever-evolving digital world. Our specific products and services are detailed in Note 3—Revenue Recognition in Item 1 of Part I of this report and below under the heading "Products, Services and Revenue".

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

At September 30, 2023, we served approximately 2.2 million broadband subscribers. Our methodology for counting broadband subscribers may not be comparable to those of other companies.

Changes in the Macroeconomic, Industry and Work Environments

Societal, governmental and macroeconomic changes have impacted us, our customers and our business in several ways since the onset of the COVID-19 pandemic in the U.S. in March 2020. Beginning in the second half of 2020 and continuing into 2023, we rationalized our leased footprint and ceased using 7 leased property locations that were underutilized. These lease cancellations resulted in accelerated lease costs, including \$3 million of such costs recognized during the nine months ended September 30, 2023, but will lower our future operating costs. In conjunction with our plans to continue to reduce costs, we expect to continue our real estate rationalization efforts and expect to incur additional accelerated lease costs in future periods. Additionally, as discussed further elsewhere herein, the pandemic and macroeconomic changes arising therefrom have resulted in (i) increases in certain revenue streams and decreases in others, (ii) operational challenges resulting from inflation and, to a lesser extent, shortages of certain components and other supplies that we use in our business, (iii) delays in our cost transformation initiatives and (iv) delayed decision-making by certain of our customers. None of these effects, individually or in the aggregate, have to date materially impacted our financial performance or financial position.

Industry developments over the past couple years have increased fiber construction demand. Until recently, the resulting increase in construction labor rates has widened the range of enablement costs of our fiber buildout projects. Over the past couple years, we believe these factors, among others, contributed to a delay in attaining our Quantum Fiber buildout targets.

If any of the above-listed factors intensify, our financial results could be materially impacted in a variety of ways, including by increasing our expenses, decreasing our revenues, further delaying our network expansion plans or otherwise interfering with our ability to deliver products and services. For additional information on the impacts of the pandemic and the macroeconomic changes arising therefrom, see (i) the remainder of this item, including "Liquidity and Capital Resources - *Overview of Sources and Uses of Cash*" and (ii) Item 1A of Part II of this report.

Products, Services and Revenue

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

- *Other Broadband*, under which we provide primarily lower speed broadband services to residential and small business customers utilizing our copper-based network infrastructure;
- *Voice and Other*, under which we derive revenues from (i) providing local and long-distance voice services, professional services, and other ancillary services, (ii) federal broadband and state support programs, and (iii) equipment, IT solutions and other services;
- *Fiber Broadband*, under which we provide high speed broadband services to residential and small business customers utilizing our fiber-based network infrastructure;
- *Harvest*, which includes our legacy services managed for cash flow, including Time Division Multiplexing ("TDM") voice, private line and other legacy services;
- *Nurture*, which includes our more mature offerings, including primarily ethernet;
- *Grow*, which includes products and services marketed to our business customers that we anticipate will grow, including dark fiber and wavelengths services; and
- *Affiliate Services*, which are communications services that we also provide to external customers. In addition, we provide to our affiliates application development and support services and network support.

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

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

Results of Operations

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
(Dollars in millions)				
Operating revenue	\$ 1,450	1,618	4,458	4,906
Operating expenses	966	958	2,776	2,786
Operating income	484	660	1,682	2,120
Total other expense, net	(17)	(43)	(63)	(135)
Income before income taxes	467	617	1,619	1,985
Income tax expense	126	158	426	506
Net income	\$ 341	459	1,193	1,479

For a discussion of certain trends that impact our business, see the MD&A discussion of trends impacting Lumen's business included in Lumen's reports filed with the SEC, including most recently its Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023.

Operating Revenue

The following table summarizes our consolidated operating revenue recorded under our revenue categories described in Note 3—Revenue Recognition:

	Three Months Ended September 30,		
	2023	2022	% Change
	(Dollars in millions)		
Other Broadband	\$ 271	315	(14)%
Voice and Other	145	164	(12)%
Fiber Broadband	119	118	1 %
Harvest	261	283	(8)%
Nurture	96	104	(8)%
Grow	32	40	(20)%
Affiliate Services	526	594	(11)%
Total operating revenue	\$ 1,450	1,618	(10)%

	Nine Months Ended September 30,		
	2023	2022	% Change
	(Dollars in millions)		
Other Broadband	\$ 847	975	(13)%
Voice and Other	451	532	(15)%
Fiber Broadband	362	342	6 %
Harvest	804	858	(6)%
Nurture	295	323	(9)%
Grow	110	118	(7)%
Affiliate Services	1,589	1,758	(10)%
Total operating revenue	\$ 4,458	4,906	(9)%

Total operating revenue decreased by \$168 million and \$448 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022. Within each product category, this decrease was primarily due to:

- Decreases in Other Broadband by \$44 million and \$128 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 primarily due to decreased subscribers to our low speed broadband services;
- Decreases in Voice and Other by \$19 million and \$81 million respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, primarily attributable to (i) a decrease of \$20 million and \$67 million for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, respectively, from a decline in voice services and (ii) a decrease of \$13 million related to recognition in the first quarter of 2022 of previously deferred revenue related to the CAF II program, which lapsed on December 31, 2021, impacting the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022;
- Decreases in Harvest by \$22 million and \$54 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 primarily attributable to declines in legacy voice services;
- Decreases in Nurture by \$8 million and \$28 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, primarily due to declines in Ethernet services.
- Decreases in Grow by \$8 million for both the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022, primarily due to declines in wavelengths services.

These declines were partially offset by:

- Increases in Fiber Broadband by \$1 million and \$20 million respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 driven by growth in fiber customers associated with increased rates.

Affiliate services revenue also decreased by \$68 million and \$169 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022. The decreases were primarily due to (i) lower affiliate service revenues of \$21 million and \$62 million, respectively, for the three and nine months ended September 30, 2023 as compared to the comparable periods for September 30, 2022, due to the transfer of employees to our affiliates, (which lowers our affiliate revenue under our cost allocation methodology) and (ii) decreases of \$47 million and \$107 million, respectively, for the three and nine months ended September 30, 2023 as compared to the comparable periods for September 30, 2022 primarily due to declines in the level of services provided to our affiliates.

Operating Expenses

The following tables summarize our consolidated operating expenses:

	Three Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 416	427	(3)%
Selling, general and administrative	118	138	(14)%
Operating expenses - affiliates	225	176	28 %
Depreciation and amortization	207	217	(5)%
Total operating expenses	<u>\$ 966</u>	<u>958</u>	1 %

	Nine Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 1,207	1,249	(3)%
Selling, general and administrative	362	361	— %
Operating expenses - affiliates	600	536	12 %
Depreciation and amortization	607	640	(5)%
Total operating expenses	<u>\$ 2,776</u>	<u>2,786</u>	— %

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

Cost of services and products (exclusive of depreciation and amortization) decreased by \$11 million and \$42 million, respectively, for the three and nine months ended September 30, 2023, as compared to the comparable periods ended September 30, 2022. These decreases were primarily due to reductions in allocated employee related costs of \$21 million and \$70 million, respectively, as well as decreases in insurance and fees of \$4 million and \$11 million, respectively. These decreases were partially offset by higher network expenses of \$10 million and \$21 million, respectively, as well as higher direct employee related expenses of \$4 million and \$15 million, respectively. For the nine months ended September 30, 2023, as compared to the nine months ended September 30, 2022, these decreases were partially offset by increases in real estate and power expenses of \$9 million.

Selling, General and Administrative

Selling, general and administrative expenses decreased by \$20 million and increased by \$1 million, respectively, for the three and nine months ended September 30, 2023, as compared to the comparable periods ended September 30, 2022. The decrease in the three months ended September 30, 2023 as compared to the September 30, 2022, was primarily due to a decrease of \$11 million in bad debt expense as well as a decrease in marketing expenses of \$8 million.

Operating Expenses - Affiliates

Operating expenses - affiliates increased by \$49 million and \$64 million, respectively, for the three and nine months ended September 30, 2023, as compared to the comparable periods ended September 30, 2022. The increases were primarily due to an increase of \$17 million for both the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 of allocated affiliate costs due to higher operating expenses in 2023. These increases are additionally driven by \$36 million and \$55 million, respectively, from higher utilization of affiliates' Enterprise and Mass Markets employee services and increased allocated corporate expenses due to Lumen's 2022 ILEC divestiture, partially offset by \$4 million and \$8 million, respectively, lower utilization of direct access and marketing services provided by affiliates.

Depreciation and Amortization

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

	Three Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Depreciation	\$ 190	197	(4)%
Amortization	17	20	(15)%
Total depreciation and amortization	<u>\$ 207</u>	<u>217</u>	<u>(5)%</u>

	Nine Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Depreciation	\$ 557	581	(4)%
Amortization	50	59	(15)%
Total depreciation and amortization	<u>\$ 607</u>	<u>640</u>	<u>(5)%</u>

Depreciation expense decreased by \$7 million and \$24 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 primarily due to a decrease of \$20 million and \$60 million, respectively, resulting from the impact of annual rate depreciable life changes, which was partially offset by higher depreciation expense of \$16 million and \$40 million, respectively, due to net growth in depreciable assets.

Amortization expense decreased by \$3 million and \$9 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022 due primarily to a decrease of \$4 million and \$12 million, respectively, in amortizable assets, partially offset by an increase of \$1 million and \$3 million, respectively, due to the impact of annual rate depreciable life changes.

Other Consolidated Results

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

	Three Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Interest expense	\$ (23)	(28)	(18)%
Interest income (expense) - affiliate, net	5	(14)	nm
Other income, net	1	(1)	nm
Total other expense, net	\$ (17)	(43)	(60)%
Income tax expense	\$ 126	158	(20)%

	Nine Months Ended September 30,		% Change
	2023	2022	
	(Dollars in millions)		
Interest expense	\$ (75)	(84)	(11)%
Interest income (expense) - affiliate, net	7	(55)	nm
Other income, net	5	4	25 %
Total other expense, net	\$ (63)	(135)	(53)%
Income tax expense	\$ 426	506	(16)%

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

Interest Expense

Interest expense decreased by \$5 million and \$9 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022. The decrease in interest expense is primarily due to (i) higher capitalized interest of \$7 million, which was partially offset by the increase in the average interest of 6.50% to 6.84% for the three months ended September 30, 2022 compared to the three months ended September 30, 2023, respectively, and (ii) higher capitalized interest of \$17 million, which was partially offset by the increase in the average interest of 6.42% to 6.78% for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2023, respectively.

Interest Expense - Affiliate, Net

Interest expense - affiliate, net decreased by \$19 million and \$62 million, respectively, for the three and nine months ended September 30, 2023 as compared to the three and nine months ended September 30, 2022. The decrease in interest expense - affiliate, net was primarily due to the repayment of the outstanding principal and interest on the Note Payable - Affiliate on September 30, 2022. See Note 5—Long-Term Debt and Note Payable - Affiliate.

Income Tax Expense

For the three and nine months ended September 30, 2023 our effective tax rates were 27.0% and 26.3%, respectively. For the three and nine months ended September 30, 2022 our effective tax rates were 25.6% and 25.5%, respectively.

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

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

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

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

We are currently experiencing competitive, macroeconomic and financial pressures, such as operational challenges resulting from inflation, dis-synergies resulting from Lumen's 2022 divestitures, concerns about our ability to refinance debt in the future, and, to a lesser extent, shortages of certain components and other supplies that we use in our business. If these pressures continue, we may experience significant deterioration in our projected cash flows, or make significant changes to our assumptions of discount rates and market multiples. Any of these could result in a determination in a future quarter that our goodwill has been impaired.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to expand and improve our service offerings, enhance and modernize our networks, and compete effectively in our markets. Lumen Technologies and we evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of Lumen's consolidated capital investment, and our portion thereof, is influenced by, among other things, demand for Lumen's services and products, cash flow generated by operating activities, cash required for debt service and other purposes, regulatory considerations (such as government mandated infrastructure buildout requirements) and the availability of requisite supplies, labor and permits.

Our capital expenditures continue to be focused on enhancing network operating efficiencies, supporting new service developments, and expanding our fiber network, including our Quantum Fiber buildout plan. For more information on our capital spending, see "Cash Flow Activities" below and Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022.

Debt and Other Financing Arrangements

As of September 30, 2023, we had a face amount of approximately \$2.2 billion aggregate outstanding indebtedness (excluding finance leases, unamortized premiums, net, and unamortized debt issuance costs). None of our outstanding debt is due in the next 12 months (excluding finance lease obligations).

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

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

Agency	Credit Ratings
Moody's Investors Service, Inc.	B3
Standard & Poor's	B
Fitch Ratings	BB-

Lumen's and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future changes in the senior unsecured or secured debt ratings of us or our subsidiaries could impact our access to capital or borrowing costs. With the recent downgrade of our credit ratings, we may find it more difficult to borrow on favorable terms, or at all. See Risk Factors—Financial Risks in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022.

From time to time over the past couple of years, we have engaged in various refinancings, redemptions, tender offers, open market purchases and other transactions designed to reduce our consolidated indebtedness, improve our financial flexibility or otherwise enhance our debt profile. Subject to market conditions restrictions under our debt covenants, and other limitations, we may pursue similar transactions in the future to the extent feasible. We may not disclose these transactions in advance, unless required by applicable law or material in nature or amount.

Note Payable - Affiliate

The Note Payable - Affiliate (as defined in Note 5—Long-Term Debt and Note Payable - Affiliate) between Qwest Corporation and an affiliate of our ultimate parent company, Lumen Technologies, Inc. ("Lender"), was amended and restated on June 30, 2022. The Note Payable - Affiliate, as amended, provides Qwest Corporation with a funding commitment of up to \$2.0 billion. Any outstanding principal balance owed by us under the Note Payable - Affiliate and the accrued interest thereon is due and payable on demand, but if no demand is made, then on the maturity date. The Note Payable - Affiliate has an initial maturity date of June 30, 2027, but will automatically renew for an unlimited number of successive twelve-month periods unless the Lender provides notice of its intent not to renew at least 30 days prior to the initial maturity date or each subsequent maturity date. Interest on the Note Payable - Affiliate is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of Lumen Technologies, Inc. and its subsidiaries.

On September 30, 2022, Qwest Corporation repaid the outstanding principal and interest on the Note Payable - Affiliate of approximately \$1.2 billion and \$43 million, respectively. As of September 30, 2023, there was no outstanding principal or accrued interest under the Note Payable - Affiliate.

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

Dividends

We periodically pay dividends to QSC, our direct parent company, which reduce our capital resources for debt repayments and other purposes. For additional information, see (i) our consolidated statements of cash flows and stockholder's equity, (ii) Note 9—Dividends and (iii) the discussion above under the heading "Overview".

Pension and Post-retirement Benefit Obligations

Lumen Technologies is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2022, the accounting unfunded status of Lumen's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was approximately \$615 million and approximately \$2.0 billion, respectively. For additional information about Lumen's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pension and Post-Retirement Benefit Obligations" in Item 7 of Lumen's Annual Report on Form 10-K for the year ended December 31, 2022 and see Note 11—Employee Benefits to the consolidated financial statements in Item 8 of Part II of the same report.

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

Benefits paid by Lumen's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, Lumen Technologies does not expect any contributions to be required for their qualified pension plan during 2023. The amount of required contributions to Lumen's qualified pension plan in 2024 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Lumen Technologies occasionally makes voluntary contributions in addition to required contributions and reserves the right to do so in the future. Lumen Technologies has advised that it does not expect to make a voluntary contribution to the trust of the qualified pension plan in 2023.

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

The affiliate obligations, net in other within current liabilities and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expenses, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the nine months ended September 30, 2023, we made net settlement payments of \$43 million to QCII in accordance with the plan. Changes in the affiliate obligations, net are reflected in operating activities on our consolidated statements of cash flows. For the year ended 2023, we expect to make aggregate settlement payments of \$57 million to QCII under the plan.

For 2023, Lumen's expected annual long-term rate of return on pension plan assets is 6.5%. However, actual returns could be substantially different.

For additional information, see "Risk Factors—Financial Risks" in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2022.

Federal Broadband Support Programs

In early 2020, the FCC created the Rural Digital Opportunity Fund (the "RDOF"), which is a federal support program designed to fund broadband deployment in rural America. For the first phase of this program, RDOF Phase I, the FCC ultimately awarded \$6.4 billion in support payments to be paid in equal monthly installments over 10 years. Lumen Technologies was awarded RDOF funding in several of the states in which we operate and began receiving monthly support payments during the second quarter of 2022, our share of which is not material.

For additional information on these programs, see (i) Note 3—Revenue Recognition 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, 2022, (ii) "Business—Regulation of Our Business—Universal Service" in Item 1 of Part I of the same Annual Report (iii) "Risk Factors—Legal and Regulatory Risks" in Item 1A of Part I of the same Annual Report and (iv) the periodic reports filed by Lumen Technologies.

Federal officials have proposed changes to current programs and laws that could impact us, including proposals designed to increase broadband access, increase competition among broadband providers, lower broadband costs and re-adopt "net neutrality" rules similar to those adopted under the Obama Administration. In late 2021, the U.S. Congress enacted legislation that appropriated \$65 billion to improve broadband affordability and access, primarily through federally funded state grants. As of the date of this report, various state and federal agencies are continuing to take steps to make this funding available to eligible applicants, including us. It remains premature to speculate on the ultimate impact of this legislation on us.

Cash Flow Activities

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		\$ Change
	2023	2022	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 1,822	2,074	(252)
Net cash used in investing activities	(1,820)	(802)	1,018
Net cash used in financing activities	(2)	(1,270)	(1,268)

Operating Activities

Net cash provided by operating activities decreased by \$252 million for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 primarily due to lower net income adjusted for non-cash income and expenses. The decrease was partially offset by increases related to other changes in working capital. Cash provided by operating activities is subject to variability period over period as a result of timing differences, including with respect to collection of receivables and payments of interest expense, accounts payable and bonuses. For additional information about our operating results, see "Results of Operations" above.

Investing Activities

Net cash used in investing activities increased by \$1.0 billion for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 primarily due to an increase in advances to affiliates as well as an increase in capital expenditures.

Financing Activities

Net cash used in financing activities decreased by \$1.3 billion for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 primarily due to timing of payments of note payable - affiliates.

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

Other Matters

We are subject to various legal proceedings and other contingent liabilities that individually or in the aggregate could materially affect our financial condition, future results of operations or cash flows. See Note 8—Commitments, Contingencies and Other Items for additional information.

Lumen Technologies is involved in several legal proceedings to which we are not a party that, if resolved against it, could have a material adverse effect on its business and financial condition. As a wholly owned subsidiary of Lumen Technologies, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in Lumen's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters as of September 30, 2023.

Market Risk

As of September 30, 2023, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations, amended and restated revolving promissory note and fluctuations in certain foreign currencies.

At September 30, 2023, we had approximately \$2.0 billion (excluding finance lease and other obligations) of long-term debt outstanding which bears interest at fixed rates and is therefore not exposed to interest rate risk. At September 30, 2023, we had \$215 million floating rate debt based on the secured overnight financing rate ("SOFR"). A hypothetical increase of 100 basis points in SOFR relative to this debt would decrease our annual pre-tax earnings by \$2 million.

At September 30, 2023, we had no debt which was owed to an affiliate of our ultimate parent, Lumen Technologies, Inc., under the note payable-affiliate. The note payable-affiliate bears interest at a variable rate, which is based on a weighted average per annum interest rate of Lumen's outstanding borrowings for the interest period and therefore is exposed to potential interest rate risk.

Certain shortcomings are inherent in the method of analysis in evaluating our market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. Our analyses only incorporate the risk exposures that existed at September 30, 2023.

Other Information

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Omitted pursuant to General Instruction H(2).

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the "Exchange Act")) designed to provide reasonable assurance that the information required to be disclosed by us in the reports we file or furnish under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. These include controls and procedures designed to ensure this information is accumulated and communicated to our senior management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our President and Chief Executive Officer, Kate Johnson, and our Executive Vice President and Chief Financial Officer, Chris Stansbury, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2023. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded our disclosure controls and procedures were effective, as of September 30, 2023, in providing reasonable assurance the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the third quarter of 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

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

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 8—Commitments, Contingencies and Other Items included in Item 1 of Part I of this report is incorporated herein by reference. The ultimate outcome of the matters described in Note 8 may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our statements appearing in such Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Legal and Regulatory Risks” in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2022.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. We recommend that you carefully consider (i) the other information set forth in this report and (ii) the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022, as supplemented by the disclosures included in Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 and Part II, Item 1A of our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2023.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
31.1*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended September 30, 2023, formatted in Inline XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.
104*	Cover page formatted as Inline XBRL and contained in Exhibit 101.

* Exhibit filed herewith.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on October 31, 2023.

QWEST CORPORATION

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kate Johnson, Chief Executive Officer, certify that:

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

Date: October 31, 2023

/s/ Kate Johnson

Kate Johnson
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Chris Stansbury, 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: October 31, 2023

/s/ Chris Stansbury

Chris Stansbury
Executive Vice President and Chief Financial Officer

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

I, Kate Johnson, Chief Executive Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: October 31, 2023

/s/ Kate Johnson
Kate Johnson
Chief Executive Officer

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

I, Chris Stansbury, Chief Financial Officer of Qwest Corporation ("Qwest"), certify that, to my knowledge, the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Date: October 31, 2023

/s/ Chris Stansbury
Chris Stansbury
Executive Vice President and Chief
Financial Officer