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

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**FORM 10-Q**

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☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2018  
or

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

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**QWEST CORPORATION**

(Exact name of registrant as specified in its charter)

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**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**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)

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☐  
(Do not check if a smaller reporting company) Emerging growth company ☐

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

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

On May 15, 2018, there was one share of common stock outstanding.

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

## PART I—FINANCIAL INFORMATION

### Special Note Regarding Forward-Looking Statements

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are “forward-looking” statements, as defined by (and subject to the “safe harbor” protections under) the federal securities laws. When used herein, the words “anticipates,” “expects,” “believes,” “seeks,” “hopes,” “intends,” “plans,” “projects,” “will” and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. These forward-looking statements, and the assumptions on which they are based, (i) are not guarantees of future events, (ii) are inherently speculative and (iii) are subject to significant risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. All of our forward-looking statements are qualified in their entirety by reference to our discussion of certain important factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward looking statements. Factors that could cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline 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;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, universal service, broadband deployment, data protection and net neutrality;
- the ability of our parent company, CenturyLink, Inc. ("CenturyLink") to timely realize the anticipated benefits of its recently-completed combination with Level 3, including its ability to attain anticipated cost savings, to use Level 3's net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- changes in our operating plans, corporate strategies, or capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of CenturyLink's pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn impact our business and liquidity;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to meet the terms and conditions of our debt obligations;

- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and our other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us or our affiliates (including CenturyLink);
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including potential future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
- other risks identified in our "Risk Factors" disclosures included in our annual report on Form 10-K for the year ended December 31, 2017.

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.

**ITEM 1. FINANCIAL STATEMENTS**

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

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(Dollars in millions)</b>	
<b>OPERATING REVENUES</b>		
Operating revenues	\$ 1,419	1,486
Operating revenues - affiliates	711	676
Total operating revenues	2,130	2,162
<b>OPERATING EXPENSES</b>		
Cost of services and products (exclusive of depreciation and amortization)	707	720
Selling, general and administrative	215	244
Operating expenses - affiliates	216	227
Depreciation and amortization	360	391
Total operating expenses	1,498	1,582
<b>OPERATING INCOME</b>	632	580
<b>OTHER (EXPENSE) INCOME</b>		
Interest expense	(118)	(114)
Interest expense - affiliates, net	(13)	(15)
Other income, net	9	1
Total other expense, net	(122)	(128)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	510	452
Income tax expense	130	174
<b>NET INCOME</b>	<b>\$ 380</b>	<b>278</b>

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
CONSOLIDATED BALANCE SHEETS

	As of March 31, 2018 (Unaudited)	As of December 31, 2017
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6	1
Accounts receivable, less allowance of \$49 and \$47	577	646
Advances to affiliates	1,138	1,024
Other	217	98
Total current assets	1,938	1,769
Property, plant and equipment, net of accumulated depreciation of \$6,570 and \$6,392	7,945	7,924
GOODWILL AND OTHER ASSETS		
Goodwill	9,360	9,360
Customer relationships, less accumulated amortization of \$4,458 and \$4,337	1,241	1,362
Other intangible assets, less accumulated amortization of \$1,644 and \$1,619	363	379
Other, net	100	75
Total goodwill and other assets	11,064	11,176
TOTAL ASSETS	\$ 20,947	20,869
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 17	17
Accounts payable	300	317
Note payable - affiliate	981	965
Accrued expenses and other liabilities		
Salaries and benefits	152	238
Income and other taxes	190	174
Other	139	138
Current affiliate obligations, net	81	82
Advance billings and customer deposits	255	265
Total current liabilities	2,115	2,196
LONG-TERM DEBT	7,260	7,264
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenues	101	128
Deferred income taxes, net	1,003	1,001
Affiliate obligations, net	843	861
Other	80	82
Total deferred credits and other liabilities	2,027	2,072
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDER'S EQUITY		
Common stock - one share without par value, owned by Qwest Services Corporation	10,050	10,050
Accumulated deficit	(505)	(713)
Total stockholder's equity	9,545	9,337
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 20,947	20,869

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$ 380	278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	360	391
Deferred income taxes	(41)	(32)
Provision for uncollectible accounts	23	21
Accrued interest on affiliate note	16	—
Changes in current assets and liabilities:		
Accounts receivable	95	42
Accounts payable	18	59
Accrued income and other taxes	16	16
Other current assets and liabilities, net	(130)	(147)
Other current assets and liabilities - affiliates, net	(9)	15
Changes in other noncurrent assets and liabilities, net	1	12
Changes in affiliate obligations, net	(19)	(21)
Other, net	(1)	(10)
Net cash provided by operating activities	709	624
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(292)	(318)
Changes in advances to affiliates	(109)	(83)
Proceeds from sale of property	1	41
Net cash used in investing activities	(400)	(360)
FINANCING ACTIVITIES		
Payments of long-term debt	(4)	(1)
Dividends paid to Qwest Services Corporation	(300)	(250)
Net cash used in financing activities	(304)	(251)
Net increase in cash, cash equivalents and restricted cash	5	13
Cash, cash equivalents and restricted cash at beginning of period	3	7
Cash, cash equivalents and restricted cash at end of period	\$ 8	20
Supplemental cash flow information:		
Income taxes paid, net	\$ (171)	(205)
Interest paid (net of capitalized interest of \$7 and \$7)	\$ (110)	(101)

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2018	2017
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$ 10,050	10,050
Balance at end of period	10,050	10,050
ACCUMULATED DEFICIT		
Balance at beginning of period	(713)	(1,358)
Net income	380	278
Cumulative effect of adoption of ASU 2014-09, <i>Revenue from Contracts with Customers</i>	128	—
Dividends declared to Qwest Services Corporation	(300)	(250)
Dividend of equity interest in limited liability company to Qwest Services Corporation	—	(12)
Balance at end of period	(505)	(1,342)
TOTAL STOCKHOLDER'S EQUITY	\$ 9,545	8,708

See accompanying notes to consolidated financial statements.



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

*Unless the context requires otherwise, references in this report to "QC" refer to Qwest Corporation, references to "Qwest," "we," "us," and "our" refer to Qwest Corporation and its consolidated subsidiaries, references to "QSC" refer to our direct parent company, Qwest Services Corporation and its consolidated subsidiaries, and references to "CenturyLink" refer to our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries.*

**(1) Background**

***General***

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

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

***Basis of Presentation***

Our consolidated balance sheet as of December 31, 2017 , which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations for the first three months of the year are not necessarily indicative of the consolidated results of operations that might be expected for the entire year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017 .

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

We reclassified certain prior period amounts to conform to the current period presentation. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

***Income Taxes***

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law and in December 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") 118 to provide guidance for companies that have not completed their accounting for the income tax effects of the Act. As of March 31, 2018, we have not completed our accounting for the tax effects of the Act. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the Financial Accounting Standards Board ("FASB") and other standard-setting and regulatory bodies. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the re-measurement of deferred tax assets and liabilities. The ultimate impact may differ from our provisional amount due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our future statements of operations and could be material. We expect to complete the accounting by the time we file our 2017 U.S. corporate income tax return in the fourth quarter of 2018, although we cannot assure you of this.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, and made certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures and various other items. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$555 million in our consolidated statement of operations for the year ended December 31, 2017.

### ***Recently Adopted Accounting Pronouncements***

In the first quarter of 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, “*Revenue from Contracts with Customers*” and ASU 2016-16, “*Intra-Entity Transfers of Assets Other Than Inventory*”.

Each of these is described further below.

#### ***Revenue Recognition***

ASU 2014-09 (“ASC 606”) replaces virtually all existing GAAP on revenue recognition with a principles-based approach for determining revenue recognition using a new five step model.

We adopted the new revenue recognition standard under the modified retrospective transition method and recorded a cumulative catch-up, which resulted in an increase to retained earnings of \$128 million. See Note 4—Products and Services Revenues for additional information on revenue recognition.

Upon adoption, we deferred (or capitalized) incremental customer contract acquisition costs and plan to recognize such costs over the average customer life, which approximates the initial contract term and anticipated renewals for contracts to which such costs relate. Our deferred contract costs for our business and consumer customers have average amortization periods of approximately 49 months and 30 months, respectively, and are subject to being monitored every period to reflect any significant change in assumptions. In addition, we intend to assess our deferred contract cost asset for impairment on a periodic basis.

Promotional bill credits, discounts and prepaid cards offered to customers as part of renewing services or entering into a new services arrangement that are paid over time and are contingent on the customer maintaining a service contract results in an extended service contract term with multiple performance obligations, which impacts the allocation and timing of revenue recognition between service revenue and revenue assigned to the customer credits. The contract asset is subsequently amortized as a reduction to service revenue over the extended contract term.

Most of our indefeasible right of use arrangements, including certain long-term prepaid customer capacity arrangements, are accounted for as operating leases.

#### ***Income Taxes***

ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. Prospectively, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. The adoption of ASU 2016-16 did not have a material impact to our consolidated financial statements.

### ***Recent Accounting Pronouncements***

#### ***Leases***

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

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that we may elect to apply.

On January 25, 2018, the FASB issued ASU 2018-01, “*Leases: Land Easement Practical Expedient for Transition to ASU 2016-02*” (“ASU 2018-01”). ASU 2018-01 permits reporting companies to elect to forego reassessments of land easements that exist or expire before the entity’s adoption of ASU 2016-02 and that were not previously accounted for as leases. We plan to adopt ASU 2018-01 at the same time we adopt ASU 2016-02.

We are in the process of implementing a new lease administration and accounting system. We plan to adopt ASU 2016-02 and ASU 2018-01 effective January 1, 2019. The adoption of ASU 2016-02 will result in our recognition of right of use assets and lease liabilities that we have not previously recorded. Although we believe it is premature as of the date of this report to provide any estimate of the impact of adopting ASU 2016-02, we do expect that it will have a material impact on our consolidated financial statements.

#### Financial Instruments

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

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

#### Goodwill Impairment

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

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

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

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

	Interest Rates	Maturities	As of March 31, 2018	As of December 31, 2017
(Dollars in millions)				
Senior notes	6.125% - 7.750%	2021 - 2057	\$ 7,294	7,294
Term loan	3.890%	2025	100	100
Capital lease and other obligations	Various	Various	32	36
Unamortized premiums, net			1	1
Unamortized debt issuance costs			(150)	(150)
Total long-term debt			7,277	7,281
Less current maturities			(17)	(17)
Long-term debt, excluding current maturities			\$ 7,260	7,264
Note payable - affiliate	5.466%	2022	\$ 981	965

## Note Payable - Affiliate

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance owed by Qwest Corporation under this revolving promissory note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of March 31, 2018, the amended and restated revolving promissory note had an outstanding balance of \$981 million and bore interest at a weighted-average interest rate of 5.466%. As of March 31, 2018 and December 31, 2017, the amended and restated revolving promissory note is reflected on our consolidated balance sheets as a current liability under "Note payable - affiliate". In accordance with the terms of the amended and restated revolving promissory note, interest shall be assessed on June 30th and December 31st (an "Interest Period"). Any assessed interest for an Interest Period that remains unpaid on the last day of the subsequent Interest Period is to be capitalized on such date and is to begin accruing interest. As of March 31, 2018, \$13 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

## Covenants

As of March 31, 2018, we believe we were in compliance with the provisions and covenants of our debt agreements.

## (3) Fair Value Disclosure

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

	Input Level	As of March 31, 2018		As of December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt, excluding capital lease and other obligations	2	\$ 7,245	6,871	7,245	7,080

## (4) Products and Services Revenues

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

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

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services) and other ancillary services;
- *Voice and collaboration*, which includes primarily local voice, including wholesale voice, and other ancillary services;
- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory revenues*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and
- *Affiliates services*, we provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services, network support and technical services.

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

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

	Three Months Ended March 31,	
	2018	2017
	(Dollars in millions)	
IP & Data Services	\$ 146	151
Transport & Infrastructure	759	769
Voice & Collaboration	460	511
IT & Managed Services	2	1
Regulatory	52	54
Affiliates services	711	676
Total operating revenues	\$ 2,130	2,162

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated \$34 million and \$33 million for the three months ended March 31, 2018 and 2017, respectively. These USF surcharges are assigned to the products and services categories based on the underlying revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

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

#### Revenue Recognition

The following table presents our reported results under ASC 606 and a reconciliation to results using the historical accounting method:

	Three Months Ended March 31, 2018		
	(Dollars in millions, except per share amounts and shares in thousands)		
	Reported Balances as of March 31, 2018	Impact of 606	ASC 605 Historical Adjusted Balances
Operating revenues	\$ 2,130	(9)	\$ 2,121
Cost of services and products (exclusive of depreciation and amortization)	707	6	713
Selling, general and administrative	215	(1)	214
Income tax expense	130	(4)	126
Net income	\$ 380	(10)	\$ 370

The following table presents a reconciliation of certain consolidated balance sheet captions under ASC 606 to the balance sheet results using the historical accounting method:

	As of March 31, 2018		
	(Dollars in millions)		
	Reported Balances as of March 31, 2018	Impact of 606	ASC 605 Historical Adjusted Balances
Other current assets	\$ 217	(109)	\$ 108
Other long-term assets, net	100	(31)	69
Advance billing and customer deposits	255	1	256
Deferred income taxes, net	1,003	(41)	962
Other long-term liabilities	80	27	107
Accumulated deficit	(505)	(138)	(643)

Pursuant to ASU 2014-19 discussed in Note 1 above, the following table provides disaggregation of revenue from contracts with customers as of March 31, 2018 :

	Three Months Ended March 31, 2018		
	(Dollars in millions)		
	Total Revenue	Adjustments for Non- ASC 606 Revenue <sup>(7)</sup>	Total Revenue from Contracts with Customers
IP & Data Services <sup>(1)</sup>	\$ 146	—	146
Transport & Infrastructure <sup>(2)</sup>	759	(26)	733
Voice & Collaboration <sup>(3)</sup>	460	—	460
IT & Managed Services <sup>(4)</sup>	2	—	2
Regulatory revenues <sup>(5)</sup>	52	(52)	—
Affiliate revenues <sup>(6)</sup>	711	—	711
Total revenues	<u>\$ 2,130</u>	<u>(78)</u>	<u>2,052</u>

  

Timing of Revenue			
Goods transferred at a point in time		\$	11
Services performed over time			2,041
Total revenues from contracts with customers		\$	<u>2,052</u>

(1) Includes primarily VPN data network, Ethernet, IP and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services) and ancillary revenues.

(3) Includes local voice and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes CAF Phase I, CAF Phase 2 and federal and state USF support revenue.

(6) Includes telecommunications and data services we bill to our affiliates.

(7) Includes regulatory revenues, lease revenues and sublease rental income, which are not within the scope of ASC 606.

The following table provides balances of customer receivables, contract assets and liabilities as of March 31, 2018 and January 1, 2018:

	March 31, 2018	January 1, 2018
	(Dollars in millions)	
Customer receivables <sup>(1)</sup>	\$ 561	631
Contract liabilities	79	78
Contract assets	\$ 113	93

(1) Gross customer receivables of \$602 million and \$669 million, net of allowance for doubtful accounts of \$41 million and \$38 million, at March 31, 2018 and January 1, 2018, respectively.

Contract liabilities constitute consideration we have received from our customers in exchange for services or products to be delivered by us in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer.

We recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include certain activation and certain installation charges, which we recognize as revenue over the expected contract term, which ranges from one year to over seven years depending on the service. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We offer bundle discounts to our customers who receive certain groupings of services. These bundle discounts are included in our calculation of the total transaction price with the customer which is allocated to the various services in the bundled offering based on the standalone selling price of services included in each bundled combination.

Customer contracts that include both equipment and services are evaluated to determine whether the performance obligations are separable. If the performance obligations are deemed separable and separate earnings processes exist, the total transaction price with the customer is allocated to each performance obligation based on the relative standalone selling price of the separate performance obligation. The standalone selling price is the price we sell to similar customers. The total transaction price is the total consideration that we expect to be entitled to (excluding amounts subject to revenue constraints) in exchange for transferring the equipment and services to the customer under the existing contract. The revenue associated with each performance obligation is then recognized as earned. For example, if we receive an advance payment when we sell equipment and continuing service together, we immediately recognize as revenue the amount of the total transaction price allocated to the equipment at the time title or control is transferred to the customer. The portion of the advance payment allocated to the service based upon its relative selling price is recognized ratably over the contract term.

We periodically permit other telecommunications carriers to use optical capacity on our network. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 20 years. We account for the cash consideration received on transfers of optical capacity and fiber assets and on all of the other elements deliverable under an IRU, as lease revenue, non ASC 606, ratably over the term of the agreement. We do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other optical capacity assets.

In connection with offering products and services provided to the end user by third-party vendors, we review the relationship between us, the vendor and the end user to assess whether revenue should be reported on a gross or net basis. In assessing whether revenue should be reported on a gross or net basis, we consider whether we act as a principal in the transaction and control the goods and services used to fulfill the performance obligation(s) associated with the transaction. Based on our agreement with DIRECTV, we offer this service through a sales agency relationship which we report on a net basis.

We have service level commitments pursuant to contracts with certain of our customers. To the extent that such service levels are not achieved or are otherwise disputed due to performance or service issues or other service interruptions or conditions, we will estimate the amount of credits to be issued and record a reduction to revenues in the period that the service level commitment was not met.

As of March 31, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially satisfied) is approximately \$311 million. We expect to recognize approximately 98% of this revenue through 2020, with the balance recognized thereafter.

The following table provides changes in our contract acquisition costs and fulfillment costs:

	Three Months Ended March 31, 2018	
	(Dollars in millions)	
	Acquisition Costs	Fulfillment Costs
Beginning of period balance	\$ 91	37
Costs incurred	14	4
Amortization	(15)	(5)
End of period balance	<u>\$ 90</u>	<u>36</u>

We expect that incremental commissions paid as a result of obtaining contracts and costs incurred to fulfill customer contracts are recoverable and therefore capitalized them as acquisition and fulfillment costs in the amount of \$126 million at March 31, 2018. The amount of these capitalized costs that are anticipated to be amortized in the next twelve months are included in other current assets on the consolidated balance sheet. The amount of capitalized costs expected to be amortized beyond the next twelve months is included in other assets on our consolidated balance.

Capitalized commissions and fulfillment costs are amortized based on the transfer of services to which the assets relate to which typically range from 30 months to 49 months. The amortization of capitalized commissions are included in selling, general and administrative expenses and the amortization of capitalized fulfillment costs are included in cost of services and products (exclusive of depreciation and amortization) in our consolidated statement of operations. We recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is less than one year.

## (5) Commitments and Contingencies

### *Pending Matters*

We are currently a party to various claims and legal proceedings, including the matters described below. 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. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have accrued liabilities for these matters described below where losses are deemed probable and reasonably estimable.

#### *Switched Access Disputes*

Subsidiaries of CenturyLink, Inc., including us, are among hundreds of companies involved in an industry-wide dispute, raised in nearly 100 federal lawsuits (filed between 2014 and 2016) that have been consolidated as *In Re: IntraMTA Switched Access Charges Litigation*, in the United States District Court for the Northern District of Texas for pretrial procedures. The disputes relate to switched access charges that local exchange carriers ("LECs") collect from interexchange carriers ("IXCs") for IXCs' use of LEC's access services. In the lawsuits, IXCs assert that LECs are prohibited from collecting access charges when IXCs exchange certain types of calls between mobile and wireline devices. Some of these IXCs seek refunds for access charges previously paid and declaratory relief from future access charges.

In November 2015, the court rejected some of the IXCs' claims and allowed the IXCs to refile state-law claims. Many of the parties filed revised pleadings and additional motions, which remain pending. Separately, some of the defendants have petitioned the FCC to address these issues on an industry-wide basis.

As both an IXC and a LEC, we both pay and assess significant amounts of the charges in question. The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, could affect our financial results and are currently not predictable.

#### *Billing Practices Suits*

In June 2017, a former employee filed an employment lawsuit against CenturyLink claiming that she was wrongfully terminated for alleging that CenturyLink charged some of our retail customers for products and services they did not authorize. Starting shortly thereafter and continuing since then, and based in part on the allegations made by the former employee, several legal proceedings have been filed.



In June 2017, *McLeod v. CenturyLink*, a putative consumer class action, was filed against CenturyLink in the U.S. District Court for the Central District of California alleging that CenturyLink charged some of its retail customers for products and services they did not authorize. A number of other complaints asserting similar claims have been filed in other federal courts, as well. The lawsuits assert claims including fraud, unfair competition, and unjust enrichment. Also in June 2017, *Craig v. CenturyLink, Inc., et al.*, a putative securities investor class action, was filed in U.S. District Court for the Southern District of New York, alleging that CenturyLink failed to disclose material information regarding improper sales practices, and asserting federal securities law claims. A number of other cases asserting similar claims have also been filed. Both the putative consumer class actions and the putative securities investor class actions have been 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*.

In June 2017, CenturyLink also received several shareholder derivative demands addressing related topics. In August 2017, CenturyLink's Board of Directors formed a special litigation committee of outside directors to address the allegations of impropriety contained in the shareholder derivative demands. In April 2018, the special litigation committee concluded its review of the derivative demands and declined to take further action. Despite the special litigation committee's decision, it is possible that one or more of the shareholders that submitted the demands could attempt to file derivative lawsuits.

In July 2017, the Minnesota state attorney general filed *State of Minnesota v. CenturyTel Broadband Services LLC, et al.* in the Anoka County Minnesota District Court, alleging claims of fraud and deceptive trade practices relating to improper consumer sales practices. The suit seeks an order of restitution on behalf of CenturyLink customers, civil penalties, injunctive relief, and costs and fees. Additionally, we and other CenturyLink affiliates have received and responded to information requests and inquiries from other states.

#### ***Other Proceedings, Disputes and Contingencies***

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

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

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

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

The matters listed above in this Note do not reflect all of our contingencies. For additional information on our contingencies, see Note 15 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, 2017.

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 forward-looking statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see "Risk Factors-Risks Relating to Legal and Regulatory Matters. Any adverse outcome of any material litigation of CenturyLink or its affiliates could have a material adverse impact on our financial condition and operating results, on the trading price of our debt securities and on our ability to access the capital markets" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

## (6) Dividends

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

During the three months ended March 31, 2018 and 2017, we declared and paid dividends of \$300 million and \$250 million, respectively, to QSC. Dividends paid are reflected on our consolidated statements of cash flows as financing activities.

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

## (7) Other Financial Information

### *Other Current Assets*

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

	As of March 31, 2018	As of December 31, 2017
	(Dollars in millions)	
Prepaid expenses	\$ 62	42
Deferred commissions	47	—
Deferred activation and installation charges	104	49
Other	4	7
Total other current assets	<u>\$ 217</u>	<u>98</u>

### *Selected Current Liabilities*

Included in accounts payable at March 31, 2018 and December 31, 2017, were \$51 million and \$86 million, respectively, associated with capital expenditures.

## (8) Labor Union Contracts

As of March 31, 2018, approximately 10,000, or 44%, of our employees were members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW").

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

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

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

*Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements" appearing at the beginning of this report and "Risk Factors" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017 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, 2017, 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 three months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

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

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

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

For the reasons noted in Note 4—Products and Services Revenues to our consolidated financial statements in Item 1 of Part I of this report, we believe we have one reportable segment.

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

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services) and other ancillary services;
- *Voice and collaboration*, which includes primarily local voice, including wholesale voice, and other ancillary service;
- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory revenues*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers; and

- *Affiliates services*, we provide our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services, network support and technical services.

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

At March 31, 2018, we served 3.3 million broadband subscribers. Our methodology for counting broadband subscribers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

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

## Results of Operations

The following table summarizes the results of our consolidated operations for the three months ended March 31, 2018 and 2017 :

	Three Months Ended March 31,	
	2018	2017
	(Dollars in millions)	
Operating revenues	\$ 2,130	2,162
Operating expenses	1,498	1,582
Operating income	632	580
Total other expense, net	(122)	(128)
Income tax expense	130	174
Net income	\$ 380	278

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

	As of March 31,		Increase/ (Decrease)	% Change
	2018	2017		
	(in thousands)			
Operational metrics:				
Total broadband subscribers <sup>(1)</sup>	3,280	3,481	(201)	(6)%
Total employees	21.2	22.3	(1.1)	(5)%

<sup>(1)</sup> Broadband subscribers are customers that purchase broadband connection service through their existing copper telephone lines or fiber-optic cables. Our methodology for counting our broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers.

## Operating Revenues

The following table summarizes our consolidated operating revenues recorded under our six revenue categories:

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2018	2017		
	(Dollars in millions)			
IP & Data Services	\$ 146	151	(5)	(3)%
Transport & Infrastructure	759	769	(10)	(1)%
Voice & Collaboration	460	511	(51)	(10)%
IT & Managed Services	2	1	1	100 %
Regulatory	52	54	(2)	(4)%
Affiliates services	711	676	35	5 %
Total operating revenues	\$ 2,130	2,162	(32)	(1)%

Total operating revenues decreased by \$ 32 million , or 1% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in our total operating revenues was primarily due to lower voice services revenues due to access line loss, reductions in volumes of our private line services and a decrease in regulatory revenues due to the effect of ASU 606 offset with an increase in volume for our support services we provide to affiliates and an increase in bundle reallocation for broadband services.

### **Operating Expenses**

The following table summarizes our consolidated operating expenses:

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2018	2017		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 707	720	(13)	(2)%
Selling, general and administrative	215	244	(29)	(12)%
Operating expenses - affiliates	216	227	(11)	(5)%
Depreciation and amortization	360	391	(31)	(8)%
Total operating expenses	\$ 1,498	1,582	(84)	(5)%

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

Cost of services and products (exclusive of depreciation and amortization) decreased by \$13 million , or 2% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in our cost of services and products (exclusive of depreciation and amortization) is primarily due to a decrease in allocated costs for marketing, product development & technology expense and a reduction in salaries and wages due to a decrease in headcount and overtime accruals. This decrease was partially offset by increases in property and other taxes, severance accruals and allocated costs for local government.

### **Selling, General and Administrative**

Selling, general and administrative expenses decreased by \$29 million , or 12% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in our selling, general and administrative expenses was primarily due to decreases in marketing and advertising expenses as the first quarter of 2018 had fewer branding campaigns than the first quarter of 2017.

### **Operating Expenses - Affiliates**

Operating expenses - affiliates decreased by \$11 million , or 5% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in operating expenses - affiliates was primarily due to the decline in the level of services provided to us by our affiliates.

### **Depreciation and Amortization**

The following table provides details of our depreciation and amortization expense:

	Three Months Ended March 31,		Increase/ (Decrease)	% Change
	2018	2017		
	(Dollars in millions)			
Depreciation	\$ 211	220	(9)	(4)%
Amortization	149	171	(22)	(13)%
Total depreciation and amortization	\$ 360	391	(31)	(8)%

Depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets and the addition of new plant. Depreciation expense decreased by \$ 9 million , or 4% for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The depreciation expense related to our plant for the three months ended March 31, 2018 was lower than the depreciation expense for the three months ended March 31, 2017 due to full depreciation of certain plant placed in service prior to 2018. This decrease was partially offset by an increase in depreciation expense attributable to new plant placed in service since March 31, 2017 .

Amortization expense decreased by \$ 22 million , or 13% for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in amortization expense was primarily due to the use of accelerated amortization for a portion of our customer relationship assets. The effect of using an accelerated amortization method results in an incremental decline in expense each period as the intangible assets amortize. In addition, amortization of capitalized software was lower due to software becoming fully amortized faster than new software was acquired or developed.

### **Other Consolidated Results**

The following table summarizes our total other expense, net and income tax expense:

	<b>Three Months Ended March 31,</b>		<b>Increase/ (Decrease)</b>	<b>% Change</b>
	<b>2018</b>	<b>2017</b>		
	<b>(Dollars in millions)</b>			
Interest expense	\$ (118)	(114)	4	4 %
Interest expense - affiliate	(13)	(15)	(2)	(13)%
Other income, net	9	1	8	nm
Total other expense, net	\$ (122)	(128)	(6)	(5)%
Income tax expense	\$ 130	174	(44)	(25)%

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 increased by \$4 million , or 4% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The increase in interest expense was primarily due to fair value amortization to payoff Qwest Corporation senior note. See Note 2—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 1 of Part I of this report and Liquidity and Capital Resources below for additional information about our debt.

### **Interest Expense - Affiliates, Net**

Affiliate interest expense decreased by \$2 million , or 13% , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The decrease in affiliate interest expense was primarily due to a decrease in the weighted average interest rate from 6.678% in the first quarter of 2017 to 5.466% in the first quarter of 2018.

### **Other Income, Net**

Other income, net increased by \$8 million , for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 . The increase in other income, net was primarily due to a positive impact from foreign currency exchange rates for the first three months of 2018 as compared to the first three months of 2017.

### **Income Tax Expense**

Income tax expense for the three months ended March 31, 2018 was \$130 million , or an effective tax rate of 25.5% , compared to \$174 million , or an effective tax rate of 38.5% , for the three months ended March 31, 2017 . The 2018 rate reflects the corporate income tax rate reduction from 35% to 21% as a result of the enactment of the Tax Cuts and Jobs Act signed into law on December 22, 2017. See Recent Tax Changes in "Liquidity and Capital Resources—Other Matters". The 2018 and the 2017 rate include the effect of changes in state apportionment factors.

## **Liquidity and Capital Resources**

### ***Overview***

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

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

As of March 31, 2018, we had a working capital deficit of \$177 million, reflecting current liabilities of \$2.115 billion and current assets of \$1.938 billion, compared to a working capital deficit of \$427 million as of December 31, 2017. We have historically operated with a working capital deficit due to our practice of declaring and paying regular cash dividends to QSC. As long as we continue declaring and paying cash dividends to QSC, it is likely that we will continue to operate with a working capital deficit in the future. We anticipate that our future liquidity needs will be met through (i) our cash provided by our operating activities, (ii) amounts due to us from CenturyLink, (iii) our ability to refinance QC's debt securities at maturity and (iv) capital contributions, advances or loans from CenturyLink or its affiliates if and to the extent they have available funds or access to available funds that they are willing and able to contribute, advance or loan.

### ***Capital Expenditures***

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. CenturyLink evaluates capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and the expected return on investment. The amount of CenturyLink's consolidated capital investment is influenced by, among other things, demand for CenturyLink's services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as CenturyLink's CAF Phase 2 infrastructure buildout requirements). Based on the type and volume of services we provide, approximately 36% to 43% of CenturyLink's annual consolidated capital expenditures have been attributed over the last couple of years to us for use in our operations. These percentages are subject to change, particularly in light of CenturyLink's combination with Level 3 in November 2017, and future percentages may vary significantly from past percentages. For more information on CenturyLink's total capital expenditures, please see its annual and quarterly reports filed with the SEC.

For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

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

Subject to market conditions, and to the extent feasible, we expect to continue to issue debt securities, under Qwest Corporation, from time to time in the future to refinance a substantial portion of our maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to Qwest Corporation by credit rating agencies, among other factors. We have no debt maturities due during 2018.

Following CenturyLink's acquisition of Level 3 Communications, Inc. ("Level 3"), Qwest Corporation's current unsecured senior debt rating of Ba1 was downgraded to Ba2 with a negative outlook by Moody's Investors Service, Inc., and its current unsecured senior debt rating of BBB- was downgraded to BB+ with a stable outlook by Fitch Ratings. The downgrade of Qwest Corporation's rating by Fitch Ratings resulted in Qwest Corporation no longer being viewed as an "investment grade" issuer under the prevailing definition of that term. Standard and Poor's reaffirmed its rating of BBB- with a stable outlook for Qwest Corporation's current unsecured senior debt.

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

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

CenturyLink, Inc.'s and Qwest Corporation's credit ratings are reviewed and adjusted from time to time by the rating agencies.

For additional information regarding CenturyLink, Inc.'s and Qwest Corporation's funding arrangements, see "Risk Factors—Risks Relating to CenturyLink's Acquisition of Level 3" and "Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017 .

#### ***Term Loan***

In 2015, we entered into a term loan in the amount of \$100 million with CoBank, ACB. The outstanding unpaid principal amount of this term loan plus any accrued and unpaid interest is due on February 20, 2025. Interest is paid monthly based upon either the London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. At both March 31, 2018 and December 31, 2017 , the outstanding principal balance on this term loan was \$100 million .

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

On September 30, 2017, Qwest Corporation entered into an amended and restated revolving promissory note in the amount of \$965 million with an affiliate of our ultimate parent company, CenturyLink, Inc. This note replaced and amended the original \$1.0 billion revolving promissory note Qwest Corporation entered into on April 18, 2012 with the same affiliate. The outstanding principal balance owed by us under this revolving promissory note and the accrued interest thereon is due and payable on demand, but if no demand is made, then on June 30, 2022. Interest is accrued on the outstanding balance during an interest period using a weighted average per annum interest rate on the consolidated outstanding debt of CenturyLink and its subsidiaries. As of March 31, 2018 , the weighted average interest rate was 5.466% . As of March 31, 2018 and December 31, 2017 , the amended and restated revolving promissory note and the original revolving promissory note, respectively, are reflected on our consolidated balance sheets as a current liability under note payable - affiliate. As of March 31, 2018 , \$13 million of accrued interest is reflected in other current liabilities on our consolidated balance sheets.

#### ***Dividends***

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

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

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



CenturyLink is subject to material obligations under its existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2017, the accounting unfunded status of CenturyLink's qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$2.062 billion and \$3.352 billion, respectively. For additional information about CenturyLink's pension and post-retirement benefit arrangements, see "Critical Accounting Policies and Estimates—Pensions and Post-Retirement Benefits" in Item 7 of CenturyLink's annual report on Form 10-K for the year ended December 31, 2017 and see Note 9—Employee Benefits to the consolidated financial statements in Item 8 of Part II of the same report.

Benefits paid by CenturyLink's qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, CenturyLink does not expect any contributions to be required for their qualified pension plan during the remainder of 2018. The amount of required contributions to CenturyLink's qualified pension plan in 2019 and beyond will depend on a variety of factors, most of which are beyond their control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. CenturyLink occasionally makes voluntary contributions in addition to required contributions. CenturyLink currently expects to make a voluntary contribution of \$100 million to the trust for its qualified pension plan in 2018.

Substantially all of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2017, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$23 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited CenturyLink's ability to continue paying benefits from the trusts; however, CenturyLink will continue to pay certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by CenturyLink with available cash.

The affiliate obligations, net in current and noncurrent liabilities on our consolidated balance sheets primarily represents the cumulative allocation of expenses, net of payments, associated with QCII's pension plans and post-retirement benefits plans prior to the plan mergers. In 2015, we agreed to a plan to settle the outstanding pension and post-retirement affiliate obligations, net balance with QCII over a 30 year term. Under the plan, payments are scheduled to be made on a monthly basis. For the three months ended March 31, 2018, we made settlement payments of \$20 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 2018, we expect to make aggregate settlement payments of \$82 million to QCII under the plan.

For 2018, CenturyLink's estimated annual long-term rates of return are 6.5% and 4.0% for the pension plan trust assets and post-retirement plans trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources—Adverse changes in the value of assets or obligations associated with CenturyLink's qualified pension plan could negatively impact CenturyLink's liquidity, which may in turn affect our business and liquidity" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

#### ***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, 2017.

#### ***Connect America Fund***

As a result of accepting CAF Phase 2 support payments, we must meet certain specified infrastructure buildout requirements in 13 states over the next several years. In order to meet these specified infrastructure buildout requirements, we may be obligated to make substantial capital expenditures. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

## Historical Information

The following table summarizes our consolidated cash flow activities:

	Three Months Ended March 31,		Increase / (Decrease)
	2018	2017	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 709	624	85
Net cash used in investing activities	(400)	(360)	40
Net cash used in financing activities	(304)	(251)	53

### Operating Activities

Net cash provided by operating activities increased by \$85 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily due to the increase in net income and a positive variance in accounts receivable which were partially offset by changes in accounts payable and other current assets and liabilities - affiliates. Cash provided by operating activities is subject to variability period over period as a result of the timing of the collection of receivables and payments related to interest expense, accounts payable, and bonuses.

### Investing Activities

Net cash used in investing activities increased by \$40 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily due to a decrease in proceeds from the sale of property which was partially offset by a decrease in capital expenditures.

### Financing Activities

Net cash used in financing activities increased by \$53 million for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily due to the increase in dividends paid to affiliate.

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

### Other Matters

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law and in December 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") 118 to provide guidance for companies that have not completed their accounting for the income tax effects of the Act. As of March 31, 2018, we have not completed our accounting for the tax effects of the Act. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the FASB, and other standard-setting and regulatory bodies. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the re-measurement of deferred tax assets and liabilities. The ultimate impact may differ from our provisional amount due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our future statements of operations and could be material. We expect to complete the accounting by the time we file our 2017 U.S. corporate income tax return in the fourth quarter of 2018, although we cannot assure you of this.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, and made certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures and various other items. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$555 million in our consolidated statement of operations for the year ended December 31, 2017.

On November 1, 2017, CenturyLink acquired Level 3 Communications, Inc. through successive merger transactions, including a merger of Level 3 into its successor-in-interest, Level 3 Parent, LLC. In connection with this acquisition, CenturyLink borrowed and assumed a material amount of debt and issued a material amount of new shares, which will significantly increase its future interest costs and the amount of its quarterly common stock dividend payments (assuming CenturyLink's board continues declaring dividends at the current rate). The acquisition is also expected to increase CenturyLink's annual capital expenditures. For additional information, see "Risk Factors - Risks Relating to CenturyLink's Recently-Completed Acquisition of Level 3" in Item 1A of Part I of our annual report on Form 10-K for the year ended December 31, 2017.

CenturyLink and its affiliates are involved in several legal proceedings to which we are not a party that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly-owned subsidiary of CenturyLink, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's quarterly and annual reports filed with the SEC. Because we are not a party to these matters, we have not accrued any liabilities for these matters as of March 31, 2018.

## **Market Risk**

As of March 31, 2018, we were exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and amended and restated revolving promissory note. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of March 31, 2018, we had no such instruments outstanding nor held or issued derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the three months ended March 31, 2018, when compared to the disclosures provided in our annual report on Form 10-K for the year ended December 31, 2017.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at March 31, 2018.

## **Off-Balance Sheet Arrangements**

As of this date of this report, we had no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support, and we did not engage in leasing, hedging or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 15—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2017, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

## **Other Information**

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

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

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

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

#### **Disclosure Controls and Procedures**

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, Sunit S. Patel, evaluated the effectiveness of the Company’s disclosure controls and procedures as of March 31, 2018. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective, as of March 31, 2018, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

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

#### **Changes in Internal Control Over Financial Reporting**

Beginning January 1, 2018, we adopted Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. We implemented internal controls to ensure we adequately evaluated our contracts and properly assessed the new accounting standard related to revenue recognition on our consolidated financial statements. There were no other changes in our internal control over financial reporting during the first quarter of 2018 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

Our parent company, CenturyLink, Inc. is in the process of integrating the operations of its recent acquisition Level 3 Parent, LLC. As a result of this acquisition, the controls of CenturyLink will change as systems are integrated which may impact our controls as well.

## **PART II—OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

Our operations and financial results are subject to various risks and uncertainties, which could adversely affect our business, financial condition or future results. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 .

## ITEM 6. EXHIBITS

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

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

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

Exhibit Number	Description
	d. <a href="#"><u>Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).</u></a>
	e. <a href="#"><u>Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).</u></a>
	f. <a href="#"><u>Thirteenth Supplemental Indenture, dated as of September 29, 2014, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.14 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 26, 2014).</u></a>
	g. <a href="#"><u>Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).</u></a>
	h. <a href="#"><u>Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).</u></a>
	i. <a href="#"><u>Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on August 22, 2016).</u></a>
	j. <a href="#"><u>Seventeenth Supplemental Indenture dated as of April 27, 2017, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.18 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on April 27, 2017).</u></a>
4.4	<a href="#"><u>Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No 001-07784) filed with the Securities and Exchange Commission on August 9, 2012), as amended by the Amended and Restated Revolving Promissory Note, dated as of September 30, 2017, by and between Qwest Corporation and an affiliate of CenturyLink, Inc. (incorporated by reference to Exhibit 4.9(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2017 (File No. 001-077884) filed with the Securities and Exchange Commission on November 9, 2017).</u></a>
4.5	<a href="#"><u>Credit Agreement, dated as of February 20, 2015, by and among Qwest Corporation, the several lenders from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.5 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-03040) filed with the Securities and Exchange Commission on February 27, 2015).</u></a>
12*	<a href="#"><u>Calculation of Ratio of Earnings to Fixed Charges.</u></a>
31.1*	<a href="#"><u>Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32*	<a href="#"><u>Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101*	Financial statements from the Quarterly Report on Form 10-Q of Qwest Corporation for the period ended March 31, 2018, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Stockholder's Equity and (v) the Notes to the Consolidated Financial Statements.

\* Exhibit filed herewith.

**SIGNATURE**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 15, 2018 .

**QWEST CORPORATION**

/s/ Eric J. Mortensen

By:

**Eric J. Mortensen**  
**Senior Vice President - Interim Controller**  
*(Principal Accounting Officer)*



## QWEST CORPORATION

## CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Three Months Ended March 31,	Years Ended December 31,				
	2018	2017	2016	2015	2014	2013
(Dollars in millions)						
Income before income tax expense	\$ 510	1,791	1,763	1,733	1,609	1,566
Add: estimated fixed charges	144	583	579	568	546	557
Add: estimated amortization of capitalized interest	2	8	8	8	8	8
Less: interest capitalized	(7)	(32)	(19)	(18)	(17)	(17)
Total earnings available for fixed charges	\$ 649	2,350	2,331	2,291	2,146	2,114
Estimate of interest factor on rentals	\$ 6	23	23	24	25	26
Interest expense, including amortization of premiums, discounts and debt issuance costs	131	528	537	526	504	514
Interest capitalized	7	32	19	18	17	17
Total fixed charges	\$ 144	583	579	568	546	557
Ratio of earnings to fixed charges	4.5	4.0	4.0	4.0	3.9	3.8

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Glen F. Post, III, 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.

/s/ GLEN F. POST, III

**Glen F. Post, III**  
**Chief Executive Officer**

May 15, 2018

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Sunit S. Patel, Executive Vice President and Chief Financial Officer, certify that:

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

/s/ SUNIT S. PATEL

May 15, 2018

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**Sunit S. Patel**  
**Executive Vice President and Chief Financial Officer**

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of Qwest Corporation ("Qwest"), certifies that, to his knowledge, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 of Qwest fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Qwest as of the dates and for the periods covered by such report.

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

Dated: May 15, 2018

/s/ GLEN F. POST, III

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Glen F. Post, III

Chief Executive Officer

/s/ SUNIT S. PATEL

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Sunit S. Patel

Executive Vice President and Chief  
Financial Officer