

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 001-03040

**QWEST CORPORATION**

(Exact name of registrant as specified in its charter)

**Colorado**

(State or other jurisdiction of  
incorporation or organization)

**100 CenturyLink Drive, Monroe, Louisiana**

(Address of principal executive offices)

**84-0273800**

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

**71203**

(Zip Code)

**(318) 388-9000**

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
6.5% Notes Due 2017	New York Stock Exchange
7.375% Notes Due 2051	New York Stock Exchange
7.5% Notes Due 2051	New York Stock Exchange
6.125% Notes Due 2053	New York Stock Exchange
6.875% Notes Due 2054	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☐

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

Smaller reporting company ☐

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

On February 27, 2015, one share of common stock was outstanding. None of Qwest Corporation's common stock is held by non-affiliates.

**DOCUMENTS INCORPORATED BY REFERENCE: None.**



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Unless the context requires otherwise, references in this Annual 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, references to "QCII" refer to QSC's direct parent company and our indirect parent company, Qwest Communications International Inc., and its consolidated subsidiaries and references to "CenturyLink" refer to QCII's direct parent company and our ultimate parent company, CenturyLink, Inc. and its consolidated subsidiaries.

## PART I

### ITEM 1. BUSINESS

#### Overview

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

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

We were incorporated under the laws of the State of Colorado in 1911. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

On April 1, 2011, our indirect parent QCII became a wholly owned subsidiary of CenturyLink, Inc. in a tax-free, stock-for-stock transaction.

For certain products and services we provide and for a variety of internal communications functions, we use portions of CenturyLink's telecommunications network to transport data and voice traffic. Likewise, CenturyLink uses our telecommunications network to transport data and voice traffic in order to fulfill services to its customers and a variety of internal communications functions.

For a discussion of certain risks applicable to our business, see "Risk Factors" in Item 1A of Part I of this Annual Report. The summary financial information in this section should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and notes thereto in Item 8 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

#### Financial and Operational Highlights

The following table summarizes the results of our consolidated operations:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Consolidated statements of operations summary data:			
Operating revenues	\$ 8,838	8,753	8,848
Operating expenses	6,726	6,675	6,943
Operating income	\$ 2,112	2,078	1,905
Net income	\$ 970	964	849

The following table summarizes certain selected financial information from our consolidated balance sheets:

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Consolidated balance sheets summary data:		
Total assets	\$ 22,457	23,218
Total long-term debt <sup>(1)</sup>	7,379	7,558
Total stockholder's equity	9,183	9,613

<sup>(1)</sup> Total long-term debt is the sum of current maturities of long-term debt and long-term debt (excluding note payable-affiliate of \$796 million) on our consolidated balance sheets. For information on our total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of Part II of this Annual Report.

The following table summarizes certain of our operational metrics:

	As of December 31,		
	2014	2013	2012
	(in thousands)		
Operational metrics:			
Total broadband subscribers <sup>(1)</sup>	3,528	3,429	3,318
Total access lines <sup>(1)</sup>	7,334	7,641	8,058

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

Our methodology for counting access lines and broadband subscribers may not be comparable to those of other companies.

Substantially all of our long-lived assets are located in the United States and substantially all of our revenues are from customers located in the United States.

## Operations

We group our products and services among three major categories: strategic services, legacy services and affiliates and other services. See descriptions of these categories below in the section "Products and Services". The following table provides a summary of our operating revenues by category:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Strategic services	\$ 3,429	3,342	3,265
Legacy services	2,987	3,208	3,471
Affiliates and other services	2,422	2,203	2,112
Total operating revenues	\$ 8,838	8,753	8,848

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

## Products and Services

Our products and services include local, broadband, private line (including special access), network access, Ethernet, information technology ("IT"), video and other communications services. We offer our customers the ability to bundle together several products and services, such as broadband, video (including DIRECTV through CenturyLink's strategic partnership), voice and Verizon Wireless (through CenturyLink's strategic partnership) services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Most of our products and services are provided using our telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. Our network serves approximately 7.3 million access lines in 14 states and forms a portion of the public switched telephone network, or PSTN. For more information on our network, see "Business—Network Architecture" below.

Described below are our key products and services.

### *Strategic Services*

Our customers use our "strategic" services to access the Internet, connect to private networks and transmit data. We also provide value-added services and integrated solutions that make communications more secure, reliable and efficient for our customers. We focus our marketing and sales efforts on these services:

- *Broadband.* Our broadband services allow customers to connect to the Internet through their existing telephone lines or fiber-optic cables at high speeds. Substantially all of our broadband subscribers are located within the local service area of our wireline telephone operations;
- *Private Line.* A private line (including special access) is a direct circuit or channel specifically dedicated for the purpose of directly connecting two or more sites. Private line service offers a high-speed, secure solution for frequent transmission of large amounts of data between sites, including some wireless backhaul;
- *Ethernet.* Ethernet services include point-to-point and multi-point configurations that facilitate data transmissions across metropolitan areas and wide area networks. Ethernet services are also used to provide transmission services to wireless service providers that use our fiber-optic cables connected to their towers; and
- *Video.* Our video services include primarily satellite digital television under CenturyLink's arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name.

### *Legacy Services*

Our "legacy" services represent our traditional voice, data and network services, which include the following:

- *Local Voice Service.* We offer local calling services for our residential and business customers within the local service area of our wireline markets, generally for a fixed monthly charge. These services include a number of enhanced calling features and other services, such as call forwarding, caller identification, conference calling, voice mail, selective call ringing and call waiting, for which we generally charge an additional monthly fee. We also generate revenues from non-recurring services, such as inside wire installation, maintenance services, service activation and reactivation. For our wholesale customers, our local calling service offerings include primarily the resale of our voice services and the sale of unbundled network elements ("UNEs"), which allow our wholesale customers to use our network or a combination of our network and their own networks to provide voice and data services to their customers. Local calling services provided to our wholesale customers allow other telecommunications companies the ability to originate or terminate telecommunications services on our network. Local calling services also include network transport, billing services and access to our network by other telecommunications providers and wireless carriers;
- *ISDN.* We offer integrated services digital network ("ISDN") services, which uses regular telephone lines to support voice, video and data applications;
- *WAN.* We offer wide area network ("WAN") services, which allow a local communications network to link to networks in remote locations; and
- *Switched Access Services.* As part of our wholesale services, we provide various forms of switched access services to wireline and

wireless service providers for the use of our facilities to originate and terminate their interstate and intrastate voice transmissions.

## ***Affiliates and Other Services***

We provide to our affiliates, telecommunications services that we also provide to external customers. In addition, we provide to our non-consolidated affiliates (referred to herein as affiliates), IT support and services, which includes computer system development and support services, network support and technical services. We also generate other operating revenues from Universal Service Fund ("USF") support and USF surcharges and the leasing and subleasing of space in our office buildings, warehouses and other properties. The majority of our real estate properties are located in the local service area of our wireline operations.

## **Patents, Trade Names, Trademarks and Copyrights**

Either directly or through our affiliates, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others.

We periodically receive offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices, or are named in lawsuits, alleging that our products or services infringe on patents or other intellectual property rights of third parties. In certain instances, these matters can potentially adversely impact our operations, operating results or financial position. For additional information, see "Risk Factors—Risks Impacting Our Business" in Item 1A of Part I and Note 15—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report.

## **Sales and Marketing**

We maintain local offices in most of the larger population centers within our local service area. These offices provide sales and customer support services in the community. We also rely on our call center personnel to promote sales of services that meet the needs of our customers. Our strategy is to enhance our sales by offering a comprehensive bundle of services and deploying new technologies to further enhance customer loyalty.

We conduct most of our operations under the brand name "CenturyLink." Our satellite television service is offered on a co-branded basis under the "DIRECTV" name. The wireless service that we offer under CenturyLink's agency agreement with Verizon Wireless is marketed under the "Verizon Wireless" brand name.

Our approach to our residential customers emphasizes customer-oriented sales, marketing and service with a local presence. We market our products and services primarily through direct sales representatives, inbound call centers, local retail stores, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper and television advertising, website promotions, public relations activities and sponsorship of community events and sports venues.

Similarly, our approach to our business, governmental and wholesale customers includes a commitment to provide comprehensive communications solutions for small office, mid-sized and select enterprise business and governmental customers. We market our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties. For our wholesale customers, our approach includes a commitment to deliver communications solutions that meet existing and future needs of national network telecommunications providers through bandwidth growth and quality of services.

## **Network Architecture**

Most of our products and services are provided using our telecommunications network, which consists of voice switches, data switches and routers, high-speed transport equipment, fiber-optic and copper cables and other equipment. Our local exchange carrier networks also include central offices and remote site assets. A substantial portion of our equipment operates with licensed software. As of December 31, 2014, we maintained approximately 453 thousand miles of copper plant and approximately 86 thousand miles of fiber-optic plant in our local exchange networks. We also maintain separate networks in connection with providing fiber transport and CLEC services.

We continue to enhance and expand our network by deploying broadband-enabled technologies to provide additional capacity to our customers. Rapid and significant changes in technology are expected to continue in the telecommunications industry. Our future success will depend, in part, on our ability to anticipate and adapt to changes in customer demands and technology. In particular, we anticipate that continued increases in broadband usage by our customers will require us to make significant capital expenditures to increase network capacity or to implement network management practices to alleviate network capacity shortages. In addition, if the Federal Communications Commission requires higher minimum transmission speeds to qualify as "broadband service", we may determine that additional capital spending is necessary. Any such additional expenditures could adversely impact our results of operations and financial condition.





Similarly, we continue to take steps to simplify and modernize our network, which is comprised of our legacy network combined with the network of our indirect parent, CenturyLink, and its affiliates. To attain our objectives, we plan to continue to undertake several complex projects that we expect will be costly and take several years to complete. The costs of these projects could increase materially if we conclude that we need to replace any or all of our legacy systems. Like other large telecommunications companies, we are a target of cyber-attacks of varying degrees on a regular basis, which has caused us to spend increasingly more time and money to deal with increasingly sophisticated attacks.

For additional information regarding our systems, network, cyber risks and capital expenditure requirements see "Risk Factors" , generally, in Item 1A of Part I of this Annual Report, and, in particular, "Risk Factors—Risks Affecting Our Business" and "—Risks Affecting Our Liquidity and Capital Resources." For more information on our properties, see Item 2 of Part I of this Annual Report.

## **Regulation**

We are subject to significant regulation by the Federal Communications Commission ("FCC"), which regulates interstate communications, and state utility commissions, which regulate intrastate communications. These agencies (i) issue rules to protect consumers and promote competition, (ii) set the rates that telecommunication companies charge each other for exchanging traffic and (iii) have traditionally established USF to support the provision of services to high-cost areas. In most states, local voice service, switched and special access services and interconnection services are subject to price regulation, although the extent of regulation varies by type of service and geographic region. In addition, we are required to maintain licenses with the FCC and with state utility commissions. Laws and regulations in many states restrict the manner in which a licensed entity can interact with affiliates, transfer assets, issue debt and engage in other business activities and many acquisitions and divestitures require approval by the FCC and some state commissions.

Historically, incumbent local exchange carriers ("ILECs") operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. As we discuss in greater detail below, passage of the Telecommunications Act of 1996, coupled with state legislative and regulatory initiatives and technological change, fundamentally altered the telephone industry by generally reducing the regulation of ILECs and creating a substantial increase in the number of competitors. We are considered an ILEC. The following description discusses some of the major industry regulations that affect our traditional telephone operations, but numerous other regulations not discussed below could also impact us. Some legislation and regulations are currently the subject of judicial, legislative and administrative proceedings which could substantially change the manner in which the telecommunications industry operates and the amount of revenues we receive for our services. Neither the outcome of these proceedings, nor their potential impact on us, can be predicted at this time. For additional information, see "Risk Factors" in Item 1A of Part I of this Annual Report.

### ***Federal Regulation***

#### ***General***

We are required to comply with the Communications Act of 1934, which requires us to offer services at just and reasonable rates and on non-discriminatory terms, as well as the Telecommunications Act of 1996, which amended the Communications Act of 1934 primarily to promote competition.

The FCC regulates interstate services we provide, including the special access charges we bill for wholesale network transmission and the interstate access charges that we bill to long-distance companies and other communications companies in connection with the origination and termination of interstate phone calls. Additionally, the FCC regulates a number of aspects of our business related to privacy, homeland security and network infrastructure, including access to and use of local telephone numbers. The FCC has responsibility for maintaining and administering the federal USF, which provides substantial support for deploying broadband and maintaining networks in high-cost areas, as well as supporting service to low-income households, schools and libraries, and rural health care providers. Like other communications network operators, ILECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses. The FCC retains the right to revoke these licenses if a carrier materially violates relevant legal requirements.

In recent years, our operations and those of other telecommunications carriers have been further impacted by legislation and regulation imposing additional obligations on us, particularly with regards to providing broadband service, bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts and enhancing privacy. These laws include the Communications Assistance for Law Enforcement Act, and laws governing local telephone number portability and customer proprietary network information requirements. These laws and regulations may cause us to incur additional costs and could impact our ability to compete effectively.

In December 2012, the FCC initiated a special access proceeding and has requested data, information and documents to allow it to conduct a comprehensive evaluation of competition in the special access market. As part of its evaluations, the FCC is reviewing special access rates, terms and conditions. The ultimate impact of this proceeding on the Company is currently unknown. However, if the FCC were to adopt significant changes in regulations affecting special access services, this could adversely impact our operations or financial results.

### ***Intercarrier Compensation and Universal Service***

For decades, the FCC has regularly (i) considered various intercarrier compensation reforms, generally with a goal to create a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic, and (ii) administered the federal USF.

In October 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order ("the 2011 order"), intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and re-direct universal service funding to foster nationwide broadband coverage. The 2011 order provides for a multi-year transition as terminating intercarrier compensation charges are reduced, universal service funding is explicitly targeted to broadband deployment, and line charges paid by end user customers are increased. These changes have substantially increased the pace of reductions in the amount of switched access revenues related to our wholesale services, while creating opportunities for increased federal USF support and retail revenue funding.

As a result of the 2011 order, a new Universal Service program was created to deploy broadband to unserved rural areas utilizing the Connect America Fund or "CAF". Once implemented, the CAF will substantially replace legacy USF funding previously utilized to provide support for voice service in high-cost rural markets. There are two phases to the CAF program, CAF Phase 1 is a one-time broadband grant program while CAF Phase 2 is a multi-year recurring subsidy program for more extensive broadband deployment in price-cap ILEC territories.

In late 2011, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the 2011 order. In January 2012, we joined more than two dozen parties in challenging certain aspects of the 2011 order by filing a separate appeal that was heard by the United States Tenth Circuit Court of Appeals in November 2013. The Tenth Circuit subsequently issued a decision in May 2014 that largely upheld the 2011 order. Multiple other parties have further appealed to the United States Supreme Court. Future judicial challenges to the 2011 order are also possible, which could alter or delay the FCC's proposed changes. In addition, based on the outcome of the FCC proceedings, various state commissions may consider changes to their universal service funds or intrastate access rates. Moreover, rulemaking designed to implement the order is not complete, and several FCC proceedings relating to the order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

In December 2014, the FCC issued an order specifying the broadband build-out standards and term of the CAF Phase 2 program. To the extent we accept funding under the program, we will be required to deploy broadband service with download speeds of 10 megabits per second (Mbps) and upload speeds of 1 Mbps in unserved rural markets selected by the FCC. The initial CAF Phase 2 term will begin in 2015 and is expected to conclude in 2021. In early 2015, the FCC plans to finalize the allocation of CAF Phase 2 funding. We anticipate that the total amount of CAF Phase 2 funding offered to us will exceed \$150 million annually. Once the CAF Phase 2 funding order is released, we will have 120 days to determine whether to accept the CAF Phase 2 funding on a state-by-state basis. If we do not accept the funding and its associated obligation to build in a state, the CAF Phase 2 funding for that state will be auctioned, perhaps as early as 2016. We, as well as other parties, can participate in the auction process.

In states where we accept the CAF Phase 2 funding, the annual distributions will begin in 2015. In states where we do not accept CAF Phase 2 support, the legacy USF high-cost loop support we have historically received will continue until the CAF Phase 2 auctions are completed. Our acceptance of CAF Phase 2 support payments could significantly increase our capital expense requirements in order to provide the requisite broadband services to end users.

As of the date of filing of this Annual Report, we have not yet decided whether to accept or reject any specific build-out opportunities and related CAF support payments available to us under the Phase 2 program. Regardless of our decision, we expect the CAF Phase 2 program will impact us financially.

For additional information about the potential financial impact of the CAF Phase 2 program, see Item 7 of Part II of this Annual Report.

We received approximately \$135 million, \$141 million and \$145 million of revenues from federal and state universal service support programs for the years ended December 31, 2014, 2013 and 2012, respectively. Such amounts represented approximately 1.5% of our 2014 and 1.6% of our 2013 and 2012 total operating revenues.

## ***Broadband Regulation***

The FCC adopted new rules in early 2015 that would introduce regulations on certain aspects of broadband and internet services. We anticipate that any such rules would be reviewed by both the courts and Congress. At this time, we cannot estimate the impact such rules would have on our business.

The FCC recently announced a new broadband definition standard of 25 Mbps download speed and 3 Mbps of upload speed. At this time, we are not aware of any regulatory mandates requiring us to deploy this target speed. The new target is simply a benchmark by which the FCC will evaluate broadband deployment progress in the future. However, the FCC could attempt to utilize this broadband speed target in future regulatory proceedings.

## ***State Regulation***

In recent years, most states have reduced their regulation of ILECs. Nonetheless, state regulatory commissions generally continue to regulate local service rates, intrastate access charges, state universal service funds and in some cases service quality. We are generally regulated under various forms of alternative regulation that typically limit our ability to increase rates for stand-alone, basic local voice service, but relieve us from the requirement to meet certain earnings tests. In a number of states, we have gained pricing freedom for the majority of retail services, other than stand-alone basic consumer voice service. In most of the states in which we operate, we have gained pricing flexibility for certain enhanced calling services, such as caller identification and for bundled services that also include local voice service.

Under state law, we are typically governed by laws and regulations that (i) regulate the purchase and sale of ILECs, (ii) prescribe certain reporting requirements, (iii) require ILECs to provide service under publicly-filed tariffs setting forth the terms, conditions and prices of regulated services, (iv) limit ILECs' ability to borrow and pledge their assets, (v) regulate transactions between ILECs and their affiliates and (vi) impose various other service standards.

Unlike many of our competitors, as an ILEC we generally face "carrier of last resort" obligations which include an ongoing requirement to provide service to all prospective and current customers in our service area who request service and are willing to pay rates prescribed in our tariffs. In certain situations, this may constitute a competitive disadvantage to us if competitors can choose to focus on low-cost profitable customers and withhold service from high-cost unprofitable customers. In addition, strict adherence to carrier-of-last-resort requirements may force us to construct facilities with a low likelihood of attractive economic return.

We operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. As laws and regulations change, there can be no assurance that these mechanisms will continue to provide us with any cost recovery.

For several years, we have faced various carrier complaints, legislation or other investigations regarding our intrastate switched access rates in several of our states. The FCC's 2011 order preempted state regulatory commissions' jurisdiction over all terminating access charges, including intrastate access charges that have historically been subject to exclusive state jurisdiction. Excluding the rate implications contemplated on a prospective basis by this FCC order, we will continue to vigorously defend and seek to collect our intrastate switched access revenues subject to outstanding disputes. The outcomes of these disputes cannot be determined at this time. If we are required to reduce our intrastate switched access rates as a result of any of these disputes or state initiatives, we will seek to recover displaced switched access revenues from state universal service funds or other services. However, the amount of such recovery particularly from residential customers, is not assured.

## ***Competition***

### ***General***

Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry over the past couple of decades. As a result, we currently compete in a rapidly evolving and highly competitive market and we expect intense competition to continue. Technological advances and regulatory and legislative changes have increased opportunities for a wide range of alternative communications service providers, which in turn have increased competitive pressures on our business. These alternate providers often face fewer regulations and have lower cost structures than we do.

As both residential and business customers increasingly demand high-speed connections for entertainment, communications and productivity, we expect the demands on our network will continue to increase over the next several years. To succeed, we and other network-based providers must ensure that our networks can deliver services that meet these increasing bandwidth and speed requirements. We plan to continue to invest in our network to be able to meet this future demand. In addition, network reliability and security are increasingly important competitive factors in the enterprise business.



Although our status as an ILEC continues to provide us advantages in providing local services in our local service area, as noted above, we increasingly face significant competition as an increasing number of consumers are willing to substitute cable, wireless and electronic communications for traditional voice telecommunications services. This has led to an increase in the number and type of competitors within our industry, price compression and a decrease in our market share. As a result of this product substitution, we face greater competition in providing local services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We anticipate this trend will continue, particularly as wireless services providers continue to improve their service offerings and our older legacy customers are replaced over time with younger customers who are less accustomed to using traditional wireline voice services. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Some of our competitors are subject to fewer regulations than we are, which affords them competitive advantages against us. Under federal regulations, telecommunication providers are able to interconnect their networks with ours, resell our services or lease separate parts of our network in order to provide competitive services. Generally, we have been required to provide these functions and services at wholesale rates to our competitors, which allow our competitors to sell their services at lower prices. However, these rules have been and continue to be reviewed by state and federal regulators. In addition, wireless and broadband service providers generally are subject to fewer regulations, which may allow them to operate with lower costs than we are able to operate. For additional discussion of regulations affecting our business, see "Regulation" above.

As discussed below, competition for many of our services is based in part on bundled offerings. We believe our customers value the convenience of and price discounts associated with, receiving multiple services through a single company. As such, we continue to focus on expanding and improving our bundled offerings.

### ***Strategic Services***

With respect to providing our strategic services, competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. Wireless carriers' fourth generation, or 4G, services are allowing them to more directly compete with our strategic services. Private line services also compete on network reach and reliability, while broadband services compete on bandwidth and quality of service.

In providing broadband services, we compete primarily with cable companies, wireless providers and other broadband service providers. Competition within our broadband services is based on price, bandwidth and service. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Competition here is based on price, content and quality.

The market for wireless services is highly competitive. We market and sell wireless services to customers who are buying these services as part of a bundle with one or more of our other services. In reselling Verizon Wireless services, we compete with national and regional carriers as well as other sales agents and resellers. Competition for our wireless services is based on the coverage area, price, services offered, features, handsets, technical quality and customer service.

In providing private line services we compete primarily with national telecommunications providers, such as AT&T Inc. and Verizon Communications Inc. Additionally we are experiencing increased competition for private line services from cable companies. Competition for private line services is based primarily on price, as well as network reach, bandwidth, quality, reliability and customer service.

Although we are experiencing intense competition in these markets, we believe we are favorably positioned due to our strong presence in our local service area. Many of our competitors for these strategic services are not subject to the same regulatory requirements as we are and therefore they are able to avoid significant regulatory costs and obligations. Throughout each of our competitive services, we continue to focus on expanding and improving our bundled offerings.

### ***Legacy Services***

The market for legacy services is highly competitive and is based primarily on pricing, packaging of services and features, quality of service and meeting customer care needs. We believe these customers value the convenience of and price discounts associated with, receiving multiple services through a single company. Within the telecommunications industry, these services may include telephone, wireless, video and Internet access. Accordingly, we and our competitors continue to develop and deploy more innovative product bundling, enhanced features and combined billing options in an effort to retain and gain customers. While we rely on reseller or sales agency arrangements to provide some of our bundled services, some of our competitors are able to provide all of their bundled services directly, which may provide them a competitive advantage.

Our resale and UNE customers are experiencing the same competition with CLECs, for local services customers as we are, as discussed above. We also compete with some of our own customers that are deploying their own networks to provide customers with local services. By doing so, these competitors take traffic off of our network.

Significant competitive factors in the local telephone industry include pricing, packaging of services and features, quality and convenience of service and meeting customer needs such as simplified billing and timely response to services calls.

We provide access services to other telecommunications providers to connect their customers and their networks to our network so that they can provide long-distance, transport, data, wireless and Internet services. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers. Our access service customers face competitive pressures in their businesses that are similar to those we face with respect to strategic and legacy services. To the extent that these competitive pressures result in decreased demand for their services, demand for our access services also declines.

Wireless telephone services increasingly constitute a significant source of competition with ILEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among consumer customers, which comprise 62% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber optics, local multipoint distribution services, WiFi and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital communications continues to reduce the demand for traditional landline voice services.

Improvements in the quality of VoIP service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers frequently offer features that cannot readily be provided by traditional ILECs and may price their services at or below those prices currently charged for traditional local and long-distance telephone services for several reasons, including lower operating costs and regulatory advantages. Although over the past several years the FCC has increasingly subjected portions of VoIP operations to federal regulation, VoIP services currently operate under fewer regulatory constraints than local exchange carriers services. For all these reasons, we cannot assure that VoIP providers will not successfully compete for our customers.

In providing other legacy services, such as traditional services and ISDN, we compete primarily with national telecommunications providers and cable companies. Competition for these other legacy services is based primarily on price and bundled offerings.

## **Environmental Compliance**

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating of vehicle fleets or power supplies for our communications equipment. Although we cannot assess with certainty the impact of any future compliance and remediation obligations or provide you with any assurances regarding the ultimate impact thereof, we do not currently believe that future environmental compliance and remediation expenditures will have a material adverse effect on our financial condition or results of operations.

## **Seasonality**

Overall, our business is not significantly impacted by seasonality. From time to time weather related problems have resulted in increased costs to repair our network and respond to service calls in some of our markets. The amount and timing of these costs are subject to the weather patterns of any given year.

## **Employees**

At December 31, 2014, we had approximately 23,000 employees, of which approximately 11,000 are members of either the Communications Workers of America or the International Brotherhood of Electrical Workers. See the discussion of risks relating to our labor relations in "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this Annual Report.

Over the past couple of years, we have reduced our workforce primarily due to (i) integration efforts from CenturyLink's indirect acquisition of us; (ii) increased competitive pressures; and (iii) the loss of access lines and related legacy revenues over the last several years.





## Website Access and Important Investor Information

Our website is the same as that of our ultimate parent company, CenturyLink, which is [www.centurylink.com](http://www.centurylink.com). The information contained on, or that may be accessed through, our website is not part of this Annual 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 Securities and Exchange Commission, or SEC.

We have adopted CenturyLink's written codes of conduct that serve as the code of ethics applicable to our directors, officers and employees, in accordance with applicable laws and rules promulgated by the SEC and the New York Stock Exchange. In the event that CenturyLink makes any changes (other than by a technical, administrative or non-substantive amendment) to, or provide any waivers from, the provisions of its code of conduct applicable to our directors or executive officers, CenturyLink intends to disclose these events on our website or in a report on Form 8-K filed with the SEC. These codes of conduct, as well as copies of CenturyLink's guidelines on significant governance issues and the charters of their audit committee, compensation committee, nominating and corporate governance committee and risk evaluation committee, are also available in the "Corporate Governance" section of our website at [www.centurylink.com/Pages/AboutUs/Governance/](http://www.centurylink.com/Pages/AboutUs/Governance/) or in print to any shareholder who requests them by sending a written request to our Corporate Secretary at CenturyLink, Inc., 100 CenturyLink Drive, Monroe, Louisiana, 71203.

Investors may also read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. For information on the operation of the Public Reference Room, you are encouraged to call the SEC at 1-800-SEC-0330. For all of our electronic filings, the SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC.

In connection with filing this Annual Report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act's related regulations.

## Special Note Regarding Forward-Looking Statements and Related Matters

This Annual Report and other documents filed by us under the federal securities law include, and future oral or written statements or press releases by us and our management may include, forward-looking statements about our business, financial condition, operating results and prospects. These statements include, among others:

- statements concerning the benefits that we expect will result from our operations, investments, transactions and other activities, such as increased revenues or decreased expenditures;
- statements about our anticipated future operating and financial performance, financial position and liquidity, tax position, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, capital allocation plans, investment results, financing alternatives and sources and pricing plans; and
- other similar statements of our expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts, many of which are highlighted by words such as "may," "would," "could," "should," "plan," "believes," "expects," "anticipates," "estimates," "projects," "intends," "likely," "seeks," "hopes," or variations or similar expressions.

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

- the timing, success and overall effects of competition from a wide variety of competitive providers;
- the risks inherent in rapid technological change, including product displacement;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality;



- our ability to effectively adjust to changes in the communications industry and changes in our markets, product mix and network;
- our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel;
- possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis;
- the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network;
- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- our continued access to credit markets on favorable terms;
- our ability to collect our receivables from financially troubled customers;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- any adverse developments in legal or regulatory proceedings involving CenturyLink or QCII;
- changes in our operating plans, corporate strategies, or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, cash flows, or financial position, or other similar changes;
- the effects of adverse weather;
- other risks referenced in this Annual Report or other of our filings with the SEC; and
- the effects of more general factors such as changes in interest rates, in tax laws, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy.

These and other uncertainties related to our business are described in greater detail in Item 1A of Part I of this Annual Report, which is subject to updating and supplementing by our subsequent SEC reports.

These factors should be considered in connection with any written or oral forward-looking statements that we or persons acting on our behalf may issue. Anticipated events may not occur and our actual results or performance may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Additional factors or risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from our expected results. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to 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, the existing regulatory and technological environment, industry and competitive conditions, and economic and market conditions and our assumptions as of such date. We may change our intentions, strategies or plans at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst with respect to our past or projected performance. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Unless otherwise indicated, information contained in this Annual Report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the communications industry generally. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed below in Item 1A of Part I of this Annual Report.

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

The following discussion of “risk factors” identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us or our industry, that we currently deem to be immaterial or that are not specific to us, such as general economic conditions.

### **Risks Affecting Our Business**

***Increasing competition, including product substitution, continues to cause us to lose access lines, which has adversely affected and is expected to continue to adversely affect our operating results and financial condition.***

Various developments over the past decade have caused us to continue to lose access lines and to experience increased competitive pressures, and we expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from a variety of other sources, including cable and satellite companies, wireless providers, technology companies, broadband providers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network.

Some of our current and potential competitors (i) offer products or services that are substitutes for our traditional voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) offer products or services with features that we cannot readily match in some or all of our markets, including faster average broadband transmission speeds and greater content, (iv) have market presence, engineering and technical capabilities, and financial and other resources greater than ours, (v) own larger or more diverse networks with greater transmission capacity or other advantages, (vi) conduct operations or raise capital at a lower cost than us, (vii) are subject to less regulation, (viii) offer services nationally or internationally to a larger geographic area or larger base of customers, or (ix) have substantially stronger brand names. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, to devote greater resources to the marketing and sale of their products and services, or to provide more comprehensive customer service. In the past, several of our competitors and their operations have grown through acquisitions and aggressive product development. The continued growth of our competitors could further enhance their competitive positions.

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

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

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

The communications industry has been and continues to be impacted by significant technological changes, which in general are enhancing non-voice communications and enabling a broader array of companies to offer services competitive with ours. Many of those technological changes are (i) displacing or reducing demand for our traditional voice services, (ii) enabling the development of competitive products or services, or (iii) enabling our current customers to reduce or bypass use of our networks. Rapid changes in technology are increasing the competitiveness of the information technology services industry. In addition, demand for our broadband services has been constrained by certain technologies permitting cable companies and other competitors to deliver faster average broadband transmission speeds than ours. Demand for our broadband services could be further reduced by advanced wireless data transmission technologies being deployed by wireless providers, including "long-term evolution" or "LTE" technologies, especially if these wireless providers continue to increase the service's broadband speed and decrease its cost. To enhance the competitiveness of our broadband services, we may be required to expend additional capital to augment the capabilities of our copper-based services or to install more fiber optic cable.

We may not be able to accurately predict technological trends or the success of newly-offered services. Further technological change could require us to (i) expend capital or other resources in excess of currently contemplated levels, (ii) forego the development or provision of products or services that others can provide more efficiently, or (iii) make other changes to our operating plans, corporate strategies or capital allocation plans, any of which could be contrary to the expectations of our security holders or could adversely impact our operations. If we are not able to develop new products and services to keep pace with technological advances, or if those products and services are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to effectively respond to technological changes could also adversely affect our operating results and financial condition, as well as our ability to service debt and fund other commitments or initiatives.

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

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

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

Primarily as a result of the competitive and technological changes discussed above, we have in recent years experienced a decline in access lines, long distance revenues and network access revenues, which continue to place downward pressure on our revenues generated from legacy services and our consolidated cash flows.

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

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

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

Our ability to successfully introduce new product or service offerings on a timely and cost-effective basis could be constrained by a range of factors, including network limitations, limited capital, an inability to attract key personnel with the necessary skills, intellectual property constraints, testing delays, or an inability to act as quickly as smaller, more nimble start-up competitors. Similarly, our ability to grow through acquisitions could be limited by several factors, including our leverage, risk tolerances, and inability to identify attractively-priced target companies. For these reasons, we cannot assure you that our new product or service offerings will be as successful as anticipated, or that we will be able to continue to grow through acquisitions.

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

To be successful, we will need to continue providing our customers with high-capacity, reliable and secure networks. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems (including our billing systems). As a communications company that transmits large amounts of sensitive and proprietary information over communications networks, we face an added risk that a security breach or other significant disruption of our public networks or information technology infrastructure and related systems that we develop, install, operate and maintain for certain of our business and governmental customers could lead to material interruptions or curtailments of service. Moreover, in connection with processing and storing confidential customer data we face a heightened risk that a security breach or disruption could result in unauthorized access to our customers' proprietary or classified information on our public networks or internal systems or the systems that we operate and maintain for certain of our customers.

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, distributed denial-of-service attacks, or other forms of cyber attacks or similar events. These threats may derive from human error, hardware or software vulnerabilities, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from aging equipment or other accidental technological failure. These threats may also arise from failure or breaches of systems owned, operated or controlled by other unaffiliated operators to the extent we rely on such other operations to deliver services to our customers. Similar to other large telecommunications companies, we are a target of cyber attacks of varying degrees on a regular basis. Although some of these attacks have resulted in security breaches, to date none of these breaches have resulted in a material adverse effect on our operating results or financial condition. You should be aware, however, that defenses against cyber attacks currently available to U.S. companies are unlikely to prevent intrusions by a highly determined, highly sophisticated hacker. Consequently, you should assume that we will be unable to implement security barriers or other preventative measures that repel all future cyber attacks. Any such future security breaches or disruptions could materially adversely affect our business, especially in light of the growing frequency, scope and well documented sophistication of cyber attacks and intrusions.

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

Additional risks to our network and infrastructure include:

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

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

- disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention or financial resources to remedy the damages that result or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;
- require us to notify customers, regulatory agencies or the public of data breaches;
- require us to offer expensive incentives to retain existing customers or subject us to claims for contract breach, damages, credits, fines,

penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or

- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation.

Likewise, our ability to expand and update our systems and information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. As discussed further under “Business—Network Architecture” in Item 1 of Part I of this Annual Report, we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which combines our legacy network and CenturyLink's networks. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, increased acquisition integration costs, service or billing interruptions, and the diversion of development resources.

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

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

The above-described changes in our industry have placed a higher premium on technological, engineering, product development, marketing and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen skills necessary to address these changes, and, where necessary, to attract and retain new personnel that possess these skills. Given the current competitive market for personnel with these skills, we cannot assure you that these recruitment efforts will be successful.

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

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

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

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

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

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

**Reliance on other communications providers.** To offer voice or data services in certain of our markets, we must either lease network capacity from, or interconnect our network with the infrastructure of, other communications companies who typically compete against us in those markets. Our reliance on these lease or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that our ability to market our services could be adversely impacted by changes in the plans or properties of the carriers upon which we are reliant. In addition, we are exposed to the risk that the other carriers may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all.





Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Trends" included in Item 7 of Part II of this Annual Report.

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

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

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

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

**Reliance on governmental payments .** We receive a material amount of revenue or government subsidies under various government programs, which are further described under the heading "Risk Factors—Risks Relating to Legal and Regulatory Matters." Pending changes in the federal Universal Service support program will likely change the way we recognize and report future funds received from federal USF as the FCC's CAF Phase 2 program is implemented. We also provide products or services to various federal, state and local agencies. Governmental agencies frequently reserve the right to terminate their contracts for convenience, or to suspend or debar companies from receiving future subsidies or contracts under certain circumstances. If our governmental contracts are terminated for any reason, or if we are suspended or debarred from governmental programs or contracts, our results of operations and financial condition could be materially adversely affected.

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

As of December 31, 2014 , approximately 48% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire and we typically negotiate the terms of new bargaining agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

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

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

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

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

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

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

For additional information about our business and operations, see Item 1 of Part I of this Annual Report.

**Risks Relating to Legal and Regulatory Matters**

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

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

Regulation of the telecommunications industry continues to change rapidly, and the regulatory environment varies substantially from jurisdiction to jurisdiction. Notwithstanding a recent movement towards alternative regulation, a substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. Interexchange carriers have filed complaints in various forums requesting reductions in our access rates. In addition, several long-distance providers are disputing or refusing to pay amounts owed to us for carrying Voice over Internet Protocol ("VoIP") traffic, or traffic they claim to be VoIP traffic. Similarly, some carriers are refusing to pay access charges for certain calls between mobile and wireline devices routed through an interexchange carrier. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

**Risks associated with recent changes in federal regulation.** In October 2011, the FCC adopted the Connect America and Inter-carrier Compensation Reform order ("the 2011 order") intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and re-direct federal universal service funding to foster nationwide broadband coverage. This initial ruling provides for a multi-year transition as intercarrier compensation charges are reduced, federal universal service funding is explicitly targeted to broadband deployment, and subscriber line charges paid by end-user customers are gradually increased. These changes have substantially increased the pace of reductions in the amount of switched access revenues we receive in our wholesale business. Moreover, regardless of whether and the degree to which we elect to participate in the FCC's CAF Phase 2 program, we anticipate our financial results will be significantly impacted in the coming years. For more information, see "Business—Regulation" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 1 of Part I and Item 7 of Part II of this Annual Report.

Several judicial challenges to the 2011 order are pending and additional future challenges are possible, any of which could alter or delay the FCC's proposed changes. In addition, based on the outcome of the FCC proceedings, various state commissions may consider changes to their universal service funds or intrastate access rates. Moreover, FCC proceedings relating to implementation of the order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

In addition, during the last few years Congress or the FCC has initiated various other changes, including (i) broadband stimulus projects, support funds and similar plans and (ii) various broadband and internet regulation initiatives including "network neutrality" proposals, as discussed further below. The FCC is also, among other things, considering changes in the regulation of special access services. Any of these recent or pending initiatives could adversely affect our operations or financial results. Moreover, many of the FCC's regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

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

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to regulating broadband deployment, handling of broadband traffic, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, restricting data collection or storage, protecting intellectual property rights of third parties, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act (which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance), and laws governing local number portability and customer proprietary network information requirements. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations. In addition, increased regulation of our suppliers could increase our costs.

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

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

***"Open Internet" regulation could limit our ability to operate our high-speed data business profitably and to manage our broadband facilities efficiently.***

In order to continue to provide quality high-speed data service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently for the benefit of all customers and to invest in our networks. In late February 2015, the FCC plans to vote on proposed new regulations that will regulate the Internet as a public utility. The Chairman of the FCC has proposed rules that would regulate internet services under Title II of the Communications Act. Although it is not clear which provision of Title II would be applied to internet services, it is clear that the level of regulation of those services would increase significantly if the Chairman's proposal is adopted by the full commission. If adopted as proposed, we anticipate that the proposed rules could hamper our ability to operate our data networks efficiently, restrict our ability to implement network management practices necessary to ensure quality service, increase the cost of network extensions and upgrades, and otherwise negatively impact our current operations. Regardless of the outcome of the FCC's proceedings, it is possible that the Congress or the FCC could take further action in the future to modify regulations affecting the provision of broadband internet services.

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

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

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

There are several material proceedings pending against CenturyLink and its affiliates, as described in Note 14—Commitments and Contingencies in Item 8 of Part II of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2014. Depending on their outcome, any of these matters could have a material adverse effect on our financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

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

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

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

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

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation" in Item 1 of Part I of this Annual Report.

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

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

Our ultimate parent, CenturyLink, and we continue to carry significant debt. As of December 31, 2014, our consolidated long-term debt was approximately \$7.4 billion (excluding our note payable-affiliate of \$796 million), which was included in CenturyLink's consolidated long-term debt of approximately \$20.7 billion as of that date. Approximately \$3.4 billion of CenturyLink's consolidated debt securities (excluding capital lease and other obligations), which includes approximately \$827 million of our debt securities, matures over the next 36 months ending December 31, 2017. While we currently believe that CenturyLink and we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future financial condition or the condition of CenturyLink, the credit markets or the economy. We may incur unexpected expenses or liabilities, and we may have limited access to financing.

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

- limiting our ability to access the capital markets;
- exposing us to the risk of credit rating downgrades, which would raise our borrowing costs and could further limit our access to capital;
- hindering our flexibility to plan for or react to changing market, industry or economic conditions;
- limiting the amount of cash flow available for future operations, acquisitions, strategic initiatives, dividends, or other uses;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell assets, possibly on unfavorable terms, or take other unfavorable actions to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments.

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

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

We may also need to obtain additional financing or capital, or to investigate other methods to generate cash (such as further cost reductions or the sale of assets) under a variety of circumstances, including if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if regulatory requirements change, if CenturyLink is required to contribute a material amount of cash to its pension plans, if CenturyLink is required to begin to pay other post-retirement benefits significantly earlier than is anticipated, or if CenturyLink becomes subject to significant judgments or settlements in one or more of the matters discussed in Note 15—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report and Note 14—Commitments and Contingencies to the consolidated financial statements in Item 8 of Part II of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2014. For all the reasons mentioned above, we can give no assurance that this additional financing will be available on terms that are acceptable to us or at all.

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

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our term loan and other debt instruments. If we are unable to satisfy the financial covenants contained in those instruments, or are unable to generate cash sufficient to make required debt payments, the parties to whom we are indebted could accelerate the maturity of some or all of our outstanding indebtedness.

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

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

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

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

As noted above in Item 7 of Part II of this Annual Report, our long-term debt is currently rated BBB- by Standard and Poor's Ratings Services; Baa3 by Moody's Investors Services; and BBB- by Fitch Ratings, all three of which are the lowest investment-grade ratings issued by each of these agencies. Credit rating agencies continually review their ratings for the companies that they follow, including us. Credit rating agencies also evaluate the industries in which we operate as a whole and may change their credit rating for us based on their overall view of such industries. There can be no assurance that any rating assigned to any of our debt securities will remain in effect for any given period of time or that any such rating will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant. A downgrade of our credit ratings could adversely affect the market price of some or all of our outstanding debt securities, limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all, trigger the application of restrictive covenants or result in more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur, increase our cost of borrowing, and impair our business, financial condition and results of operations.



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

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

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

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

A substantial amount of our employees participate in a qualified pension plan sponsored by CenturyLink (formerly QCII). On December 31, 2014, the QCII pension plan and a pension plan of an affiliate were merged into the CenturyLink Combined Pension Plan.

The funded status of CenturyLink's qualified pension plan is the difference between the value of the plan's assets and the benefit obligation. The accounting unfunded status of CenturyLink's qualified pension plan was \$2.4 billion as of December 31, 2014. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in CenturyLink's benefit obligation or a significant decrease in the value of the plan's assets. These adverse changes could require CenturyLink to contribute a material amount of cash to its pension plan or could accelerate the timing of required cash payments. The amounts contributed by us through CenturyLink are not segregated or restricted and may be used to provide benefits to employees of CenturyLink's other subsidiaries. Based on current laws and circumstances, CenturyLink does not expect it will be required to make a contribution to its plan in 2015. The actual amount of required contributions to its plan in 2015 and beyond will depend on earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on CenturyLink's liquidity by reducing their cash flows, which in turn could affect our liquidity.

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

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



## Other Risks

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

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

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

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

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

As of December 31, 2014, approximately 59% of our total consolidated assets reflected on the consolidated balance sheet included in this report consisted of goodwill, customer relationships and other intangible assets. Under generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time, our affiliates or predecessors have recorded large non-cash charges to earnings in connection with required reductions of the value of their intangible assets. If our intangible assets are determined to be impaired in the future, we may similarly be required to record significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred.

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

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

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

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

Legislators and regulators at all levels of government may from time to time change existing tax laws or regulations or enact new laws or regulations that could negatively impact our operating results or financial condition.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.



## ITEM 2. PROPERTIES

Our property, plant and equipment consists principally of telephone lines, cable, central office equipment, land and buildings related to our operations. Our gross property, plant and equipment consisted of the following components:

	As of December 31,	
	2014	2013
Land	3%	3%
Fiber, conduit and other outside plant <sup>(1)</sup>	42%	40%
Central office and other network electronics <sup>(2)</sup>	30%	30%
Support assets <sup>(3)</sup>	22%	24%
Construction in progress <sup>(4)</sup>	3%	3%
Gross property, plant and equipment	100%	100%

(1) Fiber, conduit and other outside plant consists of fiber and metallic cable, conduit, poles and other supporting structures.

(2) Central office and other network electronics consists of circuit and packet switches, routers, transmission electronics and electronics providing service to customers.

(3) Support assets consist of buildings, computers and other administrative and support equipment.

(4) Construction in progress includes inventory held for construction and property of the aforementioned categories that has not been placed in service as it is still under construction.

We own substantially all of our telecommunications equipment required for our business. However, we lease from third parties certain facilities, plant, equipment and software under various capital and operating lease arrangements when the leasing arrangements are more favorable to us than purchasing the assets. We also own and lease administrative offices in major metropolitan locations primarily within our local service area. Substantially all of our network electronics equipment is located in buildings or on land that we own or lease within our local service area. Outside of our local service area, our assets are generally located on real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of these agreements, due to their termination or expiration.

As of December 31, 2014 and 2013, our net property, plant and equipment was approximately \$7.2 billion for both fiscal years. For additional information, see Note 5—Property, Plant and Equipment to our consolidated financial statements in Item 8 of Part II of this Annual Report.

## ITEM 3. LEGAL PROCEEDINGS

The information contained under subheading "Legal Matters" in Note 15—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this Annual Report is incorporated herein by reference.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Not Applicable.

### ITEM 6. SELECTED FINANCIAL DATA

The following tables of selected consolidated financial data should be read in conjunction with and are qualified by reference to our consolidated financial statements and notes thereto in Item 8 of Part II and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

The comparability of the following selected financial data below is significantly impacted by CenturyLink's April 1, 2011 indirect acquisition of us and the resulting revaluation of our assets and liabilities. As a result of the acquisition, the following tables present certain selected financial data for two periods: predecessor and successor, which relate to the periods preceding the acquisition and the period succeeding the acquisition, respectively. The selected financial data shown below are derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that you can expect for any future period.

Selected financial information from our consolidated statements of operations is as follows:

	Successor <sup>(1)</sup>				Predecessor	
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Nine Months Ended December 31, 2011	Three Months Ended March 31, 2011	Year Ended December 31, 2010
	(Dollars in millions)					
Operating revenues	\$ 8,838	8,753	8,848	6,635	2,268	9,271
Operating expenses	6,726	6,675	6,943	5,436	1,630	6,788
Operating income	\$ 2,112	2,078	1,905	1,199	638	2,483
Income before income tax expense	\$ 1,609	1,566	1,391	892	490	1,873
Net income	\$ 970	964	849	543	299	1,082

<sup>(1)</sup> See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" in Item 7 of Part II of this Annual Report for a discussion of unusual items affecting the results for the successor years ended December 31, 2014, 2013 and 2012.

Selected financial information from our consolidated balance sheets is as follows:

	Successor				Predecessor
	December 31, 2014	December 31, 2013	December 31, 2012	December 31, 2011	December 31, 2010
	(Dollars in millions)				
Net property, plant and equipment	\$ 7,201	7,208	7,231	7,506	10,160
Goodwill	9,354	9,354	9,354	9,354	—
Total assets	22,457	23,218	23,947	24,811	12,570
Total long-term debt <sup>(1)</sup>	7,379	7,558	7,625	8,325	8,012
Total stockholder's equity (deficit)	9,183	9,613	9,974	9,865	(831)

<sup>(1)</sup> Total long-term debt is the sum of current maturities of long-term debt and long-term debt (excluding note payable-affiliate of \$796 million) on our consolidated balance sheets. For total contractual obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of Part II of this Annual Report.

Selected financial information from our consolidated statements of cash flows is as follows:

	Successor				Predecessor	
	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012	Nine Months Ended December 31, 2011	Three Months Ended March 31, 2011	Year Ended December 31, 2010
(Dollars in millions)						
Other data:						
Net cash provided by operating activities	\$ 2,801	2,713	2,774	2,201	869	3,235
Net cash used in investing activities	(1,251)	(1,381)	(1,528)	(1,191)	(335)	(1,256)
Net cash used in financing activities	(1,558)	(1,326)	(1,241)	(1,208)	(525)	(2,801)
Payments for property, plant and equipment and capitalized software	(1,165)	(1,264)	(1,266)	(1,036)	(341)	(1,240)

The following table presents certain of our selected operational metrics:

	As of December 31,		
	2014	2013	2012
(in thousands)			
Operational metrics:			
Total broadband subscribers <sup>(1)</sup>	3,528	3,429	3,318
Total access lines <sup>(1)</sup>	7,334	7,641	8,058

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

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

All references to "Notes" in this Item 7 of Part II refer to the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Annual Report. Certain statements in this Annual Report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements and Related Matters" in Item 1 of Part I of this Annual Report for factors relating to these statements and "Risk Factors" in Item 1A of Part I of this Annual Report for a discussion of certain risk factors applicable to our business, financial condition, results of operations, liquidity or prospects.

### Overview

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

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

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 repaid 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 9—Products and Services to our consolidated financial statements in Item 8 of Part II of this Annual Report, we believe we have one reportable segment. We categorize our products, services and revenues among the following three categories:

- *Strategic services* , which include primarily broadband, private line (including special access), Ethernet, our commissions on satellite video services and Verizon Wireless services;
- *Legacy services*, which include primarily local voice, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allow a local communications network to link to networks in remote locations); and
- *Affiliates and other services* , which consist primarily of Universal Service Fund ("USF") support and USF surcharges and services we provide to our affiliates. We receive both federal and state USF support, which are government subsidies designed to reimburse us for the portion of the cost of providing certain telecommunications services, such as in high-cost rural areas, that we are not able to recover from our customers. USF surcharges are the amount that we collect based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services, network support and technical services.

At December 31, 2014 , we operated approximately 7.3 million access lines and served approximately 3.5 million broadband subscribers. Our methodology for counting broadband subscribers and access lines, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

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

## Business Trends

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

- *Strategic services.* We continue to see shifts in the makeup of our total revenues as customers move to lower margin strategic services, such as broadband and video services, from higher margin legacy services. Revenues from our strategic services represented 39% , 38% and 37% of our total revenues for the years ended December 31, 2014 , 2013 and 2012 , respectively. Although we are experiencing price compression due to competition, we expect these percentages to continue to grow. We continue to focus on increasing subscribers of our broadband services, particularly among consumer and small business customers. We believe that continually increasing our broadband's scope and connection speeds is important to remaining competitive in our industry. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most customers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in "Risk Factors" in Item 1A of Part I of this Annual Report, demand for our broadband services could be adversely affected by competitors continuing to provide services at higher broadband speeds than ours or expanding their advanced wireless data service offerings. Another trend impacting our strategic services is the deployment of fiber-based special access services provided to wireline and wireless carriers, which in many cases replaces existing copper-based special access services. We believe the growth in fiber-based special access services provided to wireline and wireless carriers for backhaul will partially offset the decline in copper-based special access services provided to wireline and wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration remain uncertain;
- *Legacy services.* Revenues from our legacy services represented 34% , 37% and 39% of our total revenues for the years ended December 31, 2014 , 2013 and 2012 , respectively. We expect these percentages to continue to decline. Our legacy services revenues have been and we expect they will continue to be adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are replacing traditional voice telecommunications service with substitute services, including (i) cable and wireless voice services and (ii) electronic mail, texting and social networking services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of revenue associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below;
- *Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins;
- *Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions;
- *Pension and post-retirement benefits expenses.* Our controlling parent companies, CenturyLink and QCII, are required to recognize in their consolidated financial statements certain income and expenses relating to their pension and post-retirement health care and life insurance benefits plans. These income and expenses are calculated based on several assumptions, including among other things, discount rates and expected rates of return on plan assets that are generally reset at December 31 of each year. Changes in CenturyLink's and QCII's assumptions can cause significant changes in the net periodic pension and post-retirement benefits income and expenses we recognize. CenturyLink and QCII allocate the income and expenses of these plans to us and certain of their other affiliates. The allocation of income and expenses to us is based upon the demographics of our employees and retirees. On December 31, 2014, the QCII pension plan and a pension plan of an affiliate were merged into the CenturyLink Combined Pension Plan; and
- *Disciplined capital expenditures.* Our capital expenditures continue to be focused on our strategic services such as broadband and the deployment of "fiber to the tower", which is a type of telecommunications network consisting of fiber-optic cables that run from a wireless carrier's mobile telephone switching office to cellular towers to enable the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional copper-based telecommunications network.

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

## Results of Operations

The following table summarizes the results of our consolidated operations:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Operating revenues	\$ 8,838	8,753	8,848
Operating expenses	6,726	6,675	6,943
Operating income	2,112	2,078	1,905
Other expense, net	503	512	514
Income tax expense	639	602	542
Net income	\$ 970	964	849

The following table presents certain of our selected operational metrics:

	As of December 31,		
	2014	2013	2012
	(in thousands)		
Operational metrics:			
Total broadband subscribers <sup>(1)</sup>	3,528	3,429	3,318
Total access lines <sup>(1)</sup>	7,334	7,641	8,058
Total employees	23.0	22.8	22.7

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

## Operating Revenues

The following tables summarize our consolidated operating revenues recorded under the following revenue categorization:

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Strategic services	\$ 3,429	3,342	87	3 %
Legacy services	2,987	3,208	(221)	(7)%
Affiliates and other services	2,422	2,203	219	10 %
Total operating revenues	<u>\$ 8,838</u>	<u>8,753</u>	<u>85</u>	1 %

  

	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Strategic services	\$ 3,342	3,265	77	2 %
Legacy services	3,208	3,471	(263)	(8)%
Affiliates and other services	2,203	2,112	91	4 %
Total operating revenues	<u>\$ 8,753</u>	<u>8,848</u>	<u>(95)</u>	(1)%



## Strategic Services

Strategic services revenues increased by \$87 million , or 3% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and increased by \$77 million , or 2% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . The increase in strategic services revenues for both periods was principally due to increases in the number of broadband subscribers, volume increases in our Ethernet services and price increases for various services. These increases were substantially offset by volume decreases in our special access services.

## Legacy Services

Legacy services revenues decreased by \$221 million , or 7% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and decreased by \$263 million , or 8% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . The decline in legacy services revenues for both periods was the result of lower local voice services revenues due to access line loss and reduced access services usage related to customer migration, competitive pressures and product substitution.

## Affiliates and Other Services

Affiliates and other services revenues increased by \$219 million , or 10% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and increased by \$91 million , or 4% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . The increase in affiliates and other services revenues for both periods was primarily due to increases in volume and in the rates we charge for our support services we provided to affiliates.

Due to potential differences in the accounting treatment, our future federal USF support revenues could be materially impacted whether we elect to receive or reject any specific opportunities to construct additional broadband service plant in unserved portions of our service areas under Phase 2 of the Federal Communications Commission's ("FCC") Connect America Fund ("CAF") program. For additional information about the potential revenue impact of the CAF Phase 2 program, see the discussion below in "Liquidity and Capital Resources—Connect America Fund."

## Operating Expenses

The following tables summarize our consolidated operating expenses:

	<b>Years Ended December 31,</b>		<b>Increase /</b>	
	<b>2014</b>	<b>2013</b>	<b>(Decrease)</b>	<b>% Change</b>
	<b>(Dollars in millions)</b>			
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,879	2,790	89	3 %
Selling, general and administrative	1,086	1,062	24	2 %
Operating expenses-affiliates	756	695	61	9 %
Depreciation and amortization	2,005	2,128	(123)	(6)%
Total operating expenses	\$ 6,726	6,675	51	1 %

  

	<b>Years Ended December 31,</b>		<b>Increase /</b>	
	<b>2013</b>	<b>2012</b>	<b>(Decrease)</b>	<b>% Change</b>
	<b>(Dollars in millions)</b>			
Cost of services and products (exclusive of depreciation and amortization)	\$ 2,790	2,868	(78)	(3)%
Selling, general and administrative	1,062	1,166	(104)	(9)%
Operating expenses-affiliates	695	619	76	12 %
Depreciation and amortization	2,128	2,290	(162)	(7)%
Total operating expenses	\$ 6,675	6,943	(268)	(4)%

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

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

Cost of services and products (exclusive of depreciation and amortization) increased by \$89 million , or 3% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to increases in network expense and allocated corporate costs from affiliates. The increase was offset partially by a decrease in employee-related expenses. Costs of services and products (exclusive of depreciation and amortization) decreased by \$78 million , or 3% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in active and retiree benefits costs related to lower pension benefits expense and lower active and retiree healthcare benefits as a result of better than expected returns on plan assets and from favorable changes to discount rates, due to a reduction in severance expenses and due to lower access expense. These decreases were offset partially by increases in professional fees, network expenses, and real estate and power costs.

## Selling, General and Administrative

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

Selling, general and administrative expenses increased by \$24 million , or 2% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to an increase in employee-related expenses and an impairment charge related to an office building, which was sold in the fourth quarter of 2014. These increases were partially offset by decreases in marketing and advertising expenses and lower property and other operating taxes. Selling, general and administrative expenses decreased by \$104 million , or 9% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in active and retiree benefit costs, as further described above in costs of services and products, due to a reduction in severance expenses, decreases in bad debt expenses and property and other operating taxes. Higher external commissions partially offset these decreases.

CenturyLink and QCII allocated the expense and income of their pension and post-retirement benefit plans to us based upon demographics of our employees compared to all the remaining participants. The expense and income are a function of the amount of benefits earned, interest on benefit obligations, expected return on plan assets, amortization of costs and credits from prior benefit changes and amortization of actuarial gains and losses. In 2014, we recorded combined net periodic benefit expense of \$30 million for the qualified pension and post-retirement benefit plans; however, we recorded combined net periodic benefit income of \$88 million and \$11 million in 2013 and 2012 , respectively. The 2014 net periodic benefit income of \$28 million was more than offset by the \$58 million of expense associated with the lump sum payments noted above under "Cost of Services and Products (exclusive of depreciation and amortization)." We expect to record combined net periodic income of approximately \$40 million in 2015 . For additional information on our pension and post-retirement benefit plans, see Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report.

## Non-recurring Operating Expenses Related to CenturyLink's Acquisition

We have incurred certain non-recurring operating expenses related to CenturyLink's indirect acquisition of us, which consist primarily of integration and severance expenses. The table below summarizes our acquisition-related expenses:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Acquisition-related expenses	\$ 13	24	39

The total amounts of these expenses are recognized in our cost of services and products and selling, general and administrative expenses on our consolidated statements of operations.

### Operating Expenses-Affiliates

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

Operating expenses-affiliates increased by \$61 million , or 9% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and increased by \$76 million , or 12% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . The increase in operating expenses-affiliates for both periods was primarily due to increases in the rates we are charged for support services and higher levels of services provided to us by affiliates.

### Depreciation and Amortization

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Depreciation	\$ 1,048	1,099	(51)	(5)%
Amortization	957	1,029	(72)	(7)%
Total depreciation and amortization	<u>\$ 2,005</u>	<u>2,128</u>	<u>(123)</u>	<u>(6)%</u>
	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Depreciation	\$ 1,099	1,175	(76)	(6)%
Amortization	1,029	1,115	(86)	(8)%
Total depreciation and amortization	<u>\$ 2,128</u>	<u>2,290</u>	<u>(162)</u>	<u>(7)%</u>

Annual 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 assets and the addition of new plant. Depreciation expense decreased by \$51 million , or 5% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 . The 2014 depreciation expense was lower than the respective prior period depreciation expense due to our plant aging and becoming fully depreciated or retired which was partially offset by new plant additions in 2014 and changes in the estimated lives of certain property, plant and equipment. During January 2014, we implemented changes in estimates that reduced the remaining economic lives of certain switch and circuit network equipment which resulted in increased 2014 annual depreciation expense. Depreciation expense decreased by \$76 million , or 6% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . This decrease in depreciation expense is primarily due to depreciation rate changes of certain telecommunications equipment. The rate changes were the result of our aged investment in plant becoming fully depreciated or retired at a faster rate than the addition of new plant.

Amortization expense decreased by \$72 million , or 7% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and decreased by \$86 million , or 8% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 . The decrease in amortization expense for both periods was primarily due to the use of accelerated amortization methods for a portion of the customer relationship assets. In addition, amortization of capitalized software was lower due to our software investments becoming fully amortized faster than new software was acquired.

## Other Consolidated Results

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Interest expense	\$ (464)	(450)	14	3 %
Interest expense-affiliates	(40)	(64)	(24)	(38)%
Other income	1	2	(1)	(50)%
Total other expense, net	<u>\$ (503)</u>	<u>(512)</u>	(9)	(2)%
Income tax expense	\$ 639	602	37	6 %

	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Interest expense	\$ (450)	(443)	7	2 %
Interest expense-affiliates	(64)	(24)	40	167 %
Net loss on early retirement of debt	—	(47)	(47)	nm
Other income	2	—	2	nm
Total other expense, net	<u>\$ (512)</u>	<u>(514)</u>	(2)	— %
Income tax expense	\$ 602	542	60	11 %

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 \$14 million , or 3% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a reduction in the amortization of debt premiums and to a slightly higher average interest rate. Interest expense increased by \$7 million , or 2% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a reduction in the amortization of debt premiums partially offset by slightly lower average debt outstanding. See Note 3—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of this Annual Report and Liquidity and Capital Resources below for additional information about our debt.

### Interest Expense-Affiliates, Net

Affiliate interest expense decreased by \$24 million , or 38% , for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to an accounting adjustment. Affiliate interest expense increased by \$40 million , or 167% , for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in our note payable-affiliate.

### Net Loss on Early Retirement of Debt

On July 20, 2012 , we redeemed all \$484 million of our 7.50% Notes due 2023, which resulted in an immaterial loss.

On April 18, 2012 , we completed a premium-priced cash tender offer to purchase a portion of our \$811 million of 8.375% Notes due 2016 and our \$400 million of 7.625% Notes due 2015. With respect to our 8.375% Notes due 2016, we received and accepted tenders of approximately \$575 million aggregate principal amount of these notes, or 71% , for \$722 million including a premium, fees and accrued interest. With respect to our 7.625% Notes due 2015, we received and accepted tenders of approximately \$308 million aggregate principal amount of these notes, or 77% , for \$369 million including a premium, fees and accrued interest. The completion of this tender offer resulted in a loss of \$46 million .

## Income Tax Expense

Income tax expense for the year ended December 31, 2014, was \$639 million, or an effective tax rate of 39.7%, compared to \$602 million, or an effective tax rate of 38.4%, for the year ended December 31, 2013. The increase in the 2014 effective tax rate is primarily due to a change in the deferred state rate due to changes in apportionment and statutory rate changes and a change in the uncertain tax position as a result of audit settlements. Income tax expense for the year ended December 31, 2012 was \$542 million, or an effective tax rate of 39.0%. The decrease in the 2013 effective tax rate is primarily due to a decrease in the state deferred rate.

For additional information on income taxes, see Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report.

## Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues and expenses. We have identified certain policies and estimates as critical to our business operations and the understanding of our past or present results of operations related to (i) goodwill, customer relationships and other intangible assets; (ii) property, plant and equipment; (iii) pension and post-retirement benefits; (iv) affiliates transactions; and (v) income taxes. These policies and estimates are considered critical because they had a material impact, or they have the potential to have a material impact, on our consolidated financial statements and because they require us to make significant judgments, assumptions or estimates. We believe that the estimates, judgments and assumptions made when accounting for the items described below were reasonable, based on information available at the time they are made. However, there can be no assurance that actual results will not differ from those estimates.

Our acquisition resulted in the assignment of the aggregate consideration to the assets acquired and liabilities assumed based on estimates of their acquisition date fair values. The fair value of the aggregate consideration transferred exceeded the acquisition date fair value of the recorded tangible and intangible assets and assumed liabilities by an estimated \$9.354 billion, which has been recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes. The aggregate consideration assignment is based on our final analysis of enterprise value of \$18.639 billion.

### *Goodwill, Customer Relationships and Other Intangible Assets*

We amortize customer relationships primarily over estimated lives of ten years, using either the sum-of-the-years-digits or the straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years. We annually review the estimated lives and methods used to amortize our other intangible assets. The amount of future amortization expense may differ materially from current amounts, depending on the results of our annual reviews.

We are required to assess goodwill for impairment at least annually, or more frequently if events or a change in circumstances indicate that an impairment may have occurred. We are required to write-down the value of goodwill in periods in which the recorded amount of goodwill exceeds the implied fair value of goodwill. Our annual assessment date for testing goodwill impairment is October 31. The impairment assessment is done at the reporting unit level; in reviewing the criteria for reporting units when assigning the goodwill resulting from CenturyLink's acquisition of us, we determined that we are one reporting unit.

As of October 31, 2014, we performed our annual impairment assessment and concluded that our goodwill was not impaired and the estimated fair value of our equity is substantially in excess of our carrying value of equity as of that date.

During the fourth quarter of 2013, we elected to change the date of our annual assessment of goodwill impairment from September 30 to October 31. This is a change in method of applying an accounting principle which management believes is a preferable alternative as the new date of the assessment is more closely aligned with our strategic planning process. The change in the assessment date did not delay, accelerate or avoid a potential impairment charge in 2013. We performed our annual goodwill impairment assessment at September 30, 2013, prior to the change in our annual assessment date. We then performed a qualitative assessment of our goodwill as of October 31 and concluded that our goodwill was not impaired as of either date.

We may be required to assess our goodwill for impairment before our next required assessment date of October 31, 2015 under certain circumstances, including any failure to meet our forecasted future operating results or any significant increases in our weighted average cost of capital. In addition, we cannot assure that adverse conditions will not trigger future goodwill impairment assessments or impairment charges. A number of factors, many of which we cannot control, could affect our financial condition, operating results and business prospects and could cause our actual results to differ from the estimates and assumptions we employed in our goodwill impairment assessment. These factors include, but are not limited to, (i) further weakening in the overall economy; (ii) a significant decline in our ultimate parent's, CenturyLink, stock price and resulting market capitalization; (iii) changes in the discount rate we use in our testing; (iv) successful efforts by our competitors to gain market share in our markets; (v) adverse changes as a result of regulatory or legislative actions; (vi) a significant adverse change in our legal affairs or in the overall business climate; and (vii) recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of our reporting unit. For additional information, see "Risk Factors" in Item 1A of Part I of this Annual Report. We will continue to monitor certain events that impact our operations to determine if an interim assessment of goodwill impairment should be performed prior to the next required assessment date of October 31, 2015.

### ***Property, Plant and Equipment***

As a result of our indirect acquisition by CenturyLink, property, plant and equipment was recorded based on its estimated fair value as of the acquisition date. Purchased and constructed property, plant and equipment is recorded at cost. Renewals and betterments of plant and equipment are capitalized while repairs, as well as renewals of minor items, are charged to operating expense. Depreciation of property, plant and equipment is provided on the straight-line method using class or overall group rates. The group method provides for the recognition of the remaining net investment, less anticipated net salvage value, over the remaining useful life of the assets. This method requires the periodic revision of depreciation rates.

Normal retirements of property, plant and equipment are charged against accumulated depreciation, with no gain or loss recognized. We depreciate such property on the straight-line method over estimated service lives ranging from 4 to 45 years.

We perform annual internal reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment. Our reviews utilize models that take into account actual usage, physical wear and tear, replacement history, assumptions about technology evolution and, in certain instances, actuarially determined probabilities to estimate the remaining life of our asset base.

Due to rapid changes in technology and the competitive environment, determining the estimated economic life of telecommunications plant, equipment and software requires a significant amount of judgment. We regularly review data on utilization of equipment, asset retirements and salvage values to determine adjustments to our depreciation rates. The effect of a hypothetical one year increase or decrease in the estimated remaining useful lives of our property, plant and equipment would have decreased depreciation expense by approximately \$150 million annually or increased depreciation expense by approximately \$200 million annually, respectively.

### ***Pension and Post-retirement Benefits***

A substantial amount of our employees participate in the CenturyLink and QCII pension and post-retirement benefit plans. CenturyLink and QCII allocate the income and expense relating to pension, non-qualified pension, and post-retirement health care and life insurance benefits to us. Any amounts contributed by us through CenturyLink and QCII are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to employees of other CenturyLink affiliates. The allocation of income and expense to us is based upon demographics of our employees and retirees compared to all the remaining participants.

In computing the periodic pension and post-retirement benefits income and expense, the most significant assumptions CenturyLink and QCII make are the discount rate and the expected rate of return on plan assets. Changes in either of these assumptions could significantly impact our general, administrative and other operating expenses. For further discussion of the qualified pension, non-qualified pension and post-retirement benefit plans and the critical accounting estimates, see CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2014.

### ***Affiliate Transactions***

We recognize intercompany charges at the amounts billed to us by our affiliates and we recognize intercompany revenue for services we bill to our affiliates. Regulatory rules require certain expenses to be recorded at market price or fully distributed cost. Our compliance with regulations is subject to review by regulators. Adjustments to intercompany charges that result from these reviews are recorded in the period they become known.



Because of the significance of the services we provide to our affiliates and our other affiliates transactions, the results of operations, financial position and cash flows presented herein are not necessarily indicative of the results of operations, financial position and cash flows we would have achieved had we operated as a stand-alone entity during the periods presented. See Note 10—Affiliate Transactions to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information.

### ***Income Taxes***

Until April 1, 2011, we were included in the consolidated federal income tax return of QCII. Since CenturyLink's acquisition of QCII on April 1, 2011, we are included in the consolidated federal income tax return of CenturyLink. Under CenturyLink's tax allocation policy, CenturyLink treats our consolidated results as if we were a separate taxpayer. The policy requires us to settle our tax liabilities through a change in our general intercompany obligation based upon our separate return taxable income. We are also included in the combined state tax returns filed by CenturyLink and the same payment and allocation policy applies. Our reported deferred tax assets and liabilities are primarily determined as a result of the application of the separate return allocation method and therefore the settlement of these amounts is dependent upon our parent, CenturyLink, rather than tax authorities. CenturyLink does have the right to change their policy regarding settlement of these assets and liabilities at any time.

Our provision for income taxes includes amounts for tax consequences deferred to future periods. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to tax credit carryforwards and differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities. Deferred taxes are computed using enacted tax rates expected to apply in the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in earnings in the period that includes the enactment date.

The measurement of deferred taxes often involves the exercise of considerable judgment related to the realization of tax basis. Our deferred tax assets and liabilities reflect our assessment that tax positions taken in filed tax returns and the resulting tax basis are more likely than not to be sustained if they are audited by taxing authorities. Also, assessing tax rates that we expect to apply and determining the years when the temporary differences are expected to affect taxable income requires judgment about the future apportionment of our income among the states in which we operate. Any changes in our practices or judgments involved in the measurement of deferred tax assets and liabilities could materially impact our financial condition or results of operations. See Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information.

### **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, Qwest Service Corporation ("QSC"), 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 December 31, 2014, we had a working capital deficit of \$0.5 billion, reflecting current liabilities of \$2.3 billion and current assets of \$1.8 billion, compared to a working capital deficit of \$0.9 billion as of December 31, 2013. The increase in our working capital position is primarily due to a decrease in the current maturities of long-term debt of \$520 million. 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 and (iii) capital contributions, advances or loans from CenturyLink or its affiliates if and to the extent they have 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. Based on the type and volume of services we provide, approximately 40% to 43% of CenturyLink's annual consolidated capital expenditures have been attributed over the last couple of years to us in our operations. For more information on CenturyLink's total capital expenditures, please see its annual reports filed with the SEC.

Our capital expenditures continue to be focused on our strategic services primarily our broadband services, fiber to the tower and software development. For more information on capital spending, see Items 1 and 1A of Part I of this Annual Report.

## Debt and Other Financing Arrangements

CenturyLink has a revolving credit facility (the "Credit Facility") maturing December 2019 that allows CenturyLink to borrow up to \$2 billion, including \$400 million of letter of credit capacity, for the general corporate purposes of itself and its subsidiaries. CenturyLink also maintains a separate letter of credit arrangement with a financial institution amounting to \$160 million to which we have access. As of December 31, 2014, CenturyLink had approximately \$1.3 billion and \$36 million available for future use under the Credit Facility and the separate letter of credit arrangement, respectively.

Under the Credit Facility, CenturyLink and we, must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in our Credit Facility) ratio of not more than 4.0:1.0 and 2.85:1.0, respectively, as of the last day of each fiscal quarter for the four quarters then ended. The Credit Facility also contains a negative pledge covenant, which generally requires CenturyLink to secure equally and ratably any advances under the Credit Facility if they pledge assets or permit liens on our property for the benefit of other debtholders. The Credit Facility also has a cross payment default provision, and the Credit Facility and certain of our debt securities also have cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. To the extent that our EBITDA (as defined in our Credit Facility) is reduced by cash settlements or judgments, including in respect of any of the matters discussed in Note 15—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report or in Item 8 of CenturyLink's Annual Report on Form 10-K, our debt to EBITDA ratios under certain debt agreements will be adversely affected. This could reduce our financing flexibility due to potential restrictions on incurring additional debt under certain provisions of our debt agreements or, in certain circumstances, could result in a default under certain provisions of such agreements.

As of December 31, 2014, our long-term debt (including current maturities and excluding note payable to affiliate discussed in "Revolving Promissory Note") totaled \$7.379 billion, compared to \$7.558 billion outstanding as of December 31, 2013.

Approximately \$92 million of our 7.625% senior notes will mature on June 15, 2015.

On February 20, 2015, we entered into a new credit agreement with several lenders that allows us to borrow up to \$100 million under a term loan. Under this new credit agreement, we borrowed \$100 million under a ten-year term note that expires on February 20, 2025.

Subject to market conditions, and to the extent feasible, we expect to continue to issue debt securities 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 us by credit rating agencies, among other factors. For further information on our debt maturities, see below "Future Contractual Obligations."

We believe we were in compliance with all provisions and covenants of our debt agreements as of December 31, 2014. See Note 3—Long-Term Debt to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information about our long-term debt.

As of the date of this Annual Report, the credit ratings for our senior unsecured debt were as follows:

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





Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades could impact CenturyLink's and our access to debt capital or further raise CenturyLink's and our borrowing costs. Any such downgrades of CenturyLink's senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of CenturyLink's borrowing under its revolving credit facility, which could indirectly impact us. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of this Annual Report.

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

We are currently indebted to an affiliate of CenturyLink under a revolving promissory note that provides us with a funding commitment of up to \$1.0 billion in aggregate principal amount through June 30, 2022, of which \$796 million was outstanding as of December 31, 2014. The revolving promissory note is due on demand and ranks equally to our outstanding Senior Notes. Interest is accrued on the outstanding balance using a weighted average per annum interest rate of CenturyLink's outstanding borrowings for the interest period. As of December 31, 2014, the weighted average interest rate was 6.657%. As of December 31, 2014 and 2013, this revolving promissory note is reflected on our consolidated balance sheets under "Note payable-affiliate". As of December 31, 2014, \$9 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet.

### ***Dividends***

We periodically pay dividends to our direct parent company. See Note 13—Stockholder's Equity to our consolidated financial statements in Item 8 of Part II of this Annual Report.

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

The following table summarizes our estimated future contractual obligations as of December 31, 2014:

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020 and thereafter</b>	<b>Total</b>
	<b>(Dollars in millions)</b>						
Long-term debt, including current maturities and capital lease obligations <sup>(1)</sup>	\$ 117	237	500	—	—	6,489	7,343
Interest on long-term debt and capital leases <sup>(2)</sup>	508	491	465	452	452	9,865	12,233
Note payable-affiliate	796	—	—	—	—	—	796
Interest on note payable-affiliate	9	—	—	—	—	—	9
Operating leases	56	50	44	38	27	36	251
Purchase commitments <sup>(3)</sup>	50	43	29	10	6	1	139
Non-qualified pension obligations <sup>(4)</sup>	3	2	2	2	1	5	15
Other	2	1	2	2	1	13	21
<b>Total future contractual obligations <sup>(5)</sup></b>	<b>\$ 1,541</b>	<b>824</b>	<b>1,042</b>	<b>504</b>	<b>487</b>	<b>16,409</b>	<b>20,807</b>

<sup>(1)</sup> Long-term debt, including current maturities and capital lease obligation (excluding unamortized premiums, discounts and other, net and excluding note payable-affiliate).

<sup>(2)</sup> Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt.

<sup>(3)</sup> We have various long-term, non-cancelable purchase commitments for advertising and promotion services, including advertising and marketing at sports arenas and other venues and events. We also have service related commitments with various vendors for data processing, technical and software support services. Future payments under certain service contracts will vary depending on our actual usage. In the table above, we estimated payments for these service contracts based on estimates of the level of services we expect to receive.

<sup>(4)</sup> Reflects only the portion of total obligation that is contractual in nature. See Note 5 below.

<sup>(5)</sup> The table is limited to contractual obligations only and does not include:

- contingent liabilities;
- our open purchase orders as of December 31, 2014. These purchase orders are generally issued at fair value, and are generally cancelable without penalty;
- other long-term liabilities, such as accruals for legal matters and other taxes that are not contractual obligations by nature. We cannot determine with any degree of reliability the years in which these liabilities might ultimately settle;



- affiliate cash funding requirements for qualified pension benefits payable to certain eligible current and future retirees allocated to us by CenturyLink. Benefits paid by CenturyLink's qualified pension plan are paid through a trust. Cash funding requirements for this trust are not included in this table as CenturyLink is not able to reliably estimate required contributions to the trust. CenturyLink's cash funding projections are discussed further below;
- affiliate post-retirement benefits payable to certain eligible current and future retirees. Not all of CenturyLink's post-retirement benefit obligation amount is a contractual obligation and are not contractual obligations of ours and therefore are not reported in the table. See additional information on CenturyLink's benefits plans in Note 7—Employee Benefits to the consolidated financial statements in Item 8 of Part II of CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2014;
- contract termination fees. These fees are non-recurring payments, the timing and payment of which, if any, is uncertain. In the ordinary course of business and to optimize our cost structure, we enter into contracts with terms greater than one year to purchase other goods and services. Assuming we terminate these contracts in 2015, termination fees for these contracts to purchase goods and services would be approximately \$111 million. In the normal course of business, we do not believe payment of these fees is likely; and
- potential indemnification obligations to counterparties in certain agreements entered into in the normal course of business. The nature and terms of these arrangements vary.

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

CenturyLink and QCII are subject to material obligations under their existing defined benefit pension and post-retirement benefit plans. As of December 31, 2014, the accounting unfunded status of CenturyLink's qualified and non-qualified defined benefit pension plans and post-retirement benefit plans were \$2.5 billion and \$3.5 billion, respectively. As of December 31, 2014, the accounting unfunded status of QCII's non-qualified defined benefit pension plan was \$21 million, which is included in the CenturyLink defined benefit pension plans' balance noted above. See Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report and Note 7—Employee Benefits to the consolidated financial statements in Item 8 of Part II of CenturyLink's Annual Report on Form 10-K for additional information about our and CenturyLink's pension and post-retirement benefit arrangements.

A substantial portion of our active and retired employees participate in the CenturyLink Combined Pension Plan, a qualified defined pension plan and the CenturyLink post-retirement benefit plans. On December 31, 2014, the 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.

Benefits paid by CenturyLink's qualified pension plan are paid through a trust. Cash funding requirements can be significantly impacted by earnings on investments, discount rates, changes in plan benefits and changes in funding laws and regulations. CenturyLink was not required and did not make contributions to the trust in 2013 or 2014 and CenturyLink currently does not expect to make a contribution to the trust in 2015.

Certain of CenturyLink's post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that are used to help cover the health care costs of certain retirees. As of December 31, 2014, the fair value of these trust assets was approximately \$353 million; however, a portion of these assets is comprised of investments with restricted liquidity. CenturyLink estimates that the more liquid assets in these trusts will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately two years. Thereafter, covered benefits will be paid either directly by CenturyLink or from these trusts as the remaining assets become liquid. This projected two year period could be shorter or longer depending on changes in projected healthcare costs, returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

CenturyLink's estimated annual long-term rate of return is 7.5% for both the pension plan trust assets and post-retirement plans trust assets, 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 this Annual Report.

## *Connect America Fund*

In October 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies. Among other changes, this initial ruling established the framework for a multi-year transition of federal universal service funding to a new system where such funding is explicitly targeted to the deployment and provisioning of broadband services in high cost areas. In December 2014, the FCC issued an order specifying the amount of funds to be offered under Phase 2 of the CAF program to price cap carriers, on a state by state basis, for the construction of high-speed broadband services to underserved areas. Under this order, we will have during 2015 a 120-day period in which to elect whether to exercise a “right of first refusal” to provide broadband services to households in unserved portions of our service areas. To the extent that we choose not to accept these opportunities and related CAF Phase 2 funds for any state under our right of first refusal, we expect that those opportunities and funds would be awarded at auction in 2016. We currently expect that we, as well as other communications companies, would be able to participate in these various state auctions in 2016.

The effects on us of accepting or rejecting CAF Phase 2 funding are both highly uncertain over the long term. In states where we accept the CAF Phase 2 funding, the annual distributions will begin in 2015. In states where we do not accept CAF Phase 2 support, the legacy USF high-cost loop support we have historically received will continue until the CAF Phase 2 auctions are completed. If we elect in 2015 to receive all CAF Phase 2 funding available to us under the FCC’s December 2014 order, we project, based on certain assumptions, that we would receive support payments from the FCC of approximately \$150 million per year for six years, which is approximately \$86 million greater than the federal Universal Service Fund high-cost loop support subsidies the CAF Phase 2 opportunities would replace. However, we would likely be required to increase our planned capital expenditures in the unserved areas by over \$150 million per year. Conversely, if we elect in 2015 to forego all available CAF Phase 2 funding, we will continue to receive approximately \$64 million in federal USF high-cost loop support subsidies in 2015, but the program’s impact on us beyond 2015 would depend on the extent to which we would participate and prevail in the various auctions expected to be held in 2016. If we ultimately receive no CAF Phase 2 funding (either through elections not to participate in the program or failures to prevail at the 2016 auctions), we anticipate forfeiting beginning in 2016 approximately \$64 million of USF high-cost loop support funds, which would materially adversely impact our cash flows.

Historically, we have recognized the full amount of our annual federal USF high-cost loop support as revenue in the year received. We are still in the process of determining how to recognize funds that may be received under CAF Phase 2, but because of differences inherent in the CAF Phase 2 process we will likely defer the recognition of CAF Phase 2 funding until specific CAF Phase 2 deployment projects are completed. This potential difference in accounting treatment could materially reduce our revenue beginning at the date we formally elect to receive any CAF Phase 2 funds. Although we anticipate that following the deployment of broadband in CAF Phase 2 markets, we will benefit from incremental broadband subscribers and funding in previously unserved rural markets, the funding will be delayed until we can complete constructing new network and obtain new customers in those areas.

As of the date of filing of this Annual Report, we have not yet decided whether to accept or reject any specific build-out opportunities and related CAF support payments available to us under the Phase 2 program. We continue to evaluate our options with respect to the opportunities afforded to us under the FCC’s CAF Phase 2 program, including assessing whether our projected return on capital warrants pursuing these opportunities in our various markets. Although we cannot determine at this point the ultimate impact of the implementation of the FCC’s CAF Phase 2 program on us, it could have a material impact on our revenues, expenses and cash flows.

In 2013, under the second round of the first phase of the CAF program, CenturyLink received \$40 million in funding, \$15 million attributed to our service areas, for deployment of broadband services in rural areas. The recently issued CAF Phase 2 program overlaps certain eligible areas of the second round funding, and, at this stage, CenturyLink is unable to determine how much of the \$40 million in funding will be utilized or whether the funding will be returned to the FCC. The \$15 million of CAF Phase 2 funding is included in other noncurrent liabilities on our consolidated balance sheet as of December 31, 2014.

For additional information, see "Business—Regulation" in Item 1 of Part I of this Annual Report.

## Historical Information

The following tables summarize our consolidated cash flow activities:

	Years Ended December 31,		Increase / (Decrease)
	2014	2013	
(Dollars in millions)			
Net cash provided by operating activities	\$ 2,801	2,713	88
Net cash used in investing activities	(1,251)	(1,381)	(130)
Net cash used in financing activities	(1,558)	(1,326)	232

  

	Years Ended December 31,		Increase / (Decrease)
	2013	2012	
(Dollars in millions)			
Net cash provided by operating activities	\$ 2,713	2,774	(61)
Net cash used in investing activities	(1,381)	(1,528)	(147)
Net cash used in financing activities	(1,326)	(1,241)	85

Net cash provided by operating activities increased by \$88 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a positive change in affiliate obligations, net partially offset by less net income adjusted for noncash items. Net cash provided by operating activities decreased by \$61 million in the year ended December 31, 2013 compared to the year ended December 31, 2012 primarily due to changes in other noncurrent assets and liabilities and affiliates obligations, net, which were partially offset by increases in earnings and changes in current assets and liabilities, net. For additional information about our operating results, see "Results of Operations" above.

Net cash used in investing activities decreased by \$130 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a decrease in payments for property, plant and equipment and capitalized software. Net cash used in investing activities decreased by \$147 million in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a decrease in the amount of funds advanced to our affiliate and a decrease in the proceeds received from the sale of property.

Net cash used in financing activities increased by \$232 million in the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to an increase in the amount of net paydown of long-term debt along with an increase in dividend payments. Net cash used in financing activities increased by \$85 million in the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in dividend payments and a decrease in the amount of funds borrowed from an affiliate under the revolving promissory note, which were partially offset by a decrease of payments on debt. For additional information regarding our financing activities, see Note 3—Long-Term Debt and Revolving Promissory Note to our consolidated financial statements in Item 8 of Part II of this Annual Report.

On October 1, 2014, we paid at maturity the \$600 million principal amount of our 7.50% Notes.

On September 29, 2014, we issued \$500 million aggregate principal amount of 6.875% Notes due 2054, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$483 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, on or after October 1, 2019, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

In 2012 and early 2013, CenturyLink, our ultimate parent, has accepted approximately \$35 million from Round 1 of Phase 1 of the FCC's CAF established by Congress to help telecommunications carriers defray the cost of providing broadband access to remote customers. Of the \$35 million, we received approximately \$30 million and intend to use the funds to deploy broadband service for up to 39,000 homes in unserved rural areas principally in Colorado, Minnesota, New Mexico and Washington. In 2013, the FCC announced another round of CAF funding and CenturyLink initially agreed to accept approximately \$54 million from Round 2 of Phase 1 of the FCC's CAF to bring broadband services to more than 92,000 rural homes and business in unserved high-cost areas. Of the \$54 million, we would have received approximately \$23 million to bring broadband services to more than 38,000 rural homes and businesses in unserved high-cost areas. Due to challenges from other competing telecommunications carriers on the unserved rural areas, the final amount offered to CenturyLink by the FCC, which CenturyLink accepted and received in late 2013, was approximately \$40 million. Of the \$40 million, we received approximately \$15 million in December 2013, that was attributable to our service areas.

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

Since CenturyLink's 2011 indirect acquisition of us, we have been included in the consolidated federal income tax return of CenturyLink. CenturyLink is in the process of developing a post-acquisition intercompany agreement for allocation of consolidated income tax liabilities. Until that agreement is finalized, we will continue to account for income tax expense on a stand-alone basis. We are also included in certain combined state tax returns filed by CenturyLink and the same accounting will apply.

Through December 31, 2014, we have paid certain costs that were associated with CenturyLink's indirect acquisition of us. These costs include compensation costs comprised of retention bonuses and severance. The final amounts and timing of the compensation costs to be paid is partially dependent upon personnel decisions that continue to be made as part of the continuing integration. These amounts may be material.

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

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

	<b>Years Ended December 31,</b>		<b>From April 1, 2011 through December 31, 2012</b>	<b>Total Since Acquisition</b>
	<b>2014</b>	<b>2013</b>		
	<b>(Dollars in millions)</b>			
Amortized	\$ 42	53	201	296
Extinguished <sup>(1)</sup>	—	—	187	187
<b>Total</b>	<b>\$ 42</b>	<b>53</b>	<b>388</b>	<b>483</b>

<sup>(1)</sup> Extinguished in connection with the payment of Qwest debt securities prior to maturity.

The remaining premium of \$47 million as of December 31, 2014, will reduce interest expense in future periods, unless otherwise extinguished.

### ***Other Matters***

CenturyLink and its affiliates are involved in several legal proceedings to which we are not a party that, if resolved against them, could have a material adverse effect on their business and financial condition. As a wholly-owned subsidiary of CenturyLink, our business and financial condition could be similarly affected. You can find descriptions of these legal proceedings in CenturyLink's quarterly and annual reports filed with the SEC. Because we are not a party to any of the matters, we have not accrued any liabilities for these matters as of December 31, 2014.

### ***Market Risk***

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

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of December 31, 2014, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

At December 31, 2014, we had approximately \$7.3 billion (excluding capital lease and other obligations) of long-term debt outstanding, which bears interest at fixed rates and is therefore not exposed to interest rate risk. At December 31, 2014, we had approximately \$796 million in debt, which was owed to an affiliate of our ultimate parent, CenturyLink. The note payable-affiliate bears interest at a variable rate, which is based on a weighted average per annum interest rate of CenturyLink's outstanding borrowings for the interest period and therefore is exposed to potential interest rate risk.





Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those presented above if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at December 31, 2014 .

#### **Off-Balance Sheet Arrangements**

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk" in Item 7 of Part II of this Annual Report is incorporated herein by reference.

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder  
Qwest Corporation:

We have audited the accompanying consolidated balance sheets of Qwest Corporation and subsidiaries (the Company) as of December 31, 2014 and 2013 , and the related consolidated statements of operations, cash flows, and stockholder's equity for each of the years in the three-year period ended December 31, 2014 . These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013 , and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 , in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Shreveport, Louisiana  
February 27, 2015

**QWEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
OPERATING REVENUES			
Operating revenues	\$ 6,676	6,818	7,031
Operating revenues-affiliates	2,162	1,935	1,817
Total operating revenues	8,838	8,753	8,848
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	2,879	2,790	2,868
Selling, general and administrative	1,086	1,062	1,166
Operating expenses-affiliates	756	695	619
Depreciation and amortization	2,005	2,128	2,290
Total operating expenses	6,726	6,675	6,943
OPERATING INCOME	2,112	2,078	1,905
OTHER (EXPENSE) INCOME			
Interest expense	(464)	(450)	(443)
Interest expense-affiliates, net	(40)	(64)	(24)
Net loss on early retirement of debt	—	—	(47)
Other income	1	2	—
Total other (expense) income	(503)	(512)	(514)
INCOME BEFORE INCOME TAX EXPENSE	1,609	1,566	1,391
Income tax expense	639	602	542
NET INCOME	\$ 970	964	849

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	2013
	(Dollars in millions)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6	14
Accounts receivable, less allowance of \$38 and \$43	740	738
Advances to affiliates	812	712
Deferred income taxes, net	163	161
Other	125	126
Total current assets	1,846	1,751
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	11,157	10,193
Accumulated depreciation	(3,956)	(2,985)
Net property, plant and equipment	7,201	7,208
GOODWILL AND OTHER ASSETS		
Goodwill	9,354	9,354
Customer relationships, net	3,039	3,687
Other intangible assets, net	808	1,008
Other, net	209	210
Total goodwill and other assets	13,410	14,259
TOTAL ASSETS	\$ 22,457	23,218
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 117	637
Accounts payable	464	440
Note payable-affiliate	796	754
Accrued expenses and other liabilities		
Salaries and benefits	220	217
Income and other taxes	197	206
Other	140	126
Advance billings and customer deposits	327	320
Total current liabilities	2,261	2,700
LONG-TERM DEBT	7,262	6,921
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred revenues	153	161
Deferred income taxes, net	2,247	2,473
Affiliates obligations, net	1,271	1,263
Other	80	87
Total deferred credits and other liabilities	3,751	3,984
COMMITMENTS AND CONTINGENCIES (Note 15)		
STOCKHOLDER'S EQUITY		
Common stock-one share without par value, owned by Qwest Services Corporation	10,050	10,050
Accumulated deficit	(867)	(437)
Total stockholder's equity	9,183	9,613
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 22,457	23,218

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 970	964	849
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,005	2,128	2,290
Deferred income taxes	(228)	(152)	(201)
Provision for uncollectible accounts	64	65	74
Net long-term debt premium amortization	(39)	(52)	(65)
Accrued interest on affiliate note	42	—	—
Net loss on early retirement of debt	—	—	47
Impairment of asset	17	—	—
Changes in current assets and liabilities:			
Accounts receivable	(66)	(94)	(76)
Accounts payable	(9)	(1)	(58)
Accrued income and other taxes	(9)	(9)	(9)
Other current assets and liabilities, net	34	34	(17)
Other current assets and liabilities-affiliates	9	—	—
Changes in other noncurrent assets and liabilities, net	1	—	61
Changes in affiliate obligations, net	8	(179)	(130)
Other, net	2	9	9
Net cash provided by operating activities	2,801	2,713	2,774
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(1,165)	(1,264)	(1,266)
Changes in advances to affiliates	(100)	(119)	(395)
Proceeds from sale of property	14	2	133
Net cash used in investing activities	(1,251)	(1,381)	(1,528)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	483	752	896
Payments of long-term debt	(641)	(806)	(1,430)
Early retirement of debt costs	—	—	(178)
Dividends paid to Qwest Services Corporation	(1,400)	(1,325)	(1,150)
Changes in note payable-affiliate	—	53	701
Changes in advances from affiliates	—	—	(80)
Net cash used in financing activities	(1,558)	(1,326)	(1,241)
Net (decrease) increase in cash and cash equivalents	(8)	6	5
Cash and cash equivalents at beginning of period	14	8	3
Cash and cash equivalents at end of period	\$ 6	14	8
Supplemental cash flow information:			
Income taxes paid, net	\$ (861)	(750)	(607)
Interest paid (net of capitalized interest of \$17, \$17 and \$18)	\$ (505)	(513)	(513)

See accompanying notes to consolidated financial statements.

**QWEST CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY**

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
COMMON STOCK			
Balance at beginning of period	\$ 10,050	10,050	9,950
Tax benefit of pension deduction	—	—	100
Balance at end of period	10,050	10,050	10,050
ACCUMULATED DEFICIT			
Balance at beginning of period	(437)	(76)	(85)
Net income	970	964	849
Dividends declared to Qwest Services Corporation	(1,400)	(1,325)	(840)
Balance at end of period	(867)	(437)	(76)
TOTAL STOCKHOLDER'S EQUITY	\$ 9,183	9,613	9,974

See accompanying notes to consolidated financial statements.

## QWEST CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Unless the context requires otherwise, references in this annual 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, references to "QCII" refer to QSC's direct parent company and our indirect parent company, Qwest Communications International Inc., and its consolidated subsidiaries, and references to "CenturyLink" refer to QCII's direct parent company and our ultimate parent company, CenturyLink, Inc., and its consolidated subsidiaries.*

#### **(1) Basis of Presentation and Summary of Significant Accounting Policies**

##### ***Basis of Presentation***

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

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

On April 1, 2011, our indirect parent QCII became a wholly-owned subsidiary of CenturyLink, Inc. in a tax-free, stock-for-stock transaction.

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.

##### ***Changes in Estimates***

As a result of our annual reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment, effective January 2014, we changed the estimates of the remaining economic lives of certain switch and circuit network equipment. These changes resulted in an increase in depreciation expense of approximately \$20 million for the year ended December 31, 2014 . This increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$12 million for the year ended December 31, 2014 .

##### ***Summary of Significant Accounting Policies***

###### **Use of Estimates**

Our consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles. These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions we make when accounting for items and matters such as, but not limited to, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, rates used for affiliate cost allocations, internal labor capitalization rates, recoverability of assets (including deferred tax assets), impairment assessments, pension, post-retirement and other post-employment benefits, taxes, certain liabilities and other provisions and contingencies are reasonable, based on information available at the time they were made. Our accounting for CenturyLink's indirect acquisition of us required extensive use of estimates in determining the acquisition date fair values of our assets and liabilities. These estimates, judgments and assumptions can affect the reported amounts of assets, liabilities and components of stockholder's equity or deficit as of the dates of the consolidated balance sheets, as well as the reported amounts of revenues, expenses and components of cash flows during the periods presented in our consolidated statements of operations and our consolidated statements of cash flows. We also make estimates in our assessments of potential losses in relation to threatened or pending tax and legal matters. See Note 11—Income Taxes and Note 15—Commitments and Contingencies for additional information.

For matters not related to income taxes, if a loss is considered probable and the amount can be reasonably estimated, we recognize an expense for the estimated loss. If we have the potential to recover a portion of the estimated loss from a third party, we make a separate assessment of recoverability and reduce the estimated loss if recovery is also deemed probable.





For matters related to income taxes, if we determine that the impact of an uncertain tax position is more likely than not to be sustained upon audit by the relevant taxing authority, then we recognize a benefit for the largest amount that is more likely than not to be sustained. No portion of an uncertain tax position will be recognized if the position has less than a 50% likelihood of being sustained. Interest is recognized on the amount of unrecognized benefit from uncertain tax positions.

For all of these and other matters, actual results could differ from our estimates.

## **Revenue Recognition**

We recognize revenue for services when the related services are provided. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include activation and installation charges, which we recognize as revenue over the expected customer relationship period, which ranges from eighteen months to over ten years depending on the service. We also defer costs for customer activations and installations. The deferral of customer activation and installation costs is limited to the amount of revenue deferred on advance payments. Costs in excess of advance payments are recorded as expense in the period such costs are incurred. Expected customer relationship periods are estimated using historical experience. 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 recognized concurrently with the associated revenue and are allocated to the various services in the bundled offering based on the estimated selling price of services included in each bundled combination.

Customer arrangements that include both equipment and services are evaluated to determine whether the elements are separable. If the elements are deemed separable and separate earnings processes exist, the revenue associated with the customer arrangement is allocated to each element based on the relative estimated selling price of the separate elements. We have estimated the selling prices of each element by reference to vendor-specific objective evidence of selling prices when the elements are sold separately. The revenue associated with each element 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 allocated to the equipment as long as all the conditions for revenue recognition have been satisfied. The portion of the advance payment allocated to the service based upon its relative selling price is recognized ratably over the longer of the contractual period or the expected customer relationship period.

We periodically transfer optical capacity assets on our network to other telecommunications service carriers. 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 assets and on all of the other elements deliverable under an IRU, as revenue ratably over the term of the agreement. We have not recognized revenue on any contemporaneous exchanges of our optical capacity assets for other optical capacity assets.

In connection with offering products and services provided by third-party vendors, we review the relationship between us, the vendor and the end customer 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, take title to the products, have risk and rewards of ownership or act as an agent or broker. Based on CenturyLink's agreements with DIRECTV and Verizon Wireless, we offer these services through sales agency relationships which are reported on a net basis.

## **Affiliate Transactions**

We provide to our affiliates telecommunications services that we also provide to external customers. In addition, we provide to our affiliates computer system development and support services. Services provided by us to our affiliates are recognized as operating revenue-affiliates on our consolidated statements of operations. We also purchase services from our affiliates including telecommunications services, marketing and employee-related support services. Services provided to us from our affiliates are recognized as operating expenses-affiliates on our consolidated statements of operations. Because of the significance of the services we provide to our affiliates and our affiliates provide to us, the results of operations, financial position and cash flows presented herein are not necessarily indicative of the results of operations, financial position and cash flows we would have achieved had we operated as a stand-alone entity during the periods presented.

We recognize intercompany charges at the amounts billed to us by our affiliates and we recognize intercompany revenue for services we bill to our affiliates. Regulatory rules require certain revenues and expenses to be recorded at market price or fully distributed cost. Our compliance with regulations is subject to review by regulators. Adjustments to intercompany charges that result from these reviews are recorded in the period they become known.

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, an affiliate provides 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 transferred on a daily basis to CenturyLink and most affiliate transactions are deemed to be settled at the time the transactions are recorded in our accounting records, with the resulting net balance at the end of each period reflected as advances to affiliates on the accompanying consolidated balance sheets. From time to time we declare and pay dividends to our parent, QSC, which are settled through the advances to affiliates, which has the net effect of reducing the amount of these advances. Dividends declared are reflected on our consolidated statements of stockholder's equity and the consolidated statements of cash flows reflects the changes in advances to affiliates as investing activities and changes in advances from affiliates as financing activities. Interest is assessed on the advances to/from affiliates on either the three-month U.S T-bill rate (for advances to affiliates) or CenturyLink's weighted average borrowing rate (for advances from affiliates).

The affiliates obligations, net in noncurrent liabilities on the consolidated balance sheets represents the cumulative allocation of expense associated with CenturyLink's pension plans and post-retirement benefits plans. Changes in the affiliates obligations, net are reflected in operating activities on our consolidated statements of cash flows.

In the normal course of business, we transfer assets to and from various affiliates through our parent, QSC, which are recorded through our equity. It is our policy to record asset transfers based on carrying values.

### **USF, Gross Receipts Taxes and Other Surcharges**

In determining whether to include in our revenues and expenses the taxes and surcharges collected from customers and remitted to government authorities, including Universal Service Fund ("USF") charges, sales, use, value added and some excise taxes, we assess, among other things, whether we are the primary obligor or principal taxpayer for the taxes assessed in each jurisdiction where we do business. In jurisdictions where we determine that we are the principal taxpayer, we record the surcharges on a gross basis and include them in our revenues and costs of services and products.

In jurisdictions where we determine that we are merely a collection agent for the government authority, we record the taxes on a net basis and do not include them in our revenues and costs of services and products.

### **Advertising Costs**

Costs related to advertising are expensed as incurred and included in selling, general and administrative expenses in our consolidated statements of operations. Our advertising expense was \$83 million, \$88 million and \$90 million for the years ended December 31, 2014, 2013 and 2012, respectively.

### **Legal Costs**

In the normal course of our business, we incur costs to hire and retain external legal counsel to advise us on regulatory, litigation and other matters. We expense these costs as the related services are received.

### **Income Taxes**

Our results are included in the CenturyLink consolidated federal income tax return and certain combined state income tax returns. CenturyLink allocates income tax expense to us based upon a separate return allocation method which results in income tax expense that approximates the expense that would result if we were a stand-alone entity. Our reported deferred tax assets and liabilities, as discussed below and in Note 11—Income Taxes, are primarily determined as a result of the application of the separate return allocation method and therefore the settlement of these amounts is dependent upon our parent, CenturyLink, rather than tax authorities. Our current expectation is that the vast majority of deferred tax assets and liabilities will be settled through our general intercompany obligation based upon the current CenturyLink policy. CenturyLink has the right to change their policy regarding settlement of these assets and liabilities at any time.

The provision for income taxes consists of an amount for taxes currently payable, an amount for tax consequences deferred to future periods, adjustments to our liabilities for uncertain tax positions and amortization of investment tax credits. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities. Deferred taxes are computed using enacted tax rates expected to apply in the year in which the differences are expected to affect taxable income. The effect on deferred income tax assets and liabilities of a change in tax rate is recognized in earnings in the period that includes the enactment date.



We establish valuation allowances when necessary to reduce deferred income tax assets to the amounts that we believe are more likely than not to be recovered. Each quarter we evaluate the need to retain all or a portion of the valuation allowance on our deferred tax assets. See Note 11—Income Taxes for additional information.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates. As a result, the value at which cash and cash equivalents are reported in our consolidated financial statements approximates their fair value. Our cash collections are transferred to CenturyLink on a daily basis and our ultimate parent funds our cash disbursement needs. The net cash transferred to CenturyLink has been reflected as advances to affiliates in our consolidated balance sheets.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recognized based upon the amount due from customers for the services provided or at cost for purchased and other receivables less an allowance for doubtful accounts. The allowance for doubtful accounts receivable reflects our best estimate of probable losses inherent in our receivable portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. We generally consider our accounts past due if they are outstanding over 30 days. Our collection process varies by the customer segment, amount of the receivable, and our evaluation of the customer's credit risk. Our past due accounts are written off against our allowance for doubtful accounts when collection is considered to be not probable. Any recoveries of accounts previously written off are generally recognized as a reduction in bad debt expense in the period received. The carrying value of accounts receivable net of the allowance for doubtful accounts approximates fair value.

### **Property, Plant and Equipment**

Purchased and constructed property, plant and equipment is recorded at cost. Property, plant and equipment is depreciated primarily using the straight-line group method. Under the straight-line group method, assets dedicated to providing telecommunications services (which comprise the majority of our property, plant and equipment) that have similar physical characteristics, use and expected useful lives are pooled for purposes of depreciation and tracking. The equal life group procedure is used to establish each pool's average remaining useful life. Generally, under the straight-line group method, when an asset is sold or retired in the course of normal business activities, the cost is deducted from property, plant and equipment and charged to accumulated depreciation without recognition of a gain or loss. A gain or loss is recognized in our consolidated statements of operations only if a disposal is abnormal or unusual. Leasehold improvements are amortized over the shorter of the useful lives of the assets or the expected lease term. Expenditures for maintenance and repairs are expensed as incurred. Interest is capitalized during the construction phase of network and other internal-use capital projects. Employee-related costs for construction of network and other internal use assets are also capitalized during the construction phase. Property, plant and equipment supplies used internally are carried at average cost, except for significant individual items for which cost is based on specific identification.

We perform annual internal reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment. Our reviews utilize models that take into account actual usage, physical wear and tear, replacement history, assumptions about technology evolution and, in certain instances, actuarially determined probabilities to estimate the remaining useful life of our asset base. Our remaining useful life assessments anticipate the loss in service value of assets that may precede the physical retirement. Assets shared among many customers may lose service value as those customers leave the network. However, the asset is not retired until all customers no longer utilize the asset.

We review long-lived tangible assets for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For assessment purposes, long-lived assets are grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities, absent a material change in operations. An impairment loss is recognized only if the carrying amount of the asset group is not recoverable and exceeds its fair value. Recoverability of the asset group to be held and used is assessed by comparing the carrying amount of the asset group to the estimated undiscounted future net cash flows expected to be generated by the asset group. If the asset group's carrying value is not recoverable, an impairment charge is recognized for the amount by which the carrying amount of the asset group exceeds its fair value. We determine fair values by using a combination of comparable market values and discounted cash flows, as appropriate.

## **Goodwill, Customer Relationships and Other Intangible Assets**

Intangible assets arising from business combinations, such as goodwill, customer relationships and capitalized software are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of ten years, using either the sum-of-the-years-digits or the straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years. Other intangible assets not arising from business combinations are initially recorded at cost. We review long-lived intangible assets, other than goodwill, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable.

Internally used software, whether purchased or developed by us, is capitalized and amortized using the straight-line method over its estimated useful life. We have capitalized certain costs associated with software such as costs of employees devoting time to the projects and external direct costs for materials and services. Costs associated with software to be used for internal purposes are expensed until the point at which the project has reached the development stage. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance, data conversion and training costs are expensed in the period in which they are incurred. We review the remaining economic lives of our capitalized software annually. Capitalized software is included in other intangible assets, net, in our consolidated balance sheets.

We assess customer relationships for impairment whenever facts and circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized only if the carrying amount is not recoverable and exceeds its fair value. Recoverability of our customer relationships is measured by comparing the carrying amount to the estimated undiscounted future net cash flows expected to be generated by them. If the customer relationship's carrying value is not recoverable, an impairment charge is recognized for the amount by which the carrying amount exceeds its fair value. We determine fair values by using the discounted cash flows method.

We are required to assess goodwill for impairment at least annually, or more frequently if events or a change in circumstances indicate that an impairment may have occurred. We are required to write-down the value of goodwill in periods in which the recorded amount of goodwill exceeds the implied fair value of goodwill. The impairment assessment is at the reporting unit level, and in reviewing the criteria for reporting units when assigning the goodwill resulting from CenturyLink's indirect acquisition of us, we have determined that our operations consist of one reporting unit, consistent with our determination that our business consists of one operating segment. See Note 2—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

During the fourth quarter of 2013, we elected to change the date of our annual assessment of goodwill impairment from September 30 to October 31. This is a change in method of applying an accounting principle which management believes is a preferable alternative as the new date of the assessment is more closely aligned with our strategic planning process. The change in the assessment date did not delay, accelerate or avoid a potential impairment charge in 2013. We performed our annual goodwill impairment assessment at September 30, 2013, prior to the change in our annual assessment date. We then performed a qualitative assessment of our goodwill as of October 31, 2013 and concluded that our goodwill was not impaired as of that date.

## **Pension and Post-Retirement Benefits**

A substantial portion of our employees participate in the CenturyLink Combined Pension Plan. On December 31, 2014, the QCII pension plan and a pension plan of an affiliate were merged into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan. QCII maintains a non-qualified pension plan for certain of our eligible highly compensated employees. In addition, certain employees may become eligible to participate in CenturyLink's post-retirement health care and life insurance benefit plans. CenturyLink and QCII allocate income and expenses relating to pension, non-qualified pension, and post-retirement health care and life insurance benefits to us and their other affiliates. The amounts contributed by us through CenturyLink and QCII are not segregated or restricted to pay amounts due to our employees and may be used to provide benefits to other employees of CenturyLink and QCII's affiliates. The allocation of expense to us is based upon the demographics of our employees and retirees compared to all the remaining participants.

For further information on qualified pension, non-qualified pension, post-retirement and other post-employment benefit plans, see CenturyLink's Annual Report on Form 10-K for the year ended December 31, 2014.

## Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09” or “new standard”). The new standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is prohibited. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2017. We have not yet decided which implementation method we will adopt.

The new standard replaces virtually all existing generally accepted accounting principles (“GAAP”) on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. We currently do not defer any contract acquisition costs and defer contract fulfillment costs only up to the extent of any revenue deferred.

We are studying the new standard and are in the early stages of assessing the impact the new standard will have on us and our consolidated financial statements. We cannot, however, provide any estimate of the impact of adopting the new standard at this time.

## (2) Goodwill, Customer Relationships and Other Intangible Assets

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

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Goodwill	\$ 9,354	9,354
Customer relationships, less accumulated amortization of \$2,660 and \$2,012	3,039	3,687
Other intangible assets subject to amortization:		
Capitalized software, less accumulated amortization of \$1,247 and \$994	808	1,008

As of December 31, 2014, the gross carrying amount of goodwill, customer relationships and other intangible assets was \$17.108 billion.

Total amortization expense for intangible assets was as follows:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Amortization expense for intangible assets	\$ 957	1,029	1,115

We estimate that total amortization expense for intangible assets for the years ending December 31, 2015 through 2019 will be as follows:

	(Dollars in millions)
Year ending December 31,	
2015	\$ 808
2016	740
2017	669
2018	589
2019	503

We annually review the estimated lives and methods used to amortize our other intangible assets. The actual amounts of amortization expense may differ materially from our estimates, depending on the results of our annual reviews.

Our goodwill impairment assessment is done at the reporting unit level; in reviewing the criteria for reporting units when assigning the goodwill resulting from our acquisition by CenturyLink, we have determined that we are one reporting unit. We are required to assess goodwill recorded in business combinations for impairment at least annually, or more frequently such as when events or circumstances indicate there may be impairment. Our annual goodwill impairment assessment date is October 31. We are required to write-down the value of goodwill when our assessment determines the recorded amount of goodwill exceeds the fair value.

We compare our estimated fair value of equity to our carrying value of equity. If the estimated fair value of our equity is greater than the carrying value of our equity, we conclude that no impairment exists. If the estimated fair value of our equity is less than our carrying value of our equity, a second calculation is required in which the implied fair value of goodwill is compared to our carrying value of goodwill. If the implied fair value of goodwill is less than our carrying value of goodwill, goodwill must be written down to the implied fair value.

At October 31, 2014, we estimated the fair value of our equity by considering both a market approach method and a discounted cash flow method, which resulted in a Level 3 fair value measurement. The market approach method includes the use of comparable multiples of publicly traded companies whose services are comparable to ours. The discounted cash flow method is based on the present value of projected cash flows and a terminal value, which represents the expected normalized cash flows beyond the cash flows from the discrete projection period. We discounted the estimated cash flows using a rate that represents our estimated weighted average cost of capital, which we determined to be approximately 6.0% as of the assessment date (which was comprised of an after-tax cost of debt of 2.9% and a cost of equity of 8.2% ). Based on our assessment performed with respect to our reporting unit described above, we concluded that our goodwill was not impaired.

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

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

	Interest Rates	Maturities	As of December 31,	
			2014	2013
(Dollars in millions)				
Senior notes	6.125% - 8.375%	2015 - 2054	\$ 7,311	7,411
Capital lease and other obligations	Various	Various	32	72
Unamortized premiums, net			36	75
Total long-term debt			7,379	7,558
Less current maturities			(117)	(637)
Long-term debt, excluding current maturities			\$ 7,262	6,921
Note payable-affiliate	6.657%	2022	\$ 796	754

#### New Issuances

##### 2014

On September 29, 2014 , we issued \$500 million aggregate principal amount of 6.875% Notes due 2054 , in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$483 million . The Notes are senior unsecured obligations and may be redeemed, in whole or in part, on or after October 1, 2019, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

##### 2013

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

#### Repayments

##### 2014

On October 1, 2014 , we paid at maturity the \$600 million principal amount of our 7.50% Notes.





## 2013

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

### Aggregate Maturities of Long-Term Debt

Aggregate maturities of our long-term debt (excluding unamortized premiums, discounts and other and excluding note payable-affiliate):

	(Dollars in millions) <sup>(1)</sup>
2015	\$ 117
2016	237
2017	500
2018	—
2019	—
2020 and thereafter	6,489
Total long-term debt	<u>\$ 7,343</u>

<sup>(1)</sup> Actual principal paid in all years may differ due to the possible future refinancing of outstanding debt or the issuance of new debt.

### Revolving Promissory Note

We are currently indebted to an affiliate of our ultimate parent company, CenturyLink, under a revolving promissory note that provides us with a funding commitment of up to \$1.0 billion aggregate principal amount through June 30, 2022, of which \$796 million was outstanding as of December 31, 2014. As of December 31, 2014, the weighted average interest rate was 6.657%. As of December 31, 2014 and 2013, this revolving promissory note is reflected on our consolidated balance sheets as a current liability under “Note payable - affiliate”. As of December 31, 2014, \$9 million of accrued interest is reflected in other current liabilities on our consolidated balance sheet. In accordance with the note agreement, all accrued and unpaid interest is capitalized to the unpaid principal balance on April 1 and November 1 of each year.

### Interest Expense

Interest expense includes interest on long-term debt. The following table presents the amount of gross interest expense, net of capitalized interest and interest expense-affiliates, net:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 481	467	461
Capitalized interest	(17)	(17)	(18)
Total interest expense	<u>\$ 464</u>	<u>450</u>	<u>443</u>
Interest expense-affiliates, net	<u>\$ 40</u>	<u>64</u>	<u>24</u>

### Covenants

The indentures governing our notes contain certain covenants including, but not limited to: (i) a prohibition on certain liens on our assets; and (ii) a limitation on mergers or sales of all, or substantially all, of our assets, which limitation requires that a successor assume the obligation with regard to these notes. These indentures do not contain any cross-default provisions.

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

As of December 31, 2014, we believe we were in compliance with the provisions and covenants of our debt agreements.

## Subsequent Event

On February 20, 2015, we entered into a new credit agreement with several lenders that allows us to borrow up to \$100 million under a term loan. Under this new agreement, we borrowed \$100 million under a ten-year term note that expires on February 20, 2025.

### (4) Accounts Receivable

The following table presents details of our accounts receivable balances:

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Trade and purchased receivables	\$ 649	697
Earned and unbilled receivables	120	73
Other	9	11
Total accounts receivable	778	781
Less: allowance for doubtful accounts	(38)	(43)
Accounts receivable, less allowance	\$ 740	738

We are exposed to concentrations of credit risk from residential and business customers within our local service area and from other telecommunications service providers. No customers individually represented more than 10% of our accounts receivable for all periods presented herein. We generally do not require collateral to secure our receivable balances. We have agreements with other telecommunications service providers whereby we agree to bill and collect on their behalf for services rendered by those providers to our customers within our local service area. We purchase accounts receivable from other telecommunications service providers primarily on a recourse basis and include these amounts in our accounts receivable balance. We have not experienced any significant loss associated with these purchased receivables.

The following table presents details of our allowance for doubtful accounts:

	Beginning Balance	Additions	Deductions	Ending Balance
	(Dollars in millions)			
2014	\$ 43	64	(69)	38
2013	\$ 46	65	(68)	43
2012	\$ 42	74	(70)	46

### (5) Property, Plant and Equipment

Net property, plant and equipment is composed of the following:

	Depreciable Lives	As of December 31,	
		2014	2013
		(Dollars in millions)	
Property, plant and equipment:			
Land	N/A	\$ 350	356
Fiber, conduit and other outside plant <sup>(1)</sup>	15-45 years	4,640	4,033
Central office and other network electronics <sup>(2)</sup>	4-10 years	3,362	3,026
Support assets <sup>(3)</sup>	5-30 years	2,496	2,470
Construction in progress <sup>(4)</sup>	N/A	309	308
Gross property, plant and equipment		11,157	10,193
Accumulated depreciation		(3,956)	(2,985)
Net property, plant and equipment		\$ 7,201	7,208

<sup>(1)</sup> Fiber, conduit and other outside plant consists of fiber and metallic cable, conduit, poles and other supporting structures.



- (2) Central office and other network electronics consists of circuit and packet switches, routers, transmission electronics and electronics providing service to customers.
- (3) Support assets consist of buildings, computers and other administrative and support equipment.
- (4) Construction in progress includes inventory held for construction and property of the aforementioned categories that has not been placed in service as it is still under construction.

We recorded depreciation expense of \$1.048 billion , \$1.099 billion and \$1.175 billion for the years ended December 31, 2014 , 2013 and 2012 , respectively.

On April 2, 2012, we sold an office building for net proceeds of \$133 million . As part of the transaction, we agreed to lease a portion of the building from the new owner. As a result, the \$16 million gain from the sale was deferred and will be recognized as a reduction to rent expense over the 10 year lease term.

In 2014 , we recorded an impairment charge of \$17 million in connection with a sale-leaseback transaction involving an office building which closed in the fourth quarter of 2014 . This impairment charge is included in selling, general and administrative expense in our consolidated statements of operations for the year ended December 31, 2014 .

## (6) Severance

Periodically, we have reductions in our workforce and have accrued liabilities for the related severance costs. These workforce reductions resulted primarily from the progression or completion of our post-acquisition integration plans related to CenturyLink's indirect acquisition of us, increased competitive pressures, cost reduction initiatives and reduced workload demands due to the loss of customers purchasing certain legacy services.

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

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

	<b>Severance</b>
	<b>(Dollars in millions)</b>
Balance at December 31, 2012	\$ 7
Accrued to expense	10
Payments, net	(12)
Balance at December 31, 2013	\$ 5
Accrued to expense	44
Payments, net	(39)
Balance at December 31, 2014	\$ 10

## (7) Employee Benefits

### *Pension and Post-Retirement Benefits*

We are required to disclose the amount of our contributions to CenturyLink and QCII relative to the CenturyLink qualified pension plans and post-retirement benefit plans and the QCII non-qualified pension plan. QCII's post-retirement benefit plans were merged into CenturyLink's post-retirement benefit plans on January 1, 2012 and on December 31, 2014, the QCII qualified pension plan and a pension plan of an affiliate were merged into the CenturyLink Combined Pension Plan. QCII was not required and did not make contributions to the pension plan trust in 2014 . Based on current laws and circumstances, (i) CenturyLink will not be required to make a cash contribution to this plan in 2015 and (ii) CenturyLink does not expect it will be required to make a contribution in 2016 . The amount of required contributions to the plan in 2016 and beyond will depend on earnings on plan investments, prevailing discount rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. No contributions were made to the post-retirement occupational health care trust in 2014 or 2013 and CenturyLink does not expect to make a contribution in 2015 .

The unfunded status of CenturyLink's qualified pension plan for accounting purposes was \$2.402 billion as of December 31, 2014, which includes the merged QCII qualified pension plan. The unfunded status of QCII's qualified pension plan for accounting purposes was \$159 million as of December 31, 2013. The unfunded status of CenturyLink's post-retirement benefit plans for accounting purposes was \$3.477 billion and \$3.153 billion as of December 31, 2014 and 2013, respectively. CenturyLink and, prior to the pension plan merger, QCII allocate income and expenses to us based upon the demographics of our employee and retirees compared to all the remaining participants.

We were allocated \$98 million, \$178 million and \$117 million in pension income during the years ended December 31, 2014, 2013 and 2012, respectively. Our allocated post-retirement benefit expense for the years ended December 31, 2014, 2013 and 2012 was \$128 million, \$88 million and \$106 million, respectively. These allocated amounts represent our share of the pension and post-retirement benefit expenses based on the actuarially determined amounts. Our allocated portion of QCII's total pension and CenturyLink's total post-retirement benefit income and expenses were 92%, 91% and 91% for the years ended December 31, 2014, 2013 and 2012, respectively. CenturyLink and QCII allocate the income and expenses of these plans to us and their other affiliates. The allocation of income and expense to us is based upon demographics of our employees compared to all remaining participants. The combined net pension and post-retirement benefits (income) expenses is included in cost of services and products and selling, general and administrative expenses on our consolidated statements of operations for the years ended December 31, 2014, 2013 and 2012.

QCII sponsored a noncontributory qualified defined benefit pension plan (referred to as QCII's pension plan) for substantially all of our employees. As noted above, QCII's pension plan was merged into the CenturyLink Combined Pension Plan on December 31, 2014. In addition to this tax qualified pension plan, QCII also maintains a non-qualified pension plan for certain eligible highly compensated employees. These plans also provide survivor and disability benefits to certain employees. In November 2009, QCII amended the pension plan and the non-qualified pension plans to no longer provide pension benefit accruals for active non-represented employees after December 31, 2009. In addition, non-represented employees hired after January 1, 2009 are not eligible to participate in the plans. Active non-represented employees who participate in these plans retain their accrued pension benefit earned as of December 31, 2009 and certain participants will continue to earn interest credits on their benefit after December 31, 2009. Employees are eligible to receive their vested accrued benefit when they separate from CenturyLink. The plans also provided a death benefit for eligible beneficiaries of certain retirees; however, QCII has eliminated this benefit effective March 1, 2010 for retirees who retired prior to January 1, 2004 and whose deaths occur after February 28, 2010. QCII previously eliminated the death benefit for eligible beneficiaries of certain retirees who retired after December 31, 2003.

CenturyLink maintains post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. The QCII post-retirement benefit plans were merged into CenturyLink's post-retirement benefit plans on January 1, 2012. The benefit obligation for the occupational health care and life insurance post-retirement plans is estimated based on the terms of benefit plans. In calculating this obligation, CenturyLink considers numerous assumptions, estimates and judgments, including but not limited to, discount rates, health care cost trend rates and plan amendments. In October 2013, we renewed a four-year collective bargaining agreement which covers approximately 11,000 of our unionized employees. Effective January 1, 2014, the approximately 11,000 active employees and eligible post-1990 retirees who are former represented employees, have changes to their health and welfare benefits including: (i) changes to align the coverage and benefits for these active employees and non-Medicare eligible post-1990 retirees with the health and welfare coverage and benefits offered to all other CenturyLink employees and other CenturyLink retirees (with some exceptions) (ii) increased out-of-pocket health care costs through plan design changes effective January 1, 2014 and the elimination of Class II dependent coverage and (iii) elimination of the group medical plan coverage and benefits for Medicare-eligible post-1990 retirees and the establishment of a health reimbursement account and assistance to this population with their transition effective May 1, 2014 to their own purchase of individual policies through the Medicare Exchange market place using the health reimbursement account. In order to maintain their eligibility, post-1990 retirees continue to be obligated to contribute to the cost of health care benefits in excess of specified limits on the company-funded portion of retiree health care costs (also referred to as the "caps"), as they have since January 1, 2009.

The terms of the post-retirement health care and life insurance plans between CenturyLink and its eligible non-represented employees and its eligible post-1990 non-represented retirees are established by CenturyLink and are subject to change at its discretion. CenturyLink has a practice of sharing some of the cost of providing health care benefits with its non-represented employees and post-1990 non-represented retirees. The benefit obligation for the non-represented post-retirement health care benefits is based on the terms of the current written plan documents and is adjusted for anticipated continued cost sharing with non-represented employees and post-1990 non-represented retirees. However, CenturyLink's contribution under its post-1990 non-represented retirees' health care plan is capped at a specific dollar amount.

## ***Medicare Prescription Drug, Improvement and Modernization Act of 2003***

CenturyLink (formerly QCII) sponsors post-retirement health care plans with several benefit options that provide prescription drug benefits that CenturyLink deems actuarially equivalent to or exceeding Medicare Part D. CenturyLink recognizes the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of its post-retirement benefit obligation and net periodic post-retirement benefit expense.

### ***Other Benefit Plans***

#### **Health Care and Life Insurance**

We provide health care and life insurance benefits to essentially all of our active employees. We are largely self-funded for the cost of the health care plan. Our health care benefit expenses for our current employees were \$204 million, \$223 million and \$221 million for the years ended December 31, 2014, 2013 and 2012, respectively. Union represented employee benefits are based on negotiated collective bargaining agreements. Employees are required to partially fund the health care benefits provided by us, in addition to paying their own out-of-pocket costs. CenturyLink's group basic life insurance plans are fully insured and the premiums are paid by CenturyLink.

#### **401(k) Plan**

CenturyLink sponsors qualified defined contribution plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation to the plans up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of our employees' contributions in cash. We recognized \$47 million, \$49 million and \$46 million in expense related to these plans for the years ended December 31, 2014, 2013 and 2012, respectively.

#### **Deferred Compensation Plans**

QCII sponsored a non-qualified unfunded deferred compensation plan for various groups that include certain of our current and former highly compensated employees. The plan is frozen and participants can no longer defer compensation to the plan. The value of the assets and liabilities related to this plan is not significant.

### **(8) Share-based Compensation**

Share-based compensation expenses are included in cost of services and products, and selling, general, and administrative expenses in our consolidated statements of operations. We recognized compensation expense for options and awards granted to our employees under CenturyLink's equity incentive plans, including plans assumed in connection with us being indirectly acquired. We record share-based compensation expense that is allocated to us from CenturyLink, which is included in operating expenses-affiliates in our consolidated statements of operations. Based on many factors that affect the allocation, the amount of share-based compensation expense recorded at CenturyLink and ultimately allocated to us may fluctuate. We settle the share-based compensation expense allocated to us from CenturyLink through affiliate transactions.

For the years ended December 31, 2014, 2013 and 2012, we were allocated a share-based compensation expense of approximately \$21 million, \$17 million and \$18 million, respectively. We recognized an income tax benefit from our compensation expense of approximately \$8 million, \$7 million and \$7 million, respectively, during the years ended December 31, 2014, 2013 and 2012, respectively.

### **(9) Products and Services Revenues**

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

- *Strategic services*, which include primarily broadband, private line (including special access), Ethernet, video (including resold satellite video services) and Verizon Wireless services;
- *Legacy services*, which include primarily local voice, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and traditional wide area network ("WAN") services (which allows a local communications network to link to networks in remote locations); and



- *Affiliates and other services*, which consist primarily of Universal Service Fund ("USF") support and USF surcharges and services we provide to our affiliates. We receive both federal and state USF support, which are government subsidies designed to reimburse us for the portion of the cost of providing certain telecommunications services, such as in high-cost rural areas, that we are not able to recover from our customers. USF surcharges are the amount that we collect based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We provide to our affiliates, telecommunication services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services, network support and technical services.

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

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Strategic services	\$ 3,429	3,342	3,265
Legacy services	2,987	3,208	3,471
Affiliates and other services	2,422	2,203	2,112
Total operating revenues	<u>\$ 8,838</u>	<u>8,753</u>	<u>8,848</u>

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

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

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 reflects the related expense for the amounts we remit to the government agencies. The total amount of such surcharges that we included in revenues, aggregated approximately \$151 million, \$154 million and \$171 million for the years ended December 31, 2014, 2013 and 2012, respectively. Those USF surcharges, where we record revenue, are included in the "other" operating revenues and transaction tax surcharges are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to include in our bills to customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

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

## (10) Affiliate Transactions

We provide to our affiliates, telecommunications services that we also provide to external customers. In addition, we provide to our affiliates, computer system development and support services and network support and technical services.

Below are details of the services we provide to our affiliates:

- *Telecommunications services.* Data, Internet and voice services in support of our affiliates' service offerings;
- *Computer system development and support services.* Information technology services primarily include the labor cost of developing, testing and implementing the system changes necessary to support order entry, provisioning, billing, network and financial systems, as well as the cost of improving, maintaining and operating our operations support systems and shared internal communications networks; and
- *Network support and technical services.* Network support and technical services relate to forecasting demand volumes and developing plans around network utilization and optimization, developing and implementing plans for overall product development, provisioning and customer care.





We charge our affiliates for services based on market price or fully distributed cost ("FDC"). We charge our affiliates market price for services that we also provide to external customers, while other services that we provide only to our affiliates are priced by applying an FDC methodology. FDC rates include salaries and wages, payroll taxes, employee related benefits, miscellaneous expenses, and charges for the use of our buildings, computing and software assets. Whenever possible, costs are directly assigned to our affiliates for the services they use. If costs cannot be directly assigned, they are allocated among all affiliates based upon cost causative measures; or if no cost causative measure is available, these costs are allocated based on a general allocator. These cost allocation methodologies are reasonable. From time to time, we adjust the basis for allocating the costs of a shared service among affiliates. Such changes in allocation methodologies are generally billed prospectively.

We also purchase services from our affiliates including telecommunication services, insurance, flight services and other support services such as legal, regulatory, finance and accounting, tax, human resources and executive support. Our affiliates charge us for these services based on market price or FDC.

## **(11) Income Taxes**

We were included in the consolidated federal income tax returns and the combined state income tax returns of QCII until CenturyLink's April 1, 2011 acquisition of QCII and the consolidated federal income tax returns and certain combined state income tax returns of CenturyLink subsequent to the acquisition. Both CenturyLink and QCII treat our consolidated results as if we were a separate taxpayer. The policy requires us to settle our tax liabilities through a change in our general intercompany obligation based upon our separate return taxable income, which is reflected in advances to affiliates on our consolidated balance sheets and the changes in advances to affiliates are reflected as investing activities on our consolidated statements of cash flows. Because we are included in the consolidated federal income tax returns and the combined state income tax returns of CenturyLink (and previously with QCII), any tax audits involving CenturyLink or QCII will also involve us. The IRS previously examined all of QCII's federal income tax returns prior to 2008 because they were included in its coordinated industry case program and now examines all of QCII's federal income tax returns as included in the consolidated federal return of the ultimate parent company, CenturyLink.

In years prior to 2011, QCII filed amended federal income tax returns for 2002-2007 to make protective claims with respect to items reserved in our audit settlements and to correct items not addressed in prior audits. The examination of those amended federal income tax returns by the IRS was completed in 2012. In 2012, QCII filed an amended 2008 federal income tax return primarily to report the carryforward impact of prior year settlements and in 2013, QCII filed an amended return for 2009. Such amended filings are subject to adjustment by the IRS.

CenturyLink also files combined income tax returns in many states, and these combined returns remain open for adjustments to its federal income tax returns. In addition, certain combined state income tax returns filed by CenturyLink and QCII since 1999 are still open for state specific adjustments.

As of December 31, 2014 and 2013, we had no liability for interest related to uncertain tax positions. As of December 31, 2012, we had a recorded liability for interest related to uncertain tax positions in the amounts of \$5 million. We did not record a liability for interest related to uncertain tax positions for the year ended December 31, 2014. We made no accrual for penalties related to income tax positions.

## Income Tax Expense

The components of the income tax expense from continuing operations are as follows:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Income tax expense:			
Current tax provision:			
Federal and foreign	\$ 738	653	638
State and local	129	101	105
Total current tax provision	867	754	743
Deferred tax expense:			
Federal and foreign	(209)	(125)	(175)
State and local	(19)	(27)	(26)
Total deferred tax expense	(228)	(152)	(201)
Income tax expense	\$ 639	602	542

The effective income tax rate for continuing operations differs from the statutory tax rate as follows:

	Years Ended December 31,		
	2014	2013	2012
	(in percent)		
Effective income tax rate:			
Federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes-net of federal effect	4.0%	3.1%	3.7%
Other	0.7%	0.3%	0.3%
Effective income tax rate	39.7%	38.4%	39.0%

## Deferred Tax Assets and Liabilities

The components of the deferred tax assets and liabilities are as follows:

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Deferred tax assets and liabilities:		
Deferred tax liabilities:		
Property, plant and equipment	\$ (1,380)	(1,281)
Intangibles assets	(1,449)	(1,772)
Receivable from an affiliate due to pension plan participation	(500)	(462)
Other	(52)	(52)
Total deferred tax liabilities	(3,381)	(3,567)
Deferred tax assets:		
Payable to affiliate due to post-retirement benefit plan participation	998	983
Debt premiums	36	55
Other	275	229
Total deferred tax assets	1,309	1,267
Valuation allowance on deferred tax assets	(12)	(12)
Net deferred tax assets	1,297	1,255
Net deferred tax liabilities	\$ (2,084)	(2,312)



At December 31, 2014 , we have established a valuation allowance of \$12 million as it is not more likely than not that this amount of deferred tax assets will be realized.

### ***Other Income Tax Information***

We paid \$861 million , \$750 million and \$607 million to QSC related to income taxes in the years ended December 31, 2014 , 2013 and 2012 , respectively.

### **(12) Fair Value Disclosure**

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

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

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

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

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

		As of December 31, 2014		As of December 31, 2013	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt excluding capital lease and other obligations	2	\$ 7,347	7,702	7,486	7,226

### **(13) Stockholder's Equity**

#### ***Common Stock***

We have one share of common stock (no par value) issued and outstanding, which is owned by QSC.

#### ***Other Net Asset Transfers***

During 2012, we recognized a \$100 million equity contribution for the tax benefit associated with a deduction for pension funding. Since we are the employer of a significant percentage of the participants and none of the 2011 QCII pension funding was allocated to us, a tax deduction was recognized on our separate company tax return and, therefore, we recognized an equity contribution for the tax benefits associated with this deduction.

In addition, in the normal course of business, we transfer assets and liabilities to and from QSC and its affiliates, which are recorded through our equity. It is our policy to record these asset transfers based on carrying values.

## Dividends

We declared the following cash dividend to QSC:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Cash dividend declared to QSC	\$ 1,400	1,325	840
Cash dividend paid to QSC	1,400	1,325	1,150

The timing of cash payments for declared dividends to QSC is at our discretion in consultation with QSC. We may declare and pay dividends to QSC in excess of our earnings to the extent permitted by applicable law. Our debt covenants do not limit the amount of dividends we can pay to QSC.

## (14) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions)				
<b>2014</b>					
Operating revenues	\$ 2,211	2,206	2,198	2,223	8,838
Operating income	542	546	528	496	2,112
Income tax expense	160	162	156	161	639
Net income	253	256	245	216	970

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions)				
<b>2013</b>					
Operating revenues	\$ 2,159	2,199	2,188	2,207	8,753
Operating income	553	525	493	507	2,078
Income tax expense	166	155	139	142	602
Net income	264	246	218	236	964

## (15) Commitments and Contingencies

### Legal Matters

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings of state public utility commissions relating primarily to 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. The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows.

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities. 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 both to litigate the matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are among hundreds of defendants nationwide in dozens of lawsuits filed over the past year by Sprint Communications Company and affiliates of Verizon Communications Inc. The plaintiffs in these suits have challenged the right of local exchange carriers to bill interexchange carriers for switched access charges for certain calls between mobile and wireline devices that are routed through an interexchange carrier. In the lawsuits, the plaintiffs are seeking refunds of access charges previously paid and relief from future access charges. In addition, these and some other interexchange carriers have ceased paying switched access charges on these calls. Recently the lawsuits involving us and many other carriers have been consolidated for pretrial purposes in the United States District Court for the District of Northern Texas. Some of the defendants, including us, have petitioned the Federal Communications Commission to address these issues on an industry-wide basis.

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

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

### ***Capital Leases***

We lease certain facilities and equipment under various capital lease arrangements. Depreciation of assets under capital leases is included in depreciation and amortization expense in our consolidated statements of operations. Payments on capital leases are included in repayments of long-term debt, including current maturities in our consolidated statements of cash flows.

The tables below summarize our capital lease activity:

	<b>Years Ended December 31,</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>(Dollars in millions)</b>		
Assets acquired through capital leases	\$ 3	—	—
Depreciation expense	32	42	50
Cash payments towards capital leases	32	40	41

	<b>As of December 31,</b>	
	<b>2014</b>	<b>2013</b>
	<b>(Dollars in millions)</b>	
Assets included in property, plant and equipment	\$ 137	168
Accumulated depreciation	108	109

The future annual minimum payments under capital lease arrangements as of December 31, 2014 were as follows:

	<b>Future Minimum Payments</b>
	<b>(Dollars in millions)</b>
Capital lease obligations:	
2015	\$ 22
2016	2
2017	1
2018	1
2019	1
2020 and thereafter	7
Total minimum payments	34
Less: amount representing interest and executory costs	(8)
Present value of minimum payments	26
Less: current portion	(20)
Long-term portion	\$ 6

### ***Operating Leases***

We lease various equipment, office facilities, retail outlets, switching facilities and other network sites. These leases, with few exceptions, provide for renewal options and escalations that are either fixed or based on the consumer price index. Any rent abatements, along with rent escalations, are included in the computation of rent expense calculated on a straight-line basis over the lease term. The lease term for most leases includes the initial non-cancelable term plus any term under renewal options that are reasonably assured. For the years ended December 31, 2014, 2013 and 2012, our gross rental expense was \$79 million, \$83 million and \$93 million, respectively. We also received sublease rental income for the same periods of \$4 million, \$4 million and \$8 million, respectively.

At December 31, 2014, our future rental commitments for operating leases were as follows:

	<b>Future Minimum Payments</b>
	<b>(Dollars in millions)</b>
Operating leases:	
2015	\$ 56
2016	50
2017	44
2018	38
2019	27
2020 and thereafter	36
Total future minimum payments <sup>(1)</sup>	\$ 251

<sup>(1)</sup> Minimum payments have not been reduced by minimum sublease rentals of \$30 million due in the future under non-cancelable subleases.

### ***Purchase Obligations***

We have several commitments primarily for marketing activities and support services from a variety of vendors to be used in the ordinary course of business totaling \$139 million at December 31, 2014. Of this amount, we expect to purchase \$50 million in 2015, \$72 million in 2016 through 2017, \$16 million in 2018 through 2019 and \$1 million in 2020 and thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we were contractually committed as of December 31, 2014.



**(16) Other Financial Information*****Other Current Assets***

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

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Prepaid expenses	\$ 45	47
Other	80	79
Total other current assets	<u>\$ 125</u>	<u>126</u>

***Selected Current Liabilities***

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

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Accounts payable	<u>\$ 464</u>	<u>440</u>

Included in accounts payable at December 31, 2014 and 2013 , were \$44 million and \$11 million , respectively associated with capital expenditures.

**(17) Labor Union Contracts**

Approximately 11,000 , or 48% , of our employees are members of various bargaining units represented by the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW") and are subject to collective bargaining agreements that expire in 2017.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of our internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") as of December 31, 2014 based on the framework in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management concluded that our internal control over financial reporting was effective as of December 31, 2014 .

There were no changes in our internal control over financial reporting that occurred in the fourth quarter of 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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.

## **ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have omitted this information pursuant to General Instruction I.

#### ITEM 11. EXECUTIVE COMPENSATION

We have omitted this information pursuant to General Instruction I.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We have omitted this information pursuant to General Instruction I.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

We have omitted this information pursuant to General Instruction I.

#### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

##### Pre-Approval Policies and Procedures

The Audit Committee of CenturyLink's Board of Directors is responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. Under the Audit Committee's charter, the Audit Committee pre-approves all audit and permissible non-audit services provided by our independent registered public accounting firm. The approval may be given as part of the Audit Committee's approval of the scope of the engagement of our independent registered public accounting firm or on an individual basis. The pre-approval of non-audit services may be delegated to one or more of the Audit Committee's members, but the decision must be reported to the full Audit Committee. Our independent registered public accounting firm may not be retained to perform the non-audit services specified in Section 10A(g) of the Exchange Act.

##### Fees Paid to the Independent Registered Public Accounting Firm

QCII first engaged KPMG LLP to be our independent registered public accounting firm in May 2002. The aggregate fees billed or allocated to us for the years ended December 31, 2014 and 2013 for professional accounting services, including KPMG's audit of our annual consolidated financial statements, are set forth in the table below.

	Years Ended December 31,	
	2014	2013
	(Dollars in thousands)	
Audit fees	\$ 2,825	2,700
Audit-related fees	—	32
Total fees	<u>\$ 2,825</u>	<u>2,732</u>

KPMG did not provide to us any professional services for tax compliance, tax advice or tax planning in 2014 or 2013 .

For purposes of the preceding table, the professional fees are classified as follows:

Audit fees: These are fees billed for the year shown for professional services performed for the audit of the consolidated financial statements included in our Form 10-K filing for that year, the review of condensed consolidated financial statements included in our Form 10-Q filings made during that year, comfort letters, consents and assistance with and review of documents filed with the SEC. Audit fees for each year shown include amounts that have been billed through the date of this filing and any additional amounts that are expected to be billed thereafter.

Audit-related fees: These are fees billed for assurance and related services that were performed in the year shown and that are traditionally performed by our independent registered public accounting firm. More specifically, these services include regulatory filings. Audit-related fees for each year shown include amounts that have been billed through the date of this filing.

The Audit Committee of CenturyLink, Inc. approved in advance all of the services performed by KPMG described above.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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	Restated Articles of Incorporation of Qwest Corporation (incorporated by reference to Exhibit 3(a) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 001-03040) filed with the Securities and Exchange Commission on March 25, 1998).
3.2	Articles of Amendment to the 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 June 30, 2000 (File No. 001-03040) filed with the Securities and Exchange Commission on August 11, 2000).
3.3	Amended and Restated Bylaws of Qwest Corporation (incorporated by reference to Exhibit 3.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
4.1	Indenture, dated as of April 15, 1990, by and between The Mountain States Telephone and Telegraph Company (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
a.	First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
4.2	Indenture, dated as of April 15, 1990, by and between Northwestern Bell Telephone Company (predecessor to Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.5(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on May 10, 2012).
a.	First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
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.	First Supplemental Indenture, dated as of August 19, 2004, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.22 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2004 (File No. 001-15577) filed with the Securities and Exchange Commission on November 5, 2004).
b.	Third Supplemental Indenture, dated as of June 17, 2005, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.2 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on June 23, 2005).
c.	Fourth Supplemental Indenture, dated as of August 8, 2006, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on August 8, 2006).
d.	Fifth Supplemental Indenture, dated as of May 16, 2007, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on May 18, 2007).
e.	Sixth Supplemental Indenture, dated as of April 13, 2009, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on April 13, 2009).
f.	Seventh Supplemental Indenture, dated as of June 8, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.8 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 7, 2011).
g.	Eighth Supplemental Indenture, dated as of September 21, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.9 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 20, 2011).
h.	Ninth Supplemental Indenture, dated as of October 4, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on October 4, 2011).
i.	Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).
j.	Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).

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



Exhibit Number	Description
	k. Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to 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).
	l. 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).
4.4	Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No 001-07784) filed with the Securities and Exchange Commission on August 9, 2012).
4.5*	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.*
12*	Calculation of Ratio of Earnings to Fixed Charges.
23*	Independent Registered Public Accounting Firm Consent.
31.1*	Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Annual Report on Form 10-K of Qwest Corporation for the period ended December 31, 2014, 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 (Deficit) and (v) the Notes to the Consolidated Financial Statements.

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\* Exhibit filed herewith.

## SIGNATURES

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 February 27, 2015 .

**QWEST CORPORATION**

By: /s/ David D. Cole

David D. Cole

Executive Vice President-Controller and Operations Support  
(Chief Accounting Officer and Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

**Signature**

**Title**

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and President (Principal Executive Officer)

/s/ R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.

Director, Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Stacey W. Goff

Stacey W. Goff

Director



\$100,000,000

CREDIT AGREEMENT

Dated as of February 20, 2015

among

QWEST CORPORATION,  
THE LENDERS NAMED HEREIN,

COBANK, ACB,

as Administrative Agent

COBANK, ACB,

as Sole Bookrunner and Sole Lead Arranger

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## **SCHEDULES**

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Guarantor Significant Subsidiaries    Schedule 3.3

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## **EXHIBITS**

Form of Term Note    Exhibit A

Form of Opinion of Borrower's Counsel    Exhibit B

Form of Financial Report Certificate    Exhibit C

Form of Assignment and Assumption    Exhibit D

Form of Guarantee    Exhibit E

Form of Secretary's Certificate    Exhibit F

Form of Exemption Certificate    Exhibit G

Form of Borrowing Notice    Exhibit H

CREDIT AGREEMENT (this “Agreement”), dated as of February 20, 2015, by and among QWEST CORPORATION, a Colorado corporation (the “Borrower”), the several banks and other financial institutions or entities from time to time parties to this Agreement (the “Lenders”) and COBANK, ACB, as administrative agent (in such capacity, the “Administrative Agent”).

WITNESSETH:

WHEREAS, capitalized terms used herein and not defined in these recitals shall have the respective meanings set forth for such terms in Section 1.1 hereof;

WHEREAS, the Borrower has requested that the Lenders extend credit on the Closing Date in the form of Loans in an aggregate principal amount of \$100,000,000; and

WHEREAS, the Lenders have indicated their willingness to extend such credit on the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the above premises, the parties hereto hereby agree as follows:

## **SECTION 1**

### **DEFINITIONS.**

#### **1.1 Certain Defined Terms.**

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Accounting Changes” is defined in Section 1.2.

“Acquisitions” means the acquisition by the Borrower or its Subsidiaries of at least a majority of the capital stock or all or substantially all of the property of another Person, division of another Person or other business unit of another Person, whether or not involving a merger or consolidation of such Person; provided, that such Person or property is used or useful in a Permitted Line of Business.

“Adjusted Consolidated Net Worth” means, as of the date of determination, Consolidated Net Worth minus (a) deferred assets other than prepaid insurance, prepaid taxes, prepaid interest, extraordinary retirements, and deferred charges where such deferred charges are considered by Tribunals when setting rates, (b) patents, copyrights, trademarks, trade names, franchises, experimental expense, goodwill and similar intangible or intellectual property (other than goodwill and similar intangible or intellectual property arising from the purchase of capital stock or assets of a Person engaged in a Permitted Line of Business described on Schedule 3.17), and (c) unamortized debt discount and expense (other than debt discount and expense of the Companies located in jurisdictions where such items are considered by Tribunals when setting rates).

“Administrative Agent” is defined in the introduction to this Agreement.

“Affiliate” of any Person means any other individual or entity that directly or indirectly controls, or is controlled by, or is under common control with, such Person, and, for purposes of this definition only, “control,” “controlled by,” and “under common control with” mean possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person (whether through ownership of Voting Stock, by contract, or otherwise).

“Agent Indemnitee” is defined in Section 9.7.

“Agreement” means this Credit Agreement, as the same may be amended, supplemented, modified or restated from time to time.

“Anti-Corruption Laws” means the United States Foreign Corrupt Practices Act of 1977, as amended, the United Kingdom Bribery Act of 2010, as amended, and other laws or regulations relating to bribery or corruption that apply to the Company’s business or operations.

“Applicable Margin” means, at the time of any determination thereof, for each Type of Loan, the margin of interest over the LIBOR Rate or the Base Rate which is applicable at the time of any determination of interest rates under this Agreement, which Applicable Margin shall be adjusted based on the Senior Unsecured Long-Term Debt Rating, as determined as of the last day of the immediately preceding fiscal quarter of the Borrower, as follows:

Senior Unsecured Long-Term Debt Rating	Applicable Margin	
	LIBOR Loans	Base Rate Loans
BBB/Baa2 or higher	1.50%	0.50%
BBB-/Baa3	1.75%	0.75%
BB+/Ba1	2.00%	1.00%
BB/Ba2	2.25%	1.25%
Lower than BB/Ba2	2.50%	1.50%

“Approved Bank” is defined in the definition of Cash Equivalents.

“Approved Fund” is defined in Section 10.18(b)(ii).

“Assignee” is defined in Section 10.18(b)(i).

“Assignment and Assumption” means an Assignment and Assumption, substantially in the form of Exhibit D.

“Attributable Debt” means, in respect of any sale and leaseback transaction, at the time of determination, the present value of the obligation of the lessee for the net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the sole option of the lessor, be extended. Such present value shall be calculated using the discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP.



“ Bankruptcy Event ” means, with respect to any Person, such Person becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it; provided, that a Bankruptcy Event shall not result solely by virtue of any ownership interest, or the acquisition of any ownership interest, in such Person by a Tribunal or instrumentality thereof; provided, further, that such ownership interest does not result in or provide such Person with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Tribunal or instrumentality) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

“ Base Rate ” means, for any day, a rate per annum announced by the Administrative Agent on the first Business Day of each week (rounded upwards, if necessary, to the next 1/16th of 1%) equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1% and (c) the LIBOR Rate that would be calculated as of such day (or if such day is not a Business Day, as of the next preceding Business Day), in respect of a proposed LIBOR Loan with a one-month Interest Period plus 1%.

“ Base Rate Loan ” means any Loan the rate of interest applicable to which is based upon the Base Rate.

“ Below Investment Grade Rating ” means a Debt Rating that meets each of the following criteria: (a) lower than Baa3 (or the equivalent) by Moody’s, (b) lower than BBB- (or the equivalent) by S&P and (c) and lower than BBB- (or the equivalent) by Fitch.

“ Board ” means the Board of Governors of the Federal Reserve System of the United States.

“ Board of Directors ” is defined in Section 2.23(b).

“ Borrower ” is defined in the introduction to this Agreement.

“ Borrowing ” means a borrowing consisting of simultaneous Loans from each of the Lenders distributed ratably among the Lenders in accordance with their respective Commitments.

“ Business Day ” means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close; provided, that with respect to notices and determinations in connection with, and payments of principal and interest on, LIBOR Loans, such day is also a day for trading by and between banks in Dollar deposits in the interbank eurodollar market.

“ Capital Stock ” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

“ Cash Equivalents ” means, as at any date, (a) securities issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than 12 months from the date of acquisition, (b) dollar denominated time deposits and certificates of deposit of (i) any Lender, (ii) any domestic commercial bank of recognized standing having capital and surplus in excess of \$500,000,000 or (iii) any bank whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody’s is at least P-1 or the equivalent thereof (any such bank being an “Approved Bank”), in each case with maturities of not more than 270 days from the date of acquisition, (c) commercial paper and variable or fixed rate notes issued by any Approved Bank (or by the parent company thereof) or any variable rate notes issued by, or guaranteed by, any domestic corporation rated A-1 (or the equivalent thereof) or better by S&P or P-1 (or the equivalent thereof) or better by Moody’s and maturing within six months of the date of acquisition, (d) repurchase agreements entered into by any Person with a bank or trust company (including any of the Lenders) or recognized securities dealer having capital and surplus in excess of \$500,000,000 for direct obligations issued by or fully guaranteed by the United States in which such Person shall have a perfected first priority security interest (subject to no other Liens) and having, on the date of purchase thereof, a fair market value of at least 100% of the amount of the repurchase obligations and (e) investments, classified in accordance with GAAP as current assets, in money market investment programs registered under the Investment Company Act of 1940, as amended, which are administered by reputable financial institutions having capital of at least \$500,000,000 and the portfolios of which are limited to investments of the character described in the foregoing subdivisions (a) through (d).

“ CenturyLink ” means CenturyLink, Inc., a Louisiana corporation.

“ Change of Control ” is defined in Section 2.23.

“ CLO ” is defined in Section 10.18(b)(ii).

“ Closing Date ” means the date on which the conditions set forth in Section 4.1 shall have been satisfied, which date is February 20, 2015.

“ CoBank ” means CoBank, ACB.

“ CoBank Equities ” is defined in Section 5.15(a).

“ Code ” means the Internal Revenue Code of 1986, as amended, together with rules and regulations promulgated thereunder.

“ Commitment ” means, as to any Lender, the obligation of such Lender to make a Loan on the Closing Date in a principal amount not to exceed the amount set forth under the heading “Commitment” opposite such Lender’s name on Schedule 1.1. The aggregate amount of the Commitments on the Closing Date is \$100,000,000.

“ Companies ” means, collectively, the Borrower and its Subsidiaries, and “Company” means any of the same.

“ Confidential Information ” is defined in Section 10.19(b).

“ Consolidated EBITDA ” means the EBITDA of the Borrower and its Subsidiaries on a consolidated basis.

“ Consolidated Net Worth ” means, as of the date of determination, the amount of stated capital plus (or minus, in the case of a deficit) the capital surplus and earned surplus of the Companies, as calculated in accordance with GAAP (but treating Minority Interests in Subsidiaries as liabilities and excluding the contra-equity account resulting from the Borrower’s obligations under its employee stock ownership plan commitments). For purposes of this Agreement, Consolidated Net Worth shall exclude the effect of (a) FASB Statements No. 101 (“Regulated Enterprises-Accounting for the Discontinuation of Application of FASB Statement No. 71”) and 106 (“Employers’ Accounting for Postretirement Benefits Other than Pensions”); and (b) as it relates to impairment charges, FASB Statements No. 142 (“Goodwill and Other Intangible Assets”) and 144 (“Accounting for the Impairment or Disposal of Long-Lived Assets”) of the Financial Accounting Standards Board.

“ Consolidated Tangible Assets ” means, as of the date of determination, Consolidated Total Assets, minus (without duplication) the net book value of all such assets that would be treated as intangible assets, determined on a consolidated basis in accordance with GAAP.

“ Consolidated Total Assets ” means, as of the date of determination, the total assets of the Borrower and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, as shown on a consolidated balance sheet of the Borrower and its Subsidiaries for the most recently ended calendar quarter for which Financial Statements are available.

“ Consolidated Total Funded Debt ” means, as of the date of determination, the aggregate principal amount of all Funded Debt of the Borrower and its Subsidiaries at such date, determined on a consolidated basis in accordance with GAAP.

“ Credit Party ” means the Administrative Agent or any other Lender.

“ Current Date ” means any date after January 1, 2015.

“ Current Financials ” means the consolidated Financial Statements of the Companies for the fiscal year ended December 31, 2013.

“ Debt ” means (without duplication), for any Person, all obligations, contingent or otherwise (including, without limitation, contingent obligations in connection with letters of credit), which in accordance with GAAP should be classified upon such Person’s balance sheet as liabilities, but in any event including, without limitation, whether or not such obligations in accordance with GAAP should be classified as liabilities, (a) liabilities secured (or for which the holder of such Debt has an existing Right, contingent or otherwise, to be so secured) by any Lien existing on property owned or acquired by such Person or a Subsidiary thereof (whether or not the liability secured thereby shall have been assumed), (b) obligations which have been or under GAAP should be capitalized for financial reporting purposes, (c) all guaranties, endorsements, and other contingent obligations with respect to Debt of others, including, but not limited to, any obligations to purchase, sell, or furnish property or services intended by a Company primarily for the purpose of enabling such other Person to make payment of any of such Person’s Debt, or to otherwise assure the holder of any of such Debt against loss with respect thereto, and (d) liabilities under any Swap Agreement; provided that a Person’s liabilities under any ISDA Swap Agreement with a particular counterparty shall be calculated on a net basis. Notwithstanding the forgoing, for purposes of determining Debt of the Borrower and its Subsidiaries, the determination of whether a lease is characterized as an “operating lease” or a “capital lease” shall be made in accordance with GAAP as it exists on the Closing Date.

“ Debt Rating ” means the public debt rating by S&P and Moody’s for that class of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Borrower which has the lowest rating of all classes of non-credit enhanced, senior unsecured debt with an original term of longer than one year issued by the Borrower.

“ Debtor Relief Laws ” means the Bankruptcy Code of the United States of America and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, fraudulent transfer or conveyance, suspension of payments, or similar Laws from time to time in effect affecting the Rights of creditors generally.

“ Default ” means the occurrence of any event which with the giving of notice or the passage of time or both would become an Event of Default.

“ Defaulting Lender ” means any Lender that (a) has failed, within two Business Days of the date required to be funded or paid, to pay over to any Credit Party any amount required to be paid by it hereunder, or (b) has become the subject of a Bankruptcy Event.

“ Dollars ” means dollars in lawful currency of the United States.

“ Domestic Person ” means any Person organized under the laws of any jurisdiction within the United States.

“ Domestic Subsidiary ” means any Subsidiary of the Borrower organized under the laws of any jurisdiction within the United States.

“ EBITDA ” means for any period and for any Person (the “ Test Person ”), (1) consolidated net income of such Test Person and its consolidated Subsidiaries for such period adjusted to exclude (or in case of clause (l) below include) the effect of (a) any non-cash losses resulting from requirements to mark-to-market Swap Agreements, foreign exchange transactions or other transactions executed pursuant to an ISDA master agreement, (b) expense items resulting from CenturyLink’s acquisition of Borrower, including severance, retention and integration costs and change of control payments, any gains or losses in connection with the repurchase or retirement of Debt, (c) any loss reflected in such net income all or any portion of which is reasonably expected to be paid or reimbursed by an insurer, indemnitor or other third party source, provided that, to the extent that the claim for all or any portion of any such reasonably expected payment or reimbursement is not accepted by the applicable insurer, indemnitor or other third party source within 180 days of the loss event, there shall be a corresponding deduction from EBITDA; and provided further, that recognition or receipt of all or any portion of any such reasonably expected payment or reimbursement from the applicable insurer, indemnitor or other third party source shall be deducted from EBITDA to the extent reflected in net income, (d) any non-cash losses as a result of (i) impairment of goodwill under Statement of Financial Accounting Standards No. 142, (ii) an impairment of fixed assets under Statement of Financial Accounting Standards No. 144, (iii) any amortization of intangibles pursuant to Statement of Financial Accounting Standards No. 141, or (iv) the implementation of any future modifications to the accounting standards employed by such Test Person and its consolidated Subsidiaries, including any costs or charges associated with leases that are not characterized as “capital leases” under GAAP, (e) gains or losses resulting from activity of any unconsolidated Persons provided that EBITDA shall be increased by cash distributed by and reduced by money invested in such unconsolidated Person, (f) gains or losses from marking to market portfolio assets until recognized for income tax purposes, (g) without duplication of any other exclusions in this definition of EBITDA, any extraordinary or other non-recurring non-cash income, expenses, gain or loss, provided that any cash payments received or made as result of such gain or loss (regardless of when the gain or loss was incurred) shall be included in the calculation of EBITDA for the period in which they are received or made (unless previously included for purposes of this calculation), (h) any gain or loss on the disposition of investments, (i) income (or loss) for such period of any Person, or attributable to any assets, disposed of during such period determined on a pro forma basis as though such Person or assets had been disposed of on the first day of such period) and (j) income (or loss) for such period of any Person that became a Subsidiary of such Test Person during such period or attributable to any assets acquired during such period, in each case, determined on a pro forma basis as though such Person or such assets were acquired on the first day of such period, plus, to the extent deducted in determining such adjusted net income, the aggregate amount of (2) interest expense, excluding the amortization or write-off of Debt discount or premiums and Debt issuance costs and commissions, discounts and other fees and charges associated with Debt (including, if applicable, Loans), (3) income tax expense, (4) depreciation and amortization and (5) any non-cash charges to net income relating to the establishment of reserves and any income relating to the release of such reserves, provided that EBITDA shall be reduced by any cash expended that reduces the amount of any reserve.

“ Eligible Reinvestment ” means (a) any acquisition (whether or not constituting a capital expenditure, but not constituting an Acquisition) of assets or any business (or any part thereof) used or useful in a Permitted Line of Business and (b) any Acquisition.

“ Environmental Law ” means any Law that relates to the environment or handling or control of Hazardous Substances.

“ ERISA ” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated thereunder.

“ ERISA Affiliate ” means any company or trade or business (whether or not incorporated) which, together with any Company, is treated as a single employer within the meaning of section 414 of the Code.

“ Eurocurrency Reserve Requirements ” means, for any day as applied to a LIBOR Loan, the aggregate (without duplication) of the maximum rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including basic, supplemental, marginal and emergency reserves) under any regulations of the Board or other Tribunal having jurisdiction with respect thereto dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D) maintained by a member bank of the Federal Reserve System.

“ Eurodollar Tranche ” means the collective reference to LIBOR Loans the then current Interest Periods with respect to all of which begin on the same date and end on the same later date (whether or not such Loans shall originally have been made on the same day).

“ Event of Default ” means any of the events described in Section 7; provided, that there has been satisfied any requirement in connection therewith for the giving of notice, lapse of time, or happening of any further condition, event, or act.

“ Exchange Act ” is defined in Section 2.23(a).

“ Excluded Regulated Subsidiary ” means any regulated Subsidiary as to which the guaranteeing by such Subsidiary of the Obligations of the Borrower would, in the good faith judgment of the Borrower, result in adverse regulatory consequences to such Subsidiary, be prohibited without regulatory approval or impair the conduct of the business of such Subsidiary.

“ Excluded Specified Debt ” means (i) Debt (including any Permitted Refinancing Debt), whether secured or unsecured, of an Excluded Specified Subsidiary that exists at the time such entity is acquired and is not incurred in contemplation of such acquisition, to the extent that either: (1) the total consideration (excluding assumed Debt of the Excluded Specified Subsidiary and its Subsidiaries but including Debt incurred by the Borrower or any Guarantor in connection with the acquisition) paid by Borrower for the acquisition of the Excluded Specified Subsidiary and its Subsidiaries consists of at least 80% of Borrower Capital Stock, (2) the Capital Stock of the Excluded Specified Subsidiary is owned by Borrower or any Guarantor and (3) after giving effect to the acquisition of such Excluded Specified Subsidiary, the Borrower shall be in compliance, on a pro forma basis, with the covenants set forth in Section 6.14.

“ Excluded Specified Subsidiary ” means any Subsidiary (including its Subsidiaries) (a) that is acquired after the Closing Date, (b) that is prohibited from entering into the Guarantee Agreement due to restrictions contained in documentation governing the Debt of such Subsidiary (to the extent such documentation was not entered into in contemplation of such acquisition) or for which entrance into the Guarantee Agreement would create a default under the documentation governing the Debt of such Subsidiary and (c) that has Debt in excess of \$25,000,000 incurred under such documentation that cannot be prepaid without penalty.

“ Extension ” is defined in Section 2.22(a).

“ Exiting Lender ” is defined in Section 2.23.

“ Extended Loan ” is defined in Section 2.22(a)(ii).

“ Extension Offer ” is defined in Section 2.22(a).

“ Farm Credit Lender ” means a lending institution organized and existing pursuant to the provisions of the Farm Credit Act of 1971 and under the regulation of the Farm Credit Administration.

“ FATCA ” means Sections 1471 through 1474 of the Code, as of the Closing Date (or any amended or successor version that is substantially comparable and not materially more onerous to comply with) and any current or future regulations or official interpretations thereof.

“ Federal Funds Effective Rate ” means, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it.

“ Financial Officer ” means the chief financial officer, treasurer or controller of the Borrower.

“ Financial Report Certificate ” means a certificate substantially in the form of Exhibit C.

“ Financial Statements ” means balance sheets, income statements, statements of stockholders’ equity, and statements of cash flow prepared in comparative form to the corresponding period of the preceding fiscal year, in each case for (a) the Borrower and its Subsidiaries on a consolidated basis and (b) the Borrower and its Subsidiaries and Unrestricted Subsidiaries on a consolidated basis.

“ Fitch ” means Fitch Ratings, Inc.

“ Funded Debt ” with respect to any Person, shall mean and include, as of any date as of which the amount thereof is to be determined, (a) indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than current trade payables incurred in the ordinary course of such Person’s business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) liabilities secured (or for which the holder thereof has an existing Right, contingent or otherwise, to be so secured) by any Lien existing on property owned or acquired by such Person or a Subsidiary thereof (whether or not the liability secured thereby shall have been assumed), excluding any Lien on equity interests of an Unrestricted Subsidiary or joint venture securing obligations of such Unrestricted Subsidiary or joint venture and its subsidiaries, (f) obligations of such Person which have been or under GAAP should be capitalized for financial reporting purposes, and (g) Attributable Debt of such Person, but excluding indebtedness secured by or borrowed against the cash surrender value of life insurance policies up to the amount of such cash surrender value. Notwithstanding the forgoing, for purposes of determining Funded Debt of the Borrower and its Subsidiaries, the determination of whether a lease is characterized as an “operating lease” or a “capital lease” shall be made in accordance with GAAP as it exists on the Closing Date.

“ Funding Office ” means the office of the Administrative Agent specified in Section 10.6 or such other office as may be specified from time to time by the Administrative Agent as its funding office by written notice to the Borrower and the Lenders.



“GAAP” means generally accepted accounting principles of the Accounting Principles Board of the American Institute of Certified Public Accountants and the Financial Accounting Standards Board which are applicable as of the date of the Financial Statements in question.

“Guarantee Agreement” means the Guarantee Agreement, substantially in the form of Exhibit E.

“Guarantors” means any Subsidiary that (i) is required to enter into a Guarantee Agreement pursuant to Section 5.13 or (ii) otherwise enters into a Guarantee Agreement under Section 5.13.

“Guarantor Significant Subsidiary” means at all times after the first date after the Closing Date that the Borrower obtains a Below Investment Grade Rating, the term “Guarantor Significant Subsidiary” shall mean a Subsidiary of the Borrower (x) the assets of which are equal to or greater than 5% of Consolidated Total Assets (other than assets of any Excluded Specified Subsidiaries) as of the last date of the most recent fiscal quarter for which financial statements are available, (y) the operating revenue of which, for the year to date through the most recent fiscal quarter for which financial statements are made available, is equal to or greater than 5% of the operating revenues of the Borrower and its Subsidiaries (other than Excluded Specified Subsidiaries) for such period, or (z) the net income from recurring operations (excluding any extraordinary or other non-recurring income, expenses, gain or loss) of which, for the year to date through the most recent fiscal quarter for which financial statements are available, is equal to or greater than 5% of the net income from recurring operations (excluding any extraordinary or other non-recurring income, expenses, gain or loss) of the Borrower and its Subsidiaries (other than Excluded Specified Subsidiaries) for such period.

“Guaranty” means by any particular Person, all obligations of such Person guaranteeing or in effect guaranteeing any Debt, dividend or other obligation of any other Person (the “primary obligor”) in any manner whether directly or indirectly, including, without limitation of the generality of the foregoing, obligations incurred through an agreement, contingent or otherwise, by such particular Person (a) to purchase such Debt or obligation or any property constituting security therefor, (b) to advance or supply funds (i) for the purchase or payment of such Debt or obligation or (ii) to maintain working capital or equity capital or otherwise to advance or make available funds for the purchase or payment of such Debt or obligation, (c) to purchase property, securities or services primarily for the purpose of assuring the owner of such Debt or obligation of the ability of the primary obligor to make payment of the Debt or obligation or (d) otherwise to assure the owner of the Debt or obligation of the primary obligor against loss in respect thereof.

“Hazardous Substance” means any hazardous or toxic waste, pollutant, contaminant, or substance.

“Incumbent Board” is defined in Section 2.23(b).

“Indemnified Liabilities” is defined in Section 10.22.

“Indemnified Parties” is defined in Section 10.22.

“Insolvent” means, with respect to any Multiemployer Plan, the condition that such plan is insolvent within the meaning of section 4245 of ERISA.



“ Interest Payment Date ” means (a) as to any Base Rate Loan, the last day of each March, June, September and December to occur while such Loan is outstanding and the final maturity date of such Loan, (b) as to any LIBOR Loan having an Interest Period of three months or less, the last day of such Interest Period, (c) as to any LIBOR Loan having an Interest Period longer than three months, each day that is three months, or a whole multiple thereof, after the first day of such Interest Period and the last day of such Interest Period, (d) as to any Loan (other than any Loan that is a Base Rate Loan), the date of any repayment or optional prepayment made in respect thereof and (e) as to any Loan, the date of any mandatory prepayment in respect thereof.

“ Interest Period ” means, as to any LIBOR Loan, (a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such LIBOR Loan and ending one, two, three or six months (or twelve months if agreed to by all Lenders) thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such LIBOR Loan and ending one, two, three or six months (or twelve months if agreed to by all Lenders) thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not later than 11:00 A.M., New York City time, on the date that is three Business Days prior to the last day of the then current Interest Period with respect thereto; provided, that all of the foregoing provisions relating to Interest Periods are subject to the following:

(i) if any Interest Period would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) the Borrower may not select an Interest Period that would extend beyond the Termination Date unless the Borrower acknowledges that it will be responsible for any breakage costs owing under Section 2.12 resulting from repayment on the Termination Date;

(iii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day (if a calendar month; and

(iv) subject to clause (ii) above, the Borrower shall select Interest Periods so as not to require a payment or prepayment of any LIBOR Loan during an Interest Period for such Loan.

“ Investments ” is defined in Section 6.5.

“ Laws ” means all applicable statutes, laws, treaties, ordinances, rules, regulations, orders, writs, injunctions, decrees, judgments, or opinions of any Tribunal.

“ Lead Arranger ” means CoBank, ACB.

“ Lenders ” means those lenders signatory hereto and other financial institutions which from time to time become party hereto pursuant to the provisions of this Agreement.

“LIBOR” means, with respect to each day during each Interest Period pertaining to a LIBOR Loan, the rate per annum determined by the ICE Benchmark Administration (or any successor that takes over the administration of such rate) on the basis of the rate for deposits in Dollars for a period equal to such Interest Period appearing in Bloomberg Professional Services (or any successor page) as the London Interbank offered rate as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period; provided, that if such rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. In the event that such rate does not appear on such page (or otherwise on such screen), “LIBOR” shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered Dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are being conducted for delivery on the first day of such Interest Period for the number of days comprised therein; provided, that if such rate shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“LIBOR Loan” means any Loan the rate of interest applicable to which is based upon the LIBOR Rate, other than any Base Rate Loan.

“LIBOR Rate” means, with respect to each day during each Interest Period pertaining to a LIBOR Loan, a rate per annum determined for such day in accordance with the following formula (rounded upward to the nearest 1/100th of 1%)

#### LIBOR

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#### 1.00- Eurocurrency Reserve Requirements

“Lien” means any lien, mortgage, security interest, pledge, assignment, charge, title, retention agreement, or encumbrance of any kind, and any other Right of or arrangement with any creditor to have his claim satisfied out of any property, or the proceeds therefrom, prior to the general creditors of the owners thereof.

“Litigation” means any action conducted, pending, or threatened by or before any Tribunal.

“Loan Papers” means (i) this Agreement, certificates delivered pursuant to this Agreement, and exhibits and schedules hereto, (ii) any notes, security documents, guaranties, and other agreements in favor of the Administrative Agent and the Lenders, or any or some of them, ever delivered in connection with this Agreement, including the Guarantee Agreement, and (iii) all renewals, extensions, or restatements of, or amendments or supplements to, any of the foregoing.

“Loan Parties” means each Company that is a party to a Loan Paper.

“Loans” is defined in Section 2.1.

“Majority Lenders” means at any time the Lenders and Voting Participants holding or participating in more than 50% of the aggregate unpaid principal amount of the Loans then outstanding.

“Margin Stock” means “margin stock” within the meaning of Regulations T, U, or X.

“Material Adverse Effect” means any set of one or more circumstances or events which, individually or collectively, will result in any of the following: (a) a material and adverse effect upon the validity or enforceability of any Loan Paper, (b) a material and adverse effect on the consolidated financial condition of the Companies represented in the later of the Current Financials or the most recent audited consolidated Financial Statements, (c) a Default or (d) the issuance of an accountant’s report on the Companies’ consolidated Financial Statements containing an explanatory paragraph about the entity’s ability to continue as a going concern (as defined in accordance with Generally Accepted Auditing Standards).

“Material Agreement” of any Person means any material written or oral agreement, contract, commitment, or understanding to which such Person is a party, by which such Person is directly or indirectly bound, or to which any assets of such Person may be subject, and which is not cancelable by such Person upon 30 days or less notice without liability for further payment other than nominal penalty, and which requires such Person to pay more than the greater of \$250,000,000 or 1% of Consolidated Net Worth during any 12-month period. For the avoidance of doubt, the agreements constituting Excluded Specified Debt will be considered “Material Agreements” for purposes of this Agreement.

“Minimum Extension Condition” is defined in Section 2.22(b).

“Minority Interest” means, with respect to any Subsidiary, an amount determined by valuing preferred stock held by Persons other than the Borrower and its Wholly Owned Subsidiaries at the voluntary or involuntary liquidating value of such preferred stock, whichever is greater, and by valuing common stock or partnership interests held by Persons other than the Borrower and its Wholly Owned Subsidiaries at the book value of capital and surplus applicable thereto on the books of such Subsidiary adjusted, if necessary, to reflect any changes from the book value of common stock required by the foregoing method of valuing Minority Interest attributable to preferred stock.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means a multiemployer plan as defined in sections 3(37) or 4001(a)(3) of ERISA or section 414 of the Code to which any Company or any ERISA Affiliate is making, or has made, or is accruing, or has accrued, an obligation to make contributions.

“Net Cash Proceeds” means the aggregate cash or Cash Equivalents proceeds received by the Company in respect of any disposition of assets, as contemplated by Section 6.7(g), net of (a) direct costs (including, without limitation, legal, accounting and investment banking fees, and sales commissions); (b) Taxes paid or payable as a result thereof; (c) the amount necessary to retire any Debt secured by a Permitted Lien on the related property (unless the purchaser of the assets has assumed the obligations to repay such Debt); (d) with respect to a Subsidiary that is not a Wholly Owned Subsidiary, that portion of such proceeds allocable to the Minority Interests; and (e) the amount of any reserves established by the Borrower and its Subsidiaries to fund contingent liabilities reasonably estimated to be payable and the amount of capital and operating expenditures that would not otherwise have been incurred and are required in writing or by application of policy by a public utility commission to be incurred as a condition to its consent, in each case during the year that such event occurred or the next succeeding year and that are directly attributable to such event (as determined reasonably and in good faith by a Financial Officer (or any such officer’s designee, designated in writing by such officer) of the Borrower); it being understood that “Net Cash Proceeds” shall include, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received by any such Company in any disposition of assets.

“Non-Excluded Taxes” is defined in Section 2.19(a).

“Non-Exiting Lender” is defined in Section 2.23.

“Non-U.S. Lender” is defined in Section 2.19(d).

“Note” means a promissory note of the Borrower, in substantially the form of Exhibit A hereto, with the blanks appropriately completed, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from the Loans made by such Lender to the Borrower, together with all modifications, extensions, renewals, and rearrangements thereof.

“Obligation” means all present and future indebtedness, obligations, and liabilities, and all renewals, extensions, and modifications thereof, owed to the Administrative Agent and the Lenders, or any or some of them, by the Borrower, arising pursuant to any Loan Paper, together with all interest thereon and costs, expenses, and attorneys’ fees incurred in the enforcement or collection thereof.

“OFAC” is defined in Section 3.20.

“Optional Termination Date” is defined in Section 2.23.

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Paper including any interest, additions to tax or penalties applicable thereto, but excluding the Taxes described in clause (i) and clause (ii) of Section 2.19(a).

“Parent” means, with respect to any Lender, any Person as to which such Lender is, directly or indirectly, a subsidiary.

“Participant” is defined in Section 10.18(c).

“Participant Register” is defined in Section 10.18(c).

“Patriot Act” is defined in Section 10.20.

“PBGC” means the Pension Benefit Guaranty Corporation, or any successor thereof, established pursuant to ERISA.

“ Permitted Liens ” means:

- (a) Liens as of the Closing Date;
- (b) any Lien existing on any asset prior to the acquisition thereof by the Borrower or a Subsidiary (to the extent the acquisition is permitted by this Agreement), so long as such Lien was not incurred in contemplation of such acquisition;
- (c) any Lien securing Debt incurred for the purchase or capital lease of one or more assets (if such Lien encumbers only the assets so purchased or leased);
- (d) pledges or deposits made to secure payment of workers' compensation, or to participate in any fund in connection with workers' compensation, unemployment insurance, pensions, or other social security programs;
- (e) Liens or good-faith pledges or deposits made to secure performance of bids, tenders, contracts (other than for the repayment of borrowed money), or leases, or to secure statutory obligations, surety or appeal bonds, or indemnity, performance, or similar bonds, government contracts or other similar obligations in the ordinary course of business;
- (f) easements, rights-of-way, zoning restrictions and other similar charges, encumbrances and restrictions in respect of real property or immaterial imperfections of title which do not, in the aggregate, materially impair the ordinary conduct of the Borrower and its Subsidiaries, taken as a whole;
- (g)(i) Liens for Taxes, (ii) Liens upon, and defects of title to, property, including any attachment of property or other legal process prior to adjudication of a dispute on the merits, (iii) Liens of mechanics, materialmen, warehousemen, carriers, and landlords, and similar Liens, and (iv) adverse judgments on appeal, in each case, with respect to this clause (g), if either (x) no amounts are due and payable and no Lien has been filed or agreed to or (y) the validity or amount thereof is being contested in good faith by lawful proceedings diligently conducted, reserve or other provision required by GAAP has been made, levy and execution thereon have been (and continue to be) stayed, and neither the value nor use of the property in question are materially affected;
- (h) Liens in favor of the United States Department of Agriculture, the Rural Electrification Administration, the Rural Utilities Service, the Rural Telephone Bank or similar lenders such as the Rural Telephone Finance Cooperative;
- (i) Liens on equity investments in a financial institution which requires any Company to make an equity investment in such institution in order to borrow money;
- (j) Liens existing on any property of a Subsidiary existing at the time it became a Subsidiary which were not created with view of becoming a Subsidiary, provided that the Debt secured by such Liens may not be increased, extended, renewed or continued beyond its original stated maturity if such increase, extension or renewal would result in a Default under Section 6.14;

- (k) Liens either on shares of stock or other equity interests of an entity which, when such Liens arise, concurrently becomes a Subsidiary or on assets of an entity arising in connection with acquisition thereof by the Borrower or a Subsidiary; provided, that the Debt secured by such Liens may not be increased or extended, renewed or continued beyond its original stated maturity if such increase, extension or renewal would result in a Default under Section 6.14;
- (l) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other assets relating to such letters of credit and products and proceeds thereof;
- (m) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of the Borrower or any Subsidiary, including rights of offset and setoff;
- (n) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more of accounts maintained by the Borrower or any Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank or banks with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; provided, that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Debt;
- (o) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Borrower or any Subsidiary;
- (p) Liens arising from filing Uniform Commercial Code financing statements regarding leases;
- (q) Liens on Capital Stock owned by the Borrower or any Restricted Subsidiary in an Unrestricted Subsidiary or a Person that is not a Subsidiary to secure Debt or other obligations of the Unrestricted Subsidiary or Person that issued the Equity Interests;
- (r) Liens on property of a Subsidiary (other than on stock of a Subsidiary except to the extent permitted in clause (k) above) securing obligations owing to the Borrower or a Wholly Owned Subsidiary;
- (s) except as otherwise prohibited by clause (j) or (k) above, Liens securing extensions, renewals or refinancings of the Debt to replace Liens being released in connection with such transaction to the extent the Liens being released were permitted hereunder;
- (t) Liens on accounts receivable and related assets (including without limitation, all collateral, guaranties and contracts associated with such accounts receivable, all of the Receivables Entity's interest in inventory and goods the sale of which gave rise to the accounts receivable, all lockbox or collection accounts related thereto, all records related thereto and all proceeds of the foregoing) securing indebtedness incurred pursuant to a Qualified Receivables Transaction;
- (u) Liens on assets subject to any sale and leaseback transaction consummated pursuant to Section 6.7(g);

- (v)(x) Liens arising in the ordinary course of business which (i) do not secure Funded Debt, (ii) do not in the aggregate materially detract from the value of the grantor's assets or materially impair the use thereof in the operation of its business, and (iii) do not secure obligations in an amount exceeding, in the aggregate, \$100,000,000 and (y) Liens not described in clause (x) on cash and Cash Equivalents and securities which Liens secure any obligation with respect to letters of credit and which do not secure obligations in an amount exceeding, in the aggregate, \$100,000,000;
- (w) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into the Borrower or a Subsidiary (to the extent any such merger or consolidation is permitted under Section 6.4 and not created in contemplation of such event);
- (x) Liens securing Debt permitted to be secured by a Lien in accordance with Section 6.15;
- (y) Liens on property of a Subsidiary securing indebtedness of such Subsidiary created, assumed or incurred after the date hereof, the creation, assumption or incurrence of which would not create a Default under Section 6.14;
- (z) Liens on securities in connection with securities repurchase and reverse repurchase arrangements that bear only upon the securities involved in the repurchase or reverse repurchase transaction;
- (aa) replacements, extension and renewals of any Lien permitted by clause (b), (c), (j) or (k) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby);
- (bb) Liens securing Funded Debt referred to in clause (g) of the definition of Permitted Priority Debt;
- (cc) Liens on assets of an Excluded Specified Subsidiary securing the Excluded Specified Debt of such Excluded Specified Subsidiary.

“ Permitted Line of Business ” means a line of business in which the Borrower and the Subsidiaries are permitted to engage pursuant to Section 6.9.

“ Permitted Priority Debt ” means (a) Debt of the Borrower and its Subsidiaries (regardless of when incurred), (b) Debt of the Borrower's Subsidiaries existing on the Closing Date and any Permitted Refinancing Debt in respect thereof, (c) Debt of the Guarantors (other than guarantees of Excluded Specified Debt), (d) unsecured Debt of any Subsidiary owing to any other Subsidiary, the Borrower or CenturyLink, (e) that portion of the capital leases of the Borrower's Subsidiaries that does not exceed the aggregate principal amount of capital leases of the Borrower's Subsidiaries on the Closing Date, (f) Excluded Specified Debt and (g) Funded Debt of any joint venture, including any joint venture that qualifies as a Subsidiary, in an aggregate amount at any time not to exceed \$200,000,000, including Guaranties of such Funded Debt.



“ Permitted Refinancing Debt ” means Debt which represents an extension, refinancing, refunding, replacement or renewal of any other Debt; provided, that (a) the principal amount (or accreted value, if applicable) thereof does not exceed the principal amount (or accreted value, if applicable) of the Debt so extended, refinanced, refunded, replaced or renewed, except by an amount equal to unpaid accrued interest and premium (including applicable prepayment penalties) thereon plus fees and expenses reasonably incurred in connection therewith, (b) any Liens securing such Debt are not extended to any additional property of any Loan Party, (c) no Loan Party that is not originally obligated with respect to repayment of such Debt is required to become obligated with respect thereto and (d) if the Debt that is extended, refinanced, refunded, replaced or renewed was subordinated in right of payment to the Obligations or any Guaranty thereof, then the terms and conditions of the extension, refinancing, refunding, replacement or renewal Indebtedness must include subordination terms and conditions that are at least as favorable to the Lenders as those that were applicable to the extended, refinanced, refunded, replaced or renewed Debt.

“ Person ” means and includes an individual, partnership, joint venture, corporation, trust, limited liability company, limited liability partnership, or other entity, Tribunal, unincorporated organization, or government, or any department, agency, or political subdivision thereof.

“ Plan ” means any employee pension benefit plan (as defined in section (2) of ERISA and subject to the provisions section 412 of the Code or section 302 or Title IV of ERISA) in respect of which any Company or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4062 or 4069 of ERISA be deemed to be) an “employer” or a “substantial employer” as such terms are defined in ERISA.

“ Prime Rate ” means a variable rate of interest per annum equal to the “U.S. prime rate” as reported on such day in the Money Rates Section of the Eastern Edition of *The Wall Street Journal* , or if the Eastern Edition of *The Wall Street Journal* is not published on such day, such rate as last published in the Eastern Edition of *The Wall Street Journal* .

“ Prohibited Transaction ” has the meaning assigned to such term in section 406 of ERISA and section 4975(c) of the Code.

“ Qualified Receivables Transaction ” means any transaction or series of transactions that may be entered into by the Borrower or any of its Subsidiaries pursuant to which the Borrower or any of its Subsidiaries may sell, convey or otherwise transfer to (a) a Receivables Entity (in the case of a transfer by the Borrower or any of its Subsidiaries) or (b) any other Person (in the case of a transfer by a Receivables Entity), or may grant a security interest in, any accounts receivable (whether now existing or arising in the future) of the Borrower or any of its Subsidiaries, and any assets related thereto including, without limitation, all collateral securing such accounts receivable, all contracts and all guarantees or other obligations in respect of such accounts receivable, the proceeds of such receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization involving accounts receivable.

“ Receivables Entity ” means a Wholly Owned Subsidiary of the Borrower (to which the Borrower or any Subsidiary transfers accounts receivable and related assets pursuant to a Qualified Receivables Transaction) which engages in no activities other than in connection with the financing of accounts receivable and whose assets consist solely of receivables and related assets transferred to such entity in connection with a Qualified Receivables Transaction:

- (a) no portion of the Debt or any other obligations (contingent or otherwise) of which:



- (i) is guaranteed by the Borrower or any Subsidiary (excluding guarantees of obligations (other than the principal of, and interest on, Debt) pursuant to Standard Securitization Undertakings);
  - (ii) is recourse to or obligates the Borrower or any Subsidiary in any way other than pursuant to Standard Securitization Undertakings; or
  - (iii) subjects any property or asset of the Borrower or any Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (b) with which neither the Borrower nor any Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Qualified Receivables Transaction) other than on terms no less favorable to the Borrower or such Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Borrower, other than fees payable in the ordinary course of business in connection with servicing accounts receivable; and
- (c) to which neither the Borrower nor any Subsidiary has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results (except pursuant to Standard Securitization Undertakings).

Any designation by the Borrower of a Wholly Owned Subsidiary as a Receivables Entity shall be evidenced to the Administrative Agent by delivering to the Administrative Agent a certificate from a Financial Officer of the Borrower certifying that such designation complied with the foregoing conditions.

“Register” is defined in Section 10.18(b)(iv).

“Regulation D” means Regulation D of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Regulation G” means Regulation G of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Regulation T” shall mean Regulation T of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Regulation U” shall mean Regulation U of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Regulation X” shall mean Regulation X of the Board, as the same is from time to time in effect, and all official rulings and interpretations thereunder or thereof.

“Regulatory Change” means, with respect to any Lender, (a) any adoption or change after the date hereof of or in United States federal, state or foreign Laws (including Regulation D) or guidelines applying to a class of banks including such Lender, (b) the adoption or making after the date hereof of any interpretations, directives or requests applying to a class of banks including such Lender of or under any United States federal, state or foreign Laws or guidelines (whether or not having the force of law) by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof, or (c) any change in the interpretation or administration of any United States federal, state or foreign Laws or guidelines applying to a class of banks including such Lender by any Tribunal, monetary authority, central bank, or comparable agency charged with the interpretation or administration thereof; provided that, notwithstanding anything herein to the contrary, (i) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or by United States or foreign regulatory authorities, in each case pursuant to Basel III, and (ii) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder or issued in connection therewith or in implementation thereof, shall in each case be deemed to be a Regulatory Change, regardless of the date enacted, adopted, issued or implemented.

“Reorganization” means, with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of section 4241 of ERISA.

“Reportable Event” means any “reportable event,” as defined in section 4043(c) of ERISA or the regulations issued thereunder, with respect to a Plan, other than those events as to which notice is waived pursuant to Department of Labor Regulation Section 4043 as in effect on the date hereof, no matter how such notice requirement may be changed in the future.

“Restricted Payment” means

(a) the declaration or payment of dividends by the Borrower, or distribution (in cash, property, obligations or other securities or any combination thereof) on account of any shares of any class of capital stock of the Borrower,

(b) other payments or distributions by the Borrower whether by reduction of capital or otherwise on account of any shares of any class of capital stock of the Borrower, or

(c) the setting apart of money for a sinking or other analogous fund by the Borrower for the purchase, redemption, retirement or other acquisition of any shares of any class of capital stock of the Borrower, or any warrant, option or other right to acquire any capital stock of the Borrower;

but in each case in (a), (b) and (c) above, excluding dividends or other distributions payable solely in common stock of the Borrower.

“Rights” means rights, remedies, powers, and privileges.

“S&P” means Standard and Poor’s Financial Services LLC.

“SEC” means the Securities and Exchange Commission.

“ Senior Unsecured Long-Term Debt Rating ” means, as of any date, the Debt Rating that has been most recently announced by S&P and Moody’s. In connection with any determination of the Senior Unsecured Long-Term Debt Rating pursuant to the immediately preceding sentence, for purposes of determining the Applicable Margin, (a) if only one of S&P and Moody’s shall have in effect a public debt rating, the Applicable Margin shall be determined by reference to the available rating; (b) if the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Margin shall be based upon the higher rating, except that if the difference is two or more levels, the Applicable Margin shall be based on the rating that is one level below the higher rating; (c) if any rating established by S&P or Moody’s shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; (d) if S&P or Moody’s shall change the basis on which ratings are established, each reference to the public debt rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be; (e) if neither S&P nor Moody’s shall have in effect a public debt rating but at least one of S&P and Moody’s has in effect a rating for any class of senior secured debt with an original term of longer than one year issued by the Borrower, the Applicable Margin shall be determined by reference to a rating that is one level lower than the rating that has been most recently announced by S&P and Moody’s for such class of debt; and (f) if neither S&P nor Moody’s shall have in effect either a public debt rating or a rating for any class of senior secured debt with an original term of longer than one year issued by the Borrower, the Applicable Margin shall be set in accordance with the lowest level rating and highest percentage rate set forth in the table relating to “Applicable Margin.”

“ Solvent ” means, as to any Person at the time of determination, that (a) the aggregate fair value of such Person’s assets exceeds the present value of its liabilities (whether contingent, subordinated, unmaturing, unliquidated, or otherwise), and (b) such Person has sufficient cash flow to enable it to pay its Debts as they mature.

“ Standard Securitization Undertakings ” means representations, warranties, covenants and indemnities entered into by the Borrower or any Subsidiary which are reasonably customary in securitization of accounts receivable transactions (it being understood that in no event shall Standard Securitization Undertakings include any Guaranty in respect of principal or interest on the financing for any Qualified Receivables Transaction).

“ Subsidiary ” means any Person with respect to which the Borrower or any one or more Subsidiaries owns directly or indirectly more than 50% of the issued and outstanding voting stock (or equivalent interests); provided, that any Subsidiary that has been designated as an Unrestricted Subsidiary pursuant to Section 5.12 (and has not subsequently been redesignated as a Subsidiary) shall be deemed not to be a Subsidiary for all purposes of the Loan Papers. Unless the context otherwise requires, all references to “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

“ Subsidiary Encumbrance ” is defined in Section 6.14(b).

“ Swap Agreement ” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions.

“ Taxes ” means all taxes, assessments, fees, or other charges at any time imposed by any Laws or Tribunal.

“ Termination Date ” means February 20, 2025, subject, however, to any extension of Loans pursuant to Section 2.22.

“ Term Percentage ” means the percentage which the aggregate principal amount of such Lender’s Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding.

“ Tribunal ” means any municipal, state, commonwealth, federal, foreign, territorial, or other court, governmental body, subdivision, agency, department, commission, board, bureau, or instrumentality.

“ Type ” shall mean any type of Loan (i.e., a Base Rate Loan or LIBOR Loan).

“ United States ” and “ U.S. ” each means United States of America.

“ Unrestricted Subsidiary ” means any Subsidiary of the Borrower designated by the Board of Directors as an Unrestricted Subsidiary pursuant to Section 5.12 after the Closing Date.

“ Voting Participant ” is defined in Section 10.18(d).

“ Voting Participant Notification ” is defined in Section 10.18(d).

“ Voting Stock ” shall mean securities (as such term is defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporate directors (or Persons performing similar functions).

“ Wholly Owned Subsidiary ” means, as to any Person, any other Person all of the Capital Stock of which (other than directors’ qualifying shares required by law) is owned by such Person directly and/or through other Wholly Owned Subsidiaries.

“ Withdrawal Liability ” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Title IV of ERISA.



## 1.2 Accounting Principles .

All accounting and financial terms used in the Loan Papers and not defined in Section 1.1, all accounting terms and financial terms partly defined in Section 1.1, to the extent not defined, and the compliance with each financial covenant therein shall be determined in accordance with GAAP, as modified from time to time by any Accounting Changes (as defined below) (provided that, notwithstanding anything to the contrary herein, all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Accounting Standards Codification 825-10-25 (previously referred to as Statement of Financial Accounting Standards 159) (or any other Accounting Standards Codification or Financial Accounting Standard having a similar result or effect) to value any Debt or other liabilities of any Company at “fair value,” as defined therein). In the event that (i) any Accounting Change shall occur, (ii) such change results in a change in the method of calculation of financial covenants, standards or terms in the Loan Papers and (iii) the Borrower determines that such change will create a risk of a Default or an Event of Default, then the Borrower may notify the Administrative Agent that it will not adopt such Accounting Change for purposes of the Loan Papers and that the method of calculation of financial covenants, standards or terms in the Loan Papers shall remain unaffected thereby. “ Accounting Changes ” refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the SEC.

1.3 Other Definitional Provisions . As used herein and in the other Loan Papers, (i) the words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation,” (ii) the word “incur” shall be construed to mean incur, create, issue, assume, become liable in respect of or suffer to exist (and the words “incurred” and “incurrence” shall have correlative meanings), (iii) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, capital stock, securities, revenues, accounts, leasehold interests and contract rights, and (iv) references to agreements or other contractual obligations shall, unless otherwise specified, be deemed to refer to such agreements or contractual obligations as amended, supplemented, restated or otherwise modified from time to time.



## **SECTION 2**

### **FACILITIES.**

#### **2.1 Commitments.**

Subject to the terms and conditions hereof, each Lender severally agrees to make a term loan (each, a “Loan”) to the Borrower on the Closing Date in an amount not to exceed the amount of such Lender’s Commitment. The Loans may from time to time be LIBOR Loans or Base Rate Loans, as determined by the Borrower and notified to the Administrative Agent in accordance with Sections 2.2 and 2.3. The Commitments shall automatically terminate on the Closing Date after the Loans have been made.

#### **2.2 Procedure For Loan Borrowing.**

The Borrower shall give the Administrative Agent irrevocable notice (which notice must be received by the Administrative Agent prior to 1:00 P.M., New York City time, (a) three Business Days prior to the Closing Date, in the case of LIBOR Loans, or (b) on the Closing Date, in the case of Base Rate Loans), substantially in the form of Exhibit H, specifying (i) the amount and Type of Loans requested to be borrowed on the Closing Date and (ii) in the case of LIBOR Loans, the respective amounts of each such Type of Loan and the respective lengths of the initial Interest Period therefor. All Loans shall initially be Base Rate Loans unless the Borrower has provided the notice for LIBOR Loans set forth in clause (a) above and has entered into a pre-funding indemnity agreement with respect to such borrowing of LIBOR Loans on the Closing Date in form and substance reasonably satisfactory to the Administrative Agent. Upon receipt of any such notice from the Borrower, the Administrative Agent shall promptly notify each Lender thereof. Each Lender will make the amount of Loans to be made by such Lender available to the Administrative Agent for the account of the Borrower at the Funding Office prior to 2:00 P.M., New York City time, on the Closing Date in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent wiring the money in accordance with instructions from the Borrower with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

#### **2.3 Repayment of Term Loans.**

The Borrower unconditionally agrees to pay to the Lenders the then outstanding unpaid principal amount of the Loans on the Termination Date. Interest accruing on the Loans shall be payable on each Interest Payment Date until the Termination Date.

#### **2.4 Conversion and Continuation Options.**

(a) The Borrower may elect from time to time to convert LIBOR Loans to Base Rate Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 1:00 P.M., New York City time, on the Business Day preceding the proposed conversion date, provided, that any such conversion of LIBOR Loans may only be made on the last day of an Interest Period with respect thereto (unless the Borrower pays the amount owing pursuant to Section 2.12). The Borrower may elect from time to time to convert Base Rate Loans to LIBOR Loans by giving the Administrative Agent prior irrevocable notice of such election no later than 1:00 P.M., New York City time, on the third Business Day preceding the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor; provided, that no Base Rate Loan may be converted into a LIBOR Loan when any Event of Default has occurred and is continuing and the Administrative Agent or the Majority Lenders have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.



- (b) Any LIBOR Loan may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent, in accordance with the applicable provisions of the term “Interest Period” set forth in Section 1.1, of the length of the next Interest Period to be applicable to such Loans; provided, that no LIBOR Loan may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent has or the Majority Lenders have determined in its or their sole discretion not to permit such continuations; provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to Base Rate Loans on the last day of such then expiring Interest Period. Upon receipt of any such notice the Administrative Agent shall promptly notify each relevant Lender thereof.

## 2.5 Fees.

The Borrower agrees to pay to the Administrative Agent the fees in the amounts and on the dates previously agreed to in writing by the Borrower and the Administrative Agent.

## 2.6 Limitations on Eurodollar Tranches.

Notwithstanding anything to the contrary in this Agreement, all borrowings, conversions and continuations of LIBOR Loans and all selections of Interest Periods shall be in such amounts and be made pursuant to such elections so that, (a) after giving effect thereto, the aggregate principal amount of the LIBOR Loans comprising each Eurodollar Tranche shall be equal to \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof and (b) no more than ten Eurodollar Tranches shall be outstanding at any one time.

## 2.7 Interest Rates and Payment Dates.

- (a) Each LIBOR Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the LIBOR Rate determined for such day plus the Applicable Margin.
- (b) Each Base Rate Loan shall bear interest at a rate per annum equal to the Base Rate plus the Applicable Margin.
- (c)(i) If all or a portion of the principal amount of any Loan shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), all outstanding Loans shall bear interest at a rate per annum equal to the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this Section plus 2%, and (ii) if all or a portion of any interest payable on any Loan or any fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum equal to the rate then applicable to Base Rate Loans plus 2% in each case, with respect to clauses (i) and (ii) above, from the date of such non-payment until such amount is paid in full (as well after as before judgment).
- (d) Interest shall be payable in arrears on each Interest Payment Date; provided, that interest accruing pursuant to paragraph (c) of this Section shall be payable from time to time on demand.

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## 2.8 Alternate Rate of Interest for LIBOR Loans .

In the event, and on each occasion, that on the day two Business Days prior to the commencement of any Interest Period for a LIBOR Loan, the Administrative Agent shall have determined that dollar deposits in the amount of the requested principal amount of such LIBOR Loan are not generally available in the London interbank market, or that dollar deposits are not generally available in the London interbank market for the requested Interest Period, or that the rate at which such dollar deposits are being offered will not adequately and fairly reflect the cost to any Lender of making or maintaining such LIBOR Loan during such Interest Period, or that reasonable means do not exist for ascertaining the LIBOR Rate, the Administrative Agent shall, as soon as practicable thereafter, give telecopy notice of such determination, stating the specific reasons therefor, to the Borrower and the Lenders. In the event of any such determination, any request by the Borrower for a LIBOR Loan shall, until the circumstances giving rise to such notice no longer exist, be deemed to be a request for a Base Rate Loan. Each determination by the Administrative Agent hereunder shall be conclusive absent manifest error.

## 2.9 Mandatory and Optional Prepayment of Loans .

- (a) Prior to the Termination Date, the Borrower shall have the right at any time to prepay the Loans, in whole or in part, subject to the requirements of Sections 2.12 and 2.13 but otherwise without premium or penalty, but prepayment of LIBOR Loans shall require at least three Business Days prior written notice to the Administrative Agent; provided, however, that each such partial prepayment shall be in an integral multiple of \$1,000,000 and in a minimum aggregate principal amount of \$2,000,000; provided, further, that a failure to provide three (3) Business Days' prior written notice in the case of a prepayment of a LIBOR Loan shall not constitute a Default but instead shall entitle the Lenders to remedies identified in Section 2.12. Each notice of prepayment, with respect to LIBOR Loans, shall specify the prepayment date and the aggregate principal amount of each Borrowing to be prepaid and may be revocable; provided, that (i) such notice is only revocable during the three Business Day period beginning on the date that such notice is given to the Administrative Agent and ending on the stated date of such prepayment and (ii) the Borrower shall indemnify the Lenders pursuant to Section 2.12 as a result of the Borrower's revocation of such notice.
- (b) All Loans, together with accrued and unpaid interest thereon, shall be due and payable in full on the Termination Date.
- (c) All prepayments of Loans (other than optional prepayments of Base Rate Loans) under this Section 2.9 shall be accompanied by accrued interest on the principal amount being prepaid to the date of prepayment.

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2.10 Reserve Requirements; Change in Circumstances .

- (a) Notwithstanding any other provision herein, if after the Closing Date any Regulatory Change (i) subjects any Lender to any Taxes (other than (x) Non-Excluded Taxes or Taxes described in clause (i) or (ii) of the first sentence in Section 2.19(a) or (y) any Tax that would not have been imposed but for the failure of any Lender to comply with any certification, information, documentation, or other reporting requirement if such Lender could legally comply and such compliance would not materially prejudice such Lender's legal or commercial position) on its loans, loan principal or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto, (ii) shall impose, modify, or deem applicable any reserve, special deposit, or similar requirement with respect to any LIBOR Loan (or participating interest therein), against assets of, deposits with or for the account of, or credit extended by, such Lender under this Agreement, or (iii) with respect to any LIBOR Loan, shall impose on such Lender or the London interbank market any other condition affecting this Agreement or any LIBOR Loan made by such Lender, and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any LIBOR Loan or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest, or otherwise) in respect thereof by an amount deemed in good faith by such Lender to be material, then the Borrower shall pay to the Administrative Agent for the account of such Lender such additional amount or amounts as will compensate such Lender for such increase or reduction to such Lender, to the extent such amounts have not been included in the calculation of the LIBOR Rate, upon demand by such Lender (through the Administrative Agent).
- (b) If any Lender shall have determined in good faith that any Regulatory Change regarding capital or liquidity requirements or compliance by any Lender (or its Parent or any lending office of such Lender) with any request or directive regarding capital or liquidity requirements (whether or not having the force of Law) of any Tribunal, monetary authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on such Lender's (or its Parent's) capital as a consequence of its obligations hereunder to a level below that which such Lender (or its Parent) could have achieved but for such Regulatory Change, or compliance (taking into consideration such Lender's policies with respect to capital and liquidity requirements) by an amount deemed in good faith by such Lender to be material, then from time to time, the Borrower shall pay to the Administrative Agent for the account of such Lender such additional amount or amounts as will compensate such Lender for such reduction upon demand by such Lender (through the Administrative Agent).

- (c) A certificate of a Lender setting forth in reasonable detail (i) the Regulatory Change or other event giving rise to such costs, (ii) such amount or amounts as shall be necessary to compensate such Lender as specified in paragraph (a) or (b) above, as the case may be, (iii) the calculation of such amount or amounts under clause (a) or (b) above, shall be delivered to the Borrower (with a copy to the Administrative Agent) promptly after such Lender determines it is entitled to compensation under this Section 2.10, and shall be conclusive and binding absent manifest error and (iv) confirmation from such Lender that such costs are also being assessed to other similarly situated borrowers. The Borrower shall pay to the Administrative Agent for the account of such Lender the amount shown as due on any such certificate within 15 days after its receipt of the same; provided that the Borrower shall not be required to pay the Administrative Agent for the account of such Lender pursuant to this Section 2.10 for any amount specified in clause (a) or (b) above in respect of a period occurring more than 180 days prior to the date on which such Lender notifies the Borrower of such Regulatory Change and such Lender's intention to claim compensation therefor, except, if the Regulatory Change giving rise to any amount specified in clause (a) or (b) above is retroactive, no such time limitation shall apply so long as such Lender requests compensation within 180 days from the date on which the applicable Tribunal informed such Lender of such Regulatory Change. In preparing such certificate, such Lender may employ such assumptions and allocations of costs and expenses as it shall in good faith deem reasonable and may use any reasonable averaging and attribution method.
- (d) The protection of this Section 2.10 shall be available to each Lender regardless of any possible contention of invalidity or inapplicability of the law, regulation, or condition which shall have been imposed.
- (e) Without prejudice to the survival of any other obligations of the Borrower hereunder, the obligations of the Borrower under this Section 2.10 shall survive for one year after the termination of this Agreement and/or the payment or assignment of any of the Loans or Notes.

## 2.11 Change in Legality.

- (a) Notwithstanding anything to the contrary herein contained, if any Regulatory Change shall make it unlawful for any Lender to make or maintain any LIBOR Loan or to give effect to its obligations as contemplated hereby, then, by written notice to the Borrower and to the Administrative Agent, such Lender may:
- (i) declare that LIBOR Loans will not thereafter be made by such Lender hereunder, whereupon the Borrower shall be prohibited from requesting LIBOR Loans from such Lender hereunder unless such declaration is subsequently withdrawn; and
- (ii) if such unlawfulness shall be effective prior to the end of any Interest Period of an outstanding LIBOR Loan, require that all outstanding LIBOR Loans with such Interest Periods made by it be converted to Base Rate Loans, in which event (A) all such LIBOR Loans shall be automatically converted to Base Rate Loans as of the effective date of such notice as provided in paragraph (b) below and (B) all payments and prepayments of principal which would otherwise have been applied to repay the converted LIBOR Loans shall instead be applied to repay the Base Rate Loans resulting from the conversion of such LIBOR Loans.
- (b) For purposes of this Section 2.11, a notice to the Borrower (with a copy to the Administrative Agent) by any Lender pursuant to paragraph (a) above shall be effective on the date of receipt thereof by the Borrower.

## 2.12 Indemnity .

The Borrower agrees to indemnify each Lender for, and to hold each Lender harmless from, any loss of expense that such Lender may sustain or incur as a consequence of (a) default by the Borrower in making a borrowing of, conversion into or continuation of LIBOR Loans after the Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (b) default by the Borrower in making any prepayment of or conversion from LIBOR Loans after the Borrower has given a notice thereof in accordance with the provisions of this Agreement or (c) the making of a prepayment of LIBOR Loans on a day that is not the last day of an Interest Period with respect thereto. Such indemnification may include an amount equal to the excess, if any, of (i) the amount of interest that would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (excluding, however, the Applicable Margin included therein, if any) over (ii) the amount of interest (as reasonably determined by such Lender) that would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. A certificate as to any amounts payable pursuant to this Section 2.12 submitted to the Borrower by any Lender shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

## 2.13 Pro Rata Treatment .

Unless otherwise specifically provided herein, each payment or prepayment of principal and each payment of interest with respect to a Borrowing shall be made pro rata among the Lenders in accordance with the respective principal amounts of the Loans extended by each Lender with respect to such Borrowing, and conversions of Loans to Loans of another Type and continuations of Loans that are LIBOR Loans from one Interest Period, shall be made pro rata among the Lenders in accordance with their respective Term Percentages.

## 2.14 Sharing of Setoffs .

Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff, or counterclaim against the Borrower, including, but not limited to, a secured claim under Section 506 of Title 11 of the United States Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable Debtor Relief Law or otherwise, obtain payment (voluntary or involuntary) in respect of the Loans held by it (other than pursuant to Section 2.10 or 2.12) as a result of which the unpaid principal portion of the Loans held by it shall be proportionately less than the unpaid principal portion of the Loans held by any other Lender, it shall be deemed to have simultaneously purchased from such other Lender a participation in the Loans held by such other Lender, so that the aggregate unpaid principal amount of the Loans and participations in Loans held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Loans then outstanding as the principal amount of the Loans held by it prior to such exercise of banker's lien, setoff, or counterclaim was to the principal amount of all Loans outstanding prior to such exercise of banker's lien, setoff, or counterclaim; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 2.14 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Borrower expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in Loans deemed to have been so purchased may, upon the existence of an Event of Default, exercise any and all rights of banker's lien, setoff, or counterclaim with respect to any and all moneys owing by the Borrower to such Lender as fully as if such Lender had made a Loan directly to the Borrower in the amount of such participation.

## 2.15 Payments .

- (a) All payments (including prepayments) to be made by the Borrower hereunder, whether on account of principal, interest, fees or otherwise, shall be made without setoff or counterclaim and shall be made prior to 1:00 P.M., New York City time, on the due date thereof to the Administrative Agent, for the account of the Lenders, at the Funding Office, in Dollars and in immediately available funds. The Administrative Agent shall distribute such payments to each relevant Lender promptly upon receipt in like funds as received, net of any amounts owing by such Lender pursuant to Section 9.7. If any payment hereunder (other than payments on the LIBOR Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day. If any payment on a LIBOR Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the next preceding Business Day. In the case of any extension of any payment of principal pursuant to the preceding two sentences, interest thereon shall be payable at the then applicable rate during such extension.
- (b) Unless the Administrative Agent shall have been notified in writing by any Lender prior to the borrowing that such Lender will not make the amount that would constitute its share of such borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender is making such amount available to the Administrative Agent, and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is not made available to the Administrative Agent by the required time on the Closing Date therefor, such Lender shall pay to the Administrative Agent, on demand, such amount with interest thereon, at a rate equal to the greater of (i) the Federal Funds Effective Rate and (ii) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation, for the period until such Lender makes such amount immediately available to the Administrative Agent. A certificate of the Administrative Agent submitted to any Lender with respect to any amounts owing under this paragraph shall be conclusive in the absence of manifest error. If such Lender's share of such borrowing is not made available to the Administrative Agent by such Lender within three Business Days after such Closing Date, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to Base Rate Loans, on demand, from the Borrower.
- (c) Unless the Administrative Agent shall have been notified in writing by the Borrower prior to the date of any payment due to be made by the Borrower hereunder that the Borrower will not make such payment to the Administrative Agent, the Administrative Agent may assume that the Borrower is making such payment, and the Administrative Agent may, but shall not be required to, in reliance upon such assumption, make available to the Lenders their respective pro rata shares of a corresponding amount. If such payment is not made to the Administrative Agent by the Borrower within three Business Days after such due date, the Administrative Agent shall be entitled to recover, on demand, from each Lender to which any amount which was made available pursuant to the preceding sentence, such amount with interest thereon at the rate per annum equal to the daily average Federal Funds Effective Rate. Nothing herein shall be deemed to limit the rights of the Administrative Agent or any Lender against the Borrower.

## 2.16 Calculation of LIBOR Rate .

The provisions of this Agreement relating to calculation of the LIBOR Rate are included only for the purpose of determining the rate of interest or other amounts to be paid hereunder that are based upon such rate, it being understood that each Lender shall be entitled to fund and maintain its funding of all or any part of a LIBOR Loan as it sees fit. All such determinations hereunder, however, shall be made as if each Lender had actually funded and maintained funding of each LIBOR Loan through the purchase in the London interbank market of one or more



eurodollar deposits, in an amount equal to the principal amount of such Loan and having a maturity corresponding to the Interest Period for such Loan.

#### 2.17 Computation of Interest and Fees.

- (a) Interest and fees payable pursuant hereto shall be calculated on the basis of a 360-day year for the actual days elapsed, except that, with respect to Base Rate Loans the rate of interest on which is calculated on the basis of the Prime Rate, such calculations shall be made on the basis of a 365- (or 366-, as the case may be) day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of each determination of a LIBOR Rate. Any change in the interest rate on a Loan resulting from a change in the Base Rate or the Eurocurrency Reserve Requirements shall become effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall as soon as practicable notify the Borrower and the relevant Lenders of the effective date and the amount of each such change in interest rate.
- (b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing the quotations used by the Administrative Agent in determining any interest rate pursuant to Section 2.7(a).

#### 2.18 Booking Loans.

Any Lender may make, carry, or transfer Loans at, to, or for the account of any of its branch offices, subject to Section 2.21(a).

#### 2.19 Taxes.

- (a) All payments made by or on account of any obligation of any Loan Party under this Agreement or any other Loan Paper shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Tribunal, excluding (i) income or franchise taxes imposed on (or measured by) net income, in each case, imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Tribunal imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative

Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Loan Paper) and

(ii) any United States federal withholding tax imposed by reason of FATCA as a result of a Lender's failure to comply with the requirements thereof to establish an exemption from withholding thereunder. If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings (" Non-Excluded Taxes ") or Other Taxes are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder or under any other Loan Paper, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement as if such deduction or withholding had not been made, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (x) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section or (y) that are United States federal withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from the Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, the Loan Party shall pay any Other Taxes to the relevant Tribunal in accordance with applicable Law.

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by a Loan Party, as promptly as possible thereafter the Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an original official receipt received by the Loan Party showing payment thereof. If (i) a Loan Party fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority, (ii) a Loan Party fails to remit to the Administrative Agent the required receipts or other required documentary evidence, or (iii) any Non-Excluded Taxes or Other Taxes are imposed directly upon the Administrative Agent or any Lender, the Loan Parties shall jointly and severally indemnify the Administrative Agent and the Lenders for such amounts and any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure, in the case of (i) and (ii), or any such direct imposition, in the case of (iii).

- (d) Each Lender (or transferee) that is a “United States Person” as defined in Section 7701(a)(30) of the Code shall deliver to the Borrower and the Administrative Agent on or before the date on which it becomes a party to this Agreement two properly completed and duly executed copies of U.S. Internal Revenue Service Form W-9 (or any successor form) certifying that such Lender is exempt from U.S. federal backup withholding tax. Each Lender (or transferee) that is not a “United States Person” as defined in Section 7701(a)(30) of the Code (a “Non-U.S. Lender”) shall deliver to the Borrower and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) (i) two copies of either U.S. Internal Revenue Service Form W-8BEN-E, Form W-8ECI, or Form W-8IMY (together with any applicable underlying IRS forms) properly completed and duly executed claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Papers, (ii) in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of “portfolio interest,” a statement substantially in the form of Exhibit G and a Form W-8BEN-E, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non-U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrower under this Agreement and the other Loan Papers, or (iii) any other form prescribed by applicable requirements of U.S. federal income tax law as a basis for claiming exemption from or a reduction in U.S. federal withholding tax duly completed together with such supplementary documentation as may be prescribed by applicable requirements of Law to permit the Borrower and the Administrative Agent to determine the withholding or deduction required to be made. Such forms shall be delivered by each Non-U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall promptly notify the Borrower and the Administrative Agent at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrower (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this clause, a Non-U.S. Lender shall not be required to deliver any form pursuant to this clause that such Non-U.S. Lender is not legally able to deliver.
- (e) A Lender that is entitled to an exemption from or reduction of non-U.S. withholding tax under the Law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable Law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable Law as will permit such payments to be made without withholding or at a reduced rate; provided, that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender’s judgment such completion, execution or submission would not materially prejudice the legal or commercial position of such Lender.

(f) To the extent required by any applicable Law, the Administrative Agent may withhold from any payment to any Lender an amount equivalent to any applicable withholding Tax. If the Internal Revenue Service or any other Tribunal asserts a claim that the Administrative Agent did not properly withhold Tax from amounts paid to or for the account of any Lender because the appropriate form was not delivered or was not properly executed or because such Lender failed to notify the Administrative Agent of a change in circumstance which rendered the exemption from, or reduction of, withholding Tax ineffective or for any other reason, such Lender shall indemnify the Administrative Agent fully for all amounts paid, directly or indirectly, by the Administrative Agent as Tax or otherwise, including any penalties or interest and together with all expenses (including legal expenses, allocated internal costs and out-of-pocket expenses) incurred. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Paper or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this paragraph (f).

(g) If the Administrative Agent or any Lender determines, in its sole discretion, that it has received a refund of any Non-Excluded Taxes or Other Taxes as to which it has been indemnified by any Loan Party or with respect to which any Loan Party has paid additional amounts pursuant to this Section 2.19, it shall pay over such refund to the applicable Loan Party (but only to the extent of indemnity payments made, or additional amounts paid, by such Loan Party under this Section 2.19 with respect to the Non-Excluded Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Tribunal with respect to such refund); provided, that the Loan Party, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to such Loan Party (plus any penalties, interest or other charges imposed by the relevant Tribunal) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Tribunal. This clause shall not be construed to require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to any Loan Party or any other Person.

(h) The agreements in this Section 2.19 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

**2.20 Defaulting Lenders.** Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then, for so long as such Lender is a Defaulting Lender, the Loan of such Defaulting Lender shall not be included in determining whether the Majority Lenders have taken or may take any action hereunder (including any consent to any amendment, waiver or other modification pursuant to Section 10.14); provided, that (a) such Defaulting Lender's outstanding Loans may not be increased or extended without its consent and (b) the principal amount of, or interest or fees payable on, Loans may not be reduced or excused or the scheduled date of payment may not be postponed as to such Defaulting Lender without such Defaulting Lender's consent.

**2.21 Mitigation Obligations; Replacement of Lenders.**

(a) If any Lender requests compensation under Section 2.10 or gives notice regarding Regulatory Changes affecting LIBOR Loans under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Tribunal for the account of any Lender pursuant to Section 2.19, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder, assign its rights and obligations hereunder to another of its offices, branches or affiliates, or otherwise modify its practices relating to the Loans, if, in the reasonable judgment of such Lender, such designation, assignment or modification (i) would eliminate or reduce amounts payable pursuant to Section 2.10 or 2.19 or eliminate any unlawfulness contemplated by Section 2.11 with respect to LIBOR Loans, as the case may be, in the future and (ii) is not otherwise materially disadvantageous to such Lender.

(b) If any Lender requests compensation under Section 2.10 or gives notice regarding Regulatory Changes affecting LIBOR Loans under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Tribunal for the account of any Lender pursuant to Section 2.19, or if any Lender becomes a Defaulting Lender or if any Lender does not consent to any proposed amendment, supplement, modification, consent or waiver of any provision of this Agreement or any other Loan Paper that requires the consent of each of the Lenders or each of the Lenders affected thereby (so long as the consent of the Majority Lenders has been obtained), then the Borrower may, at its sole expense and effort (except in the case of a Defaulting Lender), upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.18), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.10 or payments required to be made pursuant to Section 2.19, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply. Each party hereto agrees that an assignment required pursuant to this clause may be effected pursuant to an Assignment and Assumption executed by the Borrower, the Administrative Agent and the assignee and that the Lender required to make such assignment need not be a party thereto.

## 2.22 Extensions of Loans.

(a) Notwithstanding anything to the contrary in this Agreement, pursuant to one or more offers (each, an “Extension Offer”) made from time to time by the Borrower to all Lenders, in each case on a pro rata basis (based on the aggregate outstanding principal amounts of the Loans with a like maturity date) and on the same terms to each such Lender, the Borrower is hereby permitted to consummate from time to time transactions with individual Lenders that accept the terms contained in such Extension Offers to extend the maturity date of each such Lender’s Loans and otherwise modify the terms of such Loans pursuant to the terms of the relevant Extension Offer (including by increasing the interest rate payable in respect of such Loans) (each, an “Extension,” and each Loan, as so extended, as well as the original Loan (in each case not so extended), being a “tranche”; and any Extended Loans shall constitute a separate tranche of Loans from the tranche of Loans from which they were converted), so long as the following terms are satisfied:

(i) no Default or Event of Default shall have occurred and be continuing at the time the offering document in respect of an Extension Offer is delivered to the Lenders.

(ii) except as to interest rates, amortization, and final maturity (which shall be determined by the Borrower and set forth in the relevant Extension Offer), the Loans of any Lender that agrees to an Extension with respect to such Loans (“Extended Loans”), shall be a Loan with the same terms (or terms not less favorable to existing Lenders) as the original Loans; provided that all repayments (except for (A) payments of interest at different rates on Extended Loans, (B) repayments required upon the maturity date of the non-extending Loans and (C) repayments made in connection with a prepayment) of Extended Loans after the applicable Extension date shall be made on a pro rata basis with all other Loans and (z) at no time shall there be Loans hereunder (including Extended Loans and any original Loans) that have more than two different maturity dates.

(iii) all documentation in respect of such Extension shall be consistent with the foregoing and

(iv) any applicable Minimum Extension Condition shall be satisfied.

(b) With respect to all Extensions consummated by the Borrower pursuant to this Section 2.22, (i) such Extensions shall not constitute voluntary or mandatory payments or prepayments for purposes of Section 2.9 or 2.13 and (ii) the Borrower shall specify as a condition (a “ Minimum Extension Condition ”) to consummating any such Extension that a minimum amount (except as provided below, to be determined and specified in the relevant Extension Offer in the Borrower’s sole discretion and waivable by the Borrower) of Loans of any or all applicable tranches be tendered; provided, that, in any event, the Minimum Extension Condition shall require that, after giving effect to a particular Extension, a majority of the aggregate Loans outstanding shall constitute Extended Loans pursuant thereto, and such requirement may not be waived by the Borrower. The Administrative Agent and the Lenders hereby consent to the transactions contemplated by this Section 2.22 (including, for the avoidance of doubt, payment of any interest, fees or premium in respect of any Extended Loans on such terms as may be set forth in the relevant Extension Offer) and hereby waive the requirements of any provision of this Agreement (including Sections 2.9 and 2.13) or any other Loan Paper that may otherwise prohibit any such Extension or any other transaction contemplated by this Section 2.22.

(c) No consent of any Lender or the Administrative Agent shall be required to effectuate any Extension, other than the consent of each Lender agreeing to such Extension with respect to its Loans (or a portion thereof). Notwithstanding anything to the contrary in this Agreement, the Lenders hereby irrevocably authorize the Administrative Agent to enter into amendments to this Agreement and the other Loan Papers with the Borrower as may be necessary in order to establish new tranches or sub-tranches in respect of Loans and such technical amendments as may be necessary or appropriate in the reasonable opinion of the Administrative Agent and the Borrower in connection with the establishment of such new tranches or sub-tranches, in each case on terms consistent with this Section 2.22.

(d) In connection with any Extension, the Borrower shall provide the Administrative Agent at least five Business Days’ (or such shorter period as may be agreed by the Administrative Agent) prior written notice thereof, and shall agree to such procedures (including regarding timing, rounding and other adjustments and to ensure reasonable administrative management of the credit facilities hereunder after such Extension), if any, as may be established by, or acceptable to, the Administrative Agent, in each case acting reasonably to accomplish the purposes of this Section 2.22.





2.23 Change of Control . If a Change of Control shall occur, the Borrower shall, within ten days after the occurrence thereof, give each Lender notice thereof, which notice shall describe in reasonable detail the facts and circumstances giving rise thereto and shall specify an Optional Termination Date for purposes of this Section (the “ Optional Termination Date ”), which date shall not be less than 30 nor more than 60 days after the date of such notice. Each Lender may, by notice to the Borrower and the Administrative Agent given not less than three Business Days prior to the Optional Termination Date, declare the Loan held by it (together with accrued interest thereon) and any other amounts payable hereunder for its account to be, and such Loan and such other amounts shall thereupon become, due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, in each case effective on the Optional Termination Date (each Lender giving such notice, an “ Exiting Lender ”; each other Lender a “ Non-Exiting Lender ”). Notwithstanding the foregoing, if any condition specified in Section 4.2 cannot be satisfied on the Optional Termination Date such Change of Control shall be deemed to be an Event of Default.

For the purpose of this Section, a “ Change of Control ” shall be deemed to have occurred if:

- (a) a third person, including a “group” as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (as amended the “ Exchange Act ”), but excluding any employee benefit plan or plans of CenturyLink and its Subsidiaries and Affiliates, becomes the beneficial owner, directly or indirectly, of 30% or more of the combined voting power of the CenturyLink’s outstanding voting securities ordinarily having the right to vote for the election of directors of the CenturyLink;
- (b) the individuals who, as of December 31, 2014 constituted the Board of Directors of CenturyLink (the “ Board of Directors ” generally and as of December 31, 2014 the “ Incumbent Board ”) cease for any reason to constitute at least a majority of the Board of Directors, or in the case of a merger or consolidation of CenturyLink, do not constitute or cease to constitute at least a majority of the board of directors of the surviving company (or in a case where the surviving corporation is controlled, directly or indirectly, by another corporation or entity do not constitute or cease to constitute at least a majority of the board of such controlling corporation or do not have or cease to have at least a majority of voting seats on any body comparable to a board of directors of such controlling entity or, if there is no body comparable to a board of directors, at least a majority of voting control of such controlling entity); provided, that any person becoming a director (or, in the case of a controlling non-corporate entity, obtaining a position comparable to a director or obtaining a voting interest in such entity) subsequent to December 31, 2014 whose election, or nomination for election, was approved by a vote of the persons comprising at least a majority of the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest, as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board; or
- (c) CenturyLink shall fail to own, directly or indirectly, 100% of the outstanding voting securities ordinarily having the right to vote for the election of directors of the Borrower.

**SECTION 3****REPRESENTATIONS AND WARRANTIES.**

The Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

**3.1 Purpose of Credit Facility; Federal Regulation .**

The proceeds of the Loans shall be used for the working capital needs and general corporate purposes of the Companies. The proceeds loaned hereunder will not be used directly or indirectly for any purpose which violates, or which would be inconsistent with, the provisions of the Regulations of the Board, including Regulations T, U or X. No Company is engaged in or will engage, principally or as one of its important activities, in the business of extending credit to others for the purpose of purchasing or carrying any Margin Stock.

**3.2 Corporate Existence, Good Standing, and Authority .**

- (a) Each Company is, to the best of the Borrower's knowledge, duly organized, validly existing, and in good standing under the Laws of its jurisdiction of organization (such jurisdictions with respect to existing Guarantor Significant Subsidiaries, being identified on Schedule 3.3 and, with respect to future Guarantor Significant Subsidiaries, being identified in the quarterly reporting as required by Section 5.3(k)).
- (b) Except where failure would not reasonably be expected to have a Material Adverse Effect, each Company (i) is duly qualified to transact business and is in good standing as a foreign corporation or other organization in each jurisdiction where the nature and extent of its business and properties require the same, and (ii) possesses all requisite authority, power, licenses, permits, and franchises to own and operate its property and to conduct its business as is now being, or is contemplated herein to be, conducted.
- (c) Each Loan Party possesses all requisite authority, power, licenses, permits, and franchises to execute, deliver, and comply with the terms of the Loan Papers to which it is a party, and, in the case of the Borrower, to obtain extensions of credit hereunder. Each Loan Party has taken all necessary corporate action to authorize the execution, delivery and performance of the Loan Papers to which it is a party and, in the case of the Borrower, to authorize the extensions of credit on the terms and conditions of this Agreement, except where failure, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.
- (d) No consent or authorization of, filing with, notice to or other act by or in respect of any Person or Tribunal is required in connection with this Agreement, the extensions of credit hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement or any of the Loan Papers, except consents, authorizations, filings and notices (i) which have been obtained or made and are in full force and effect or (ii) the failure of which to obtain or make, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.



### 3.3 Guarantor Significant Subsidiaries .

Except as provided in the last sentence of this Section, Schedule 3.3 sets forth all existing Guarantor Significant Subsidiaries of the Borrower and correctly lists, as to each Guarantor Significant Subsidiary, (a) its name and (b) its jurisdiction of organization. Except as provided in the last sentence of this Section, the shares of capital stock of each Guarantor Significant Subsidiary owned by the Borrower (either directly or indirectly through another Subsidiary) as set forth on Schedule 3.3 are the duly authorized, validly issued, fully paid, and nonassessable shares of such Guarantor Significant Subsidiary and are owned by the Borrower free and clear of all Liens except Permitted Liens. Any future Guarantor Significant Subsidiaries will be included in the quarterly reporting as required by Section 5.3(k).

### 3.4 Financial Statements; No Change .

- (a) The Current Financials were prepared in accordance with GAAP and present fairly the consolidated financial condition and the results of operations of the Companies as of, and for the periods ended, the dates thereof. There were no material (to the Companies taken as a whole) liabilities, direct or indirect, fixed or contingent, of any Company as of the date of the Current Financials which are required to be reflected in the Current Financials but are not reflected therein. No Company has incurred any material (to the Companies taken as a whole) liability, direct or indirect, fixed or contingent, between the dates of the Current Financials and the date hereof, except in the ordinary course of business, such as in connection with acquisitions and financing activities.
- (b) Since December 31, 2013 through the Closing Date, there has been no development or event that has had or could reasonably be expected to have a Material Adverse Effect.

### 3.5 Compliance with Laws, Charter, and Agreements .

No Company is, nor will the execution, delivery, performance, or observance of the Loan Papers cause any Company to be, in violation of any Laws, including the Patriot Act, or any Material Agreements to which it is a party, other than such violations which would not reasonably be expected to have a Material Adverse Effect. No Company is, nor will the execution, delivery, performance, or observance of the Loan Papers cause any Company to be, in violation of its bylaws, charter or other organizational or governing document.



### 3.6 Litigation .

Except as described in the Borrower's SEC filings, or as otherwise disclosed to the Lenders, no Company is aware of any Material Litigation, and there are no Material outstanding or unpaid judgments against any Company. "Material" for purpose of this Section 3.6 in relation to Litigation would include any actions or proceedings pending or threatened against any Company before any court or Tribunal as to which there is a reasonable possibility of an adverse determination seeking damages, net of insurance proceeds to the Company, in excess of the greater of \$250,000,000 or 1% of Consolidated Net Worth in the aggregate, or which might result in any Material Adverse Effect.

### 3.7 Taxes .

All Tax returns of each Company required to be filed have been filed (or extensions have been granted) except where the failure to do so could not reasonably be expected to have a Material Adverse Effect, and all Taxes imposed upon each Company which are shown to be due and payable thereon have been paid other than Taxes for which the criteria for Permitted Liens have been satisfied and Taxes being contested in good faith by proper proceedings and with respect to which such Company shall have, to the extent required by GAAP, set aside on its books adequate reserves.

### 3.8 Environmental Matters .

No Company's ownership of its assets violates any applicable Environmental Law, other than such violations which would not reasonably be expected to have a Material Adverse Effect. To the Borrower's knowledge, no investigation or review is pending or threatened by any Tribunal with respect to any alleged violation of any Environmental Law in connection with any Company's assets which could result in a Material Adverse Effect. None of any Company's assets have been used by such Company or, to the Borrower's knowledge, any other Person as a dump site for any Hazardous Substance except where such use would not reasonably be expected to have a Material Adverse Effect.

### 3.9 Employee Benefit Plans .

Except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, (a) no Plan has failed to comply with any provisions of the Code or ERISA (and the applicable regulations under either) or with the terms of such Plan; (b) no Plan has failed to meet the minimum funding standards (within the meaning of section 412 of the Code or section 302 of ERISA) applicable to such Plan, whether or not waived, no application for a waiver of the minimum funding standard with respect to any Plan has been filed pursuant to section 412(c) of the Code or section 302(c) of ERISA, and no Plan has received a determination that it is, or is expected to be, in a "at risk" status (within the meaning of section 430 of the Code or section 303 of ERISA); (c) no Company or ERISA Affiliate has incurred, or reasonably expects to incur, liability to the PBGC in connection with any Plan; (d) no Company or ERISA Affiliate has withdrawn in whole or in part from participation in a Plan or Multiemployer Plan or received notice from any Multiemployer Plan with respect to the imposition of Withdrawal Liability or that, such Multiemployer Plan is, or is expected to be, Insolvent, in Reorganization, "terminated" (within the meaning of section 4041A of ERISA), or in "endangered" or "critical" status (within the meaning of section 432 of the Code or section 305 of ERISA); and (e) to the best of the Borrower's knowledge, no non-exempt Prohibited Transaction and no Reportable Event has occurred, and no insured medical plan sponsored by any Company for any current or former employee(s) has failed to satisfy the non-discrimination requirements of section 105 of the Code.



### 3.10 Properties; Liens .

Each Company has good and marketable title (except for Permitted Liens) to its property reflected on the Current Financials as being owned (except for (a) dispositions of property subsequent to the date of the Current Financials and prior to the Closing Date, in the ordinary course of business or (b) dispositions of property following the Closing Date, otherwise permitted hereunder). Except for Permitted Liens, there is no Lien on any property of any Company, and the execution, delivery, performance, or observance of the Loan Papers will not require or result in the creation of any Lien other than Permitted Liens.

### 3.11 Investment Company Status .

No Loan Party is (a) a “public utility” within the meaning of the Federal Power Act, as amended, (b) an “investment company” within the meaning of the Investment Company Act of 1940, as amended, (c) an “investment adviser” within the meaning of the Investment Advisers Act of 1940, as amended, or (d) directly subject to the jurisdiction of the Federal Communications Commission or any public service commission.

### 3.12 Transactions with Affiliates .

Except as disclosed on Schedule 3.12, no Company is a party to a Material transaction with any of its Affiliates (a) prior to the Closing Date other than transactions in the ordinary course of business and upon fair and reasonable terms not materially less favorable than such Company could obtain or could become entitled to in an arm’s-length transaction with a Person that was not its Affiliate and other than transactions between or among entities each of which is either the Borrower or a Wholly Owned Subsidiary or (b) after the Closing Date in violation of Section 6.6. For purposes of this Section 3.12, such transactions are “Material” if they, individually or in the aggregate, require any Company to pay more than the greater of \$250,000,000 or 1% of Consolidated Net Worth over the course of such transactions.

### 3.13 Leases .

All material leases under which any Company is lessee or tenant are in full force and effect, and no default or potential default exists thereunder which could result in a Material Adverse Effect.

### 3.14 Labor Matters .

There are no actual or, to the Borrower’s knowledge, threatened strikes, labor disputes, slow downs, walkouts, or other concerted interruptions of operations by any Company’s employees, the effect of which would have a Material Adverse Effect.





### 3.15 Insurance .

Each Company maintains with financially sound insurance companies or associations (or, as to workers' compensation or similar insurance, with an insurance fund or by self-insurance authorized by the jurisdictions in which it operates) insurance concerning its properties and businesses against such casualties and contingencies and of such types and in such amounts (and with co-insurance and deductibles) as is customary in the case of same or similar businesses; provided, however, a program of self-insurance in such amounts and against such risks as are prudent and which is consistent with accepted business practice shall constitute compliance with this Section 3.15.

### 3.16 Solvency .

The Companies, collectively, are, and after giving effect to the transactions contemplated under the Loan Papers will be, Solvent.

### 3.17 Business .

The business of the Borrower as conducted on the Closing Date, is set forth on Schedule 3.17. The business of the Borrower, as proposed to be conducted, is set forth in Section 6.9.

### 3.18 General .

All writings exhibited or delivered to the Administrative Agent by or on behalf of any Company are and will be genuine and in all material respects what they purport and appear to be.

3.19 No Default . No Company is in default under or with respect to any Material Agreement to which it is a party in any respect that could reasonably be expected to have a Material Adverse Effect. On each date on which an extension of credit is made hereunder, no Default or Event of Default shall have occurred and be continuing or would result from the making of such extension of credit.

3.20 OFAC . (a) None of the Companies nor, in each case to the knowledge of the Borrower, any director, officer, employee, controlled Affiliate of the Borrower, or any agent of the Borrower that will act in any capacity in connection with or benefit from any facility established hereby, nor any other Person of which the Borrower owns 50% or more of the issued and outstanding equity interests, is a Sanctioned Person; and the Borrower will not directly or indirectly use the proceeds of the Loans or otherwise make available such proceeds to any Person (including, without limitation, any Investment permitted pursuant to Section 6.5), for the purpose of financing the activities of, transactions with or acquiring an interest in any Person currently the subject of any Sanctions, except to the extent licensed or otherwise approved by OFAC or not in violation of Anti-Corruption Laws, in each case, as applicable.

(b) The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and their respective officers, employees, directors and agents are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. No Borrowing, use of proceeds or other transaction contemplated by the Agreement will violate Anti-Corruption Laws.

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**SECTION 4****CONDITIONS PRECEDENT.****4.1 Closing Date.**

The occurrence of the Closing Date is subject to the receipt by the Administrative Agent of all of the following in form and substance satisfactory to the Administrative Agent and its special counsel:

- (e)Loan Papers. (i) This Agreement, executed and delivered by the Administrative Agent and the Borrower, (ii) a Note payable to each Lender and (iii) the Current Financials.
- (f)Secretary's Certificates. A certificate dated as of the date hereof, substantially in the form of Exhibit F, executed and delivered by each Loan Party, certifying that (i) attached is a true, correct, and complete copy of (A) such Loan Party's charter, certified by the appropriate state official and dated a Current Date, (B) such Loan Party's bylaws, and (C) resolutions of such Loan Party's board of directors authorizing the execution and delivery of each Loan Paper to which such Loan Party is a party and (ii) the officers whose specimen signatures appear on such certificate hold the corporate office indicated and are authorized to sign agreements, documents, and instruments on behalf of such Loan Party.
- (g)Good Standing, Existence, and Authority. Certificates (dated a Current Date) relating to each Loan Party's existence, good standing, and authority to transact business issued by appropriate state officials.
- (h)Opinions of Borrower's Counsel. The favorable opinions, dated the Closing Date and substantially in the form of Exhibit B, of:
  - (i) Jones Walker LLP, special counsel to the Borrower;
  - (ii) Stacey Goff, Executive Vice President, General Counsel and Corporate Secretary of the Borrower; and
  - (iii) Arthur J. Saltareili, Associate General Counsel of the Borrower.
- (i)Officer's Certificate. A certificate, dated the Closing Date and signed by the President, a Vice President or a Financial Officer of the Borrower, confirming compliance, as of the Closing Date, with the conditions set forth in paragraphs (a) and (b) of Section 4.2.
- (j)Fees and Expenses. Payment from the Borrower of all fees then due the Administrative Agent, the Lead Arranger, the Lenders, and counsel to the Lead Arranger and Administrative Agent pursuant to this Agreement or any other agreement.
- (k)Financial Statements. The Lenders shall have received (i) audited consolidated financial statements of the Borrower and its Subsidiaries for the 2012 and 2013 fiscal years.
- (l)Solvency Certificate. The Lenders shall have received a certificate from the chief financial officer of the Borrower certifying that each Loan Party is, and after giving effect to this Agreement and the incurrence of all Debt and obligations being incurred in connection herewith, will be and will continue to be, Solvent.



(m)Ratings. The Borrower shall have obtained Senior Unsecured Long-Term Debt Ratings from each of Moody's and S&P.

(n)Patriot Act. The Lenders shall have received, with respect to such documents and other information requested in writing at least five business days prior to the Closing Date, all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including the Patriot Act.

(o)Other. Such other agreements, documents, instruments, opinions, certificates, and evidences as the Administrative Agent may reasonably request.

#### 4.2Conditions to Funding.

In addition, the Lenders will not be obligated to fund the Loans unless at the time of such funding (a) the representations and warranties made in the Loan Papers are true and correct in all material respects at such time (except that (i) any representations and warranties that speak to a specific date shall be true and correct in all material respects as of such specific date and (ii) any representations and warranties that are qualified by "Material Adverse Effect" or other materiality language shall be true and correct in all respects at such time), (b) no Default or Event of Default shall have occurred and shall be continuing, (c) the funding of such Loans are permitted by Law, and (d) if requested by the Administrative Agent or the Majority Lenders, the Borrower shall have delivered to the Administrative Agent evidence substantiating any of the matters contained in this Agreement which are necessary to enable the Borrower to qualify for such Loans.

The borrowing of the Loans on the Closing Date by the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the Closing Date that the conditions contained in this Section 4.2 shall have been satisfied.

#### 4.3Materiality of Conditions.

Each condition precedent herein is material to the transactions contemplated herein, and time is of the essence in respect of each thereof.



#### 4.4 Waiver of Conditions .

Subject to the provisions of Section 10.14, the Majority Lenders may elect to fund the Loans without all conditions being satisfied.

### **SECTION 5**

#### **AFFIRMATIVE COVENANTS .**

So long as any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, the Borrower covenants and agrees with the Administrative Agent and the Lenders as follows:

#### 5.1 Use of Proceeds .

Proceeds of Loans advanced hereunder shall be used only as represented herein.

#### 5.2 Books and Records .

Each Company shall maintain, in accordance with GAAP, proper and complete books, records, and accounts which are necessary to prepare the financial statements required to be delivered hereunder.

#### 5.3 Items to be Furnished .

The Borrower shall cause the following to be furnished to the Administrative Agent and each Lender (through the Administrative Agent):

- (a) Promptly after preparation, and no later than 90 days after the last day of each fiscal year of the Borrower, Financial Statements showing the consolidated financial condition and results of operations of the Companies as of, and for the year ended on, such last day, accompanied by (i) the opinion of KPMG LLP (or another firm of nationally-recognized independent certified public accountants reasonably acceptable to Majority Lenders), based on an audit using generally accepted auditing standards, that such Financial Statements were prepared in accordance with GAAP and present fairly the consolidated financial condition and results of operations of the Companies (and such accountants shall indicate in a letter to the Administrative Agent, that during their audit no Default or Event of Default not already reported was discovered or, if such Default or Event of Default was discovered, the nature and period of existence thereof) and (ii) a Financial Report Certificate with respect to such Financial Statements.
- (b) Promptly after preparation, and no later than 45 days after the last day of each of the first three quarters of each fiscal year of the Borrower, (i) Financial Statements showing the consolidated financial condition and results of operations of the Companies as of, and for the period from the beginning of the current fiscal year to, such last day, and (ii) a Financial Report Certificate with respect to such Financial Statements.
- (c) Promptly after preparation (and no later than the later of 15 days (a) after such filing is due or (b) after timely filing, if filed with the SEC), true copies of all regular and periodic reports, proxy statements and filings on Form 8-K furnished by or on behalf of any Company to stockholders generally or filed with the SEC. However, only registration statements covering more than 2% of the Borrower's outstanding shares of common stock shall be required to be furnished unless specifically requested by the Administrative Agent.



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- (d) Promptly upon receipt thereof, copies of any notices received from any Tribunal (including, without limitation, state regulatory agencies) relating to the possible violation or violation of any Law which might have a Material Adverse Effect.
- (e) Notice, promptly after the Borrower knows or has reason to know of, (i) the existence of any material Litigation as defined in Section 3.6, (ii) any material change in any material fact or circumstance represented or warranted in any Loan Paper, or (iii) a Default or Event of Default, specifying the nature thereof and what action the Borrower or any other Company has taken, is taking, or proposes to take with respect thereto.
- (f) Notice, promptly after the Borrower knows or has reason to know of, a Subsidiary Encumbrance, as defined in Section 6.14(b), except with respect to Permitted Refinancing Debt.
- (g) Within 10 days after execution thereof, copies of any supplements, modifications or amendments to the Equity Units documentation.
- (h) Promptly upon the Administrative Agent's or any Lender's reasonable request, such information (not otherwise required to be furnished under the Loan Papers) respecting the business affairs, assets, and liabilities of any Company, and any opinions, certifications, and documents, in addition to those mentioned herein.
- (i) Promptly following receipt thereof, copies of any documents described in sections 101(k) or 101(l) of ERISA that any Company or any ERISA Affiliate may request with respect to any Multiemployer Plan or documents described in Section 101(f) of ERISA that any Company or ERISA Affiliate may request with respect to any Plan; provided, that if the Companies or any of their ERISA Affiliates have not requested such documents or notices from the administrator or sponsor of the applicable Multiemployer Plan, then, upon reasonable request of the Administrative Agent, the Companies and/or their ERISA Affiliates shall promptly make a request for such documents or notices from such administrator or sponsor and the Borrower shall provide copies of such documents and notices to the Administrative Agent promptly after receipt thereof.
- (j) Notice, promptly after any Company or ERISA Affiliate knows or has reason to know of, (i) the failure of any Plan to comply with any material provisions of ERISA and/or the Code (and applicable regulations under either) or with the material terms of such Plan; (ii) the failure of any Plan to meet the minimum funding standards (within the meaning of Section 412 of the Code or section 302 of ERISA) applicable to such Plan (whether or not waived), the filing pursuant to section 412(c) of the Code or section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, or the receipt by any Plan of a determination that it is, or is expected to be in "at risk" status (within the meaning of section 430 of the Code or Section 303 of ERISA); (iii) the incurrence by any Company or ERISA Affiliate of liability to the PBGC in connection with any Plan; (iv) the withdrawal (in whole or in part) by any Company or ERISA Affiliate from participation in a Plan or Multiemployer Plan or receipt by any Company or ERISA Affiliate of notice from any Multiemployer Plan with respect to the imposition of Withdrawal Liability or that such Multiemployer Plan is, or is expected to be, Insolvent, in Reorganization, "terminated" (within the meaning of section 4041A of ERISA), or in "endangered" or "critical" status (within the meaning of section 432 of the Code or section 305 of ERISA); (v) the occurrence of a non-exempt Prohibited Transaction or a Reportable Event (excluding any Reportable Event that occurs solely as a result of the consummation of this Agreement); or (vi) the failure of any insured medical plan sponsored by any Company for any current or former employee(s) to satisfy the non-discrimination requirements of section 105 of the Code.
- (k) Concurrently with the delivery of any Financial Statements pursuant to clause (a) or (b) above, a list of the Guarantor Significant Subsidiaries as of the last day of the relevant fiscal period.

(l) Notice, promptly after the Borrower knows or has reason to know of the acquisition of one more Excluded Specified Subsidiaries.

Financial statements, opinions of independent certified public accountants, other information and officers' certificates required to be delivered by the Borrower pursuant to Sections 3.4 and 5.3 shall be deemed to have been delivered if any of the following, to the extent applicable, are satisfied: (i) such financial statements satisfying the requirements of Sections 3.4 and 5.3 and related certificate satisfying the requirements of Section 5.3 are delivered to the Lenders by e-mail, (ii) the Borrower shall have timely filed such Form 10-Q or Form 10-K, satisfying the requirements of Section 5.3 as the case may be, with the SEC on "EDGAR" and shall have made such form and the related certificate satisfying the requirements of Section 5.3 available on the Investor Relations portion of its home page on the worldwide web (at the Closing Date located at <http://www.centurylink.com>, (iii) such financial statements satisfying the requirements of Section 5.3 are timely posted by or on behalf of the Company on SyndTrak Online, IntraLinks or on any other similar website to which each Lender has free access or (iv) the Borrower shall have filed any of the items referred to in Section 5.3 with the SEC on "EDGAR" and shall have made such items available on the Investor Relations portion of its home page on the worldwide web or if any of such items are timely posted by or on behalf of the Borrower on IntraLinks or on any other similar website to which each Lender has free access; provided, however, that upon request of any Lender, the Borrower will thereafter deliver written copies of such forms, financial statements, other information and certificates to such Lender.

#### 5.4 Inspection.

The Borrower shall allow the Administrative Agent and each Lender, when the Administrative Agent or such Lender reasonably deems necessary, at such Lender's own expense if no Default then exists, to inspect any of its properties, to review reports, files, and other records and to make and take away copies thereof, to conduct tests or investigations, and to discuss any of its affairs, conditions, and finances with any director, officer, or employee of any Company from time to time, upon reasonable notice during reasonable business hours, or otherwise when reasonably considered necessary.



### 5.5 Taxes .

The Borrower shall promptly pay, or cause to be paid, when due any Taxes of each Company, except those which if unpaid would not have a Material Adverse Effect, Taxes for which the criteria for Permitted Liens have been satisfied and Taxes being contested in good faith by proper proceedings and with respect to which the Borrower shall have, to the extent required by GAAP, set aside on its books, or caused to be set aside on the books of the relevant Company, adequate reserves. No Company shall use any proceeds of Loans to pay the wages of employees unless a timely payment to or deposit with the United States of America of all amounts of Tax required to be deducted and withheld with respect to such wages is also made.

### 5.6 Payment of Obligations .

Each Company shall promptly pay (or renew and extend) all of its material obligations as the same become due except those being contested in good faith by proper proceedings and with respect to which such Company shall have, to the extent required by GAAP, set aside on its books adequate reserves, but no Company will make any voluntary prepayment of the principal of any Funded Debt other than the Obligation, whether subordinate to the Obligation or not, if a Default or Event of Default exists under any Loan Paper.

### 5.7 Expenses .

The Borrower shall promptly pay (a) all reasonable and necessary out-of-pocket costs, fees, and expenses paid or incurred by the Administrative Agent incident to any Loan Paper (including, but not limited to, the reasonable fees and expenses of counsel to the Administrative Agent in connection with the syndication, negotiation, preparation, delivery, execution and administration of the Loan Papers and any related amendment, waiver, or consent); and (b) all reasonable and customary out-of-pocket costs, fees and expenses paid or incurred by the Administrative Agent and any of the Lenders in connection with the enforcement of the obligations of any Company or the exercise of any Rights (including, but not limited to, reasonable attorneys' fees and expenses and court costs), all of which shall be a part of the Obligation. This covenant shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable hereunder.

### 5.8 Maintenance of Existence, Assets, Business, and Insurance .

Except as permitted by Section 6.4, each Company shall at all times (a) maintain its corporate existence and authority to transact business, (b) maintain its good standing in its jurisdiction of incorporation or organization and all other jurisdictions where the failure to so maintain could reasonably be expected to have a Material Adverse Effect, (c) maintain all licenses, permits, and franchises necessary for its business, where the failure to so maintain could reasonably be expected to have a Material Adverse Effect, (d) keep all of its assets which are necessary to its business in good working order and condition (ordinary wear and tear excepted), and make all necessary repairs and replacements thereto, where the failure to so keep and repair could reasonably be expected to have a Material Adverse Effect, and (e) maintain either (i) insurance with such insurers, in such amounts, and covering such risks, as shall be ordinary and customary in the industry or (ii) a comparable self-insurance program.

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#### 5.9Preservation and Protection of Rights.

Each Company shall perform such acts and duly authorize, execute, acknowledge, deliver, file, and record any additional agreements, documents, instruments, and certificates as the Administrative Agent may reasonably deem necessary or appropriate in order to preserve and protect the Rights of the Administrative Agent or the Lenders under any Loan Paper.

#### 5.10Environmental Laws.

Each Company shall conduct its business so as to comply with all applicable Environmental Laws and shall promptly take corrective action to remedy any non-compliance with any Environmental Law, except where failure to so comply or take such action would not reasonably be expected to have a Material Adverse Effect. Each Company shall maintain a system which, in its reasonable business judgment, will assure its continued compliance with Environmental Laws in all material respects.

#### 5.11Environmental Indemnification.

The Borrower shall indemnify, protect, and hold each Indemnified Party harmless from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, claims, proceedings, costs, expenses (including, without limitation, all reasonable attorneys' fees and legal expenses whether or not suit is brought), and disbursements of any kind or nature whatsoever which may at any time be imposed on, incurred by, or asserted against such Indemnified Parties, with respect to or as a direct or indirect result of the violation by any Company of any Environmental Law; or with respect to or as a direct or indirect result of any Company's generation, manufacture, production, storage, release, threatened release, discharge, disposal or presence in connection with its properties of a Hazardous Substance including, without limitation, (a) all damages of any such use, generation, manufacture, production, storage, release, threatened release, discharge, disposal, or presence, or (b) the costs of any required or necessary environmental investigation, monitoring, repair, cleanup, or detoxification and the preparation and implementation of any closure, remedial, or other plans. The provisions of and undertakings and indemnification set forth in this paragraph shall survive the satisfaction and payment of the Obligation and termination of this Agreement for a period of time set forth in the statute of limitations in any applicable Environmental Law.

5.12Designation of Unrestricted Subsidiaries. The board of directors of the Borrower may at any time designate any Subsidiary as an Unrestricted Subsidiary or any Unrestricted Subsidiary as a Subsidiary; provided, that (a) immediately before and after such designation, no Default or Event of Default shall have occurred and be continuing, (b) immediately after giving effect to such designation, the Loan Parties shall be in compliance, on a pro forma basis, with the covenants set forth in Section 6.14 (and, as a condition precedent to the effectiveness of any such designation, the Borrower shall deliver to the Administrative Agent a certificate setting forth in reasonable detail the calculations demonstrating such compliance), (c) no Guarantor may be designated as an Unrestricted Subsidiary, (d) no Unrestricted Subsidiary may at any time Guaranty any Funded Debt of any Company and (e) no Unrestricted Subsidiary that has been designated as a Subsidiary may be subsequently designated as an Unrestricted Subsidiary. The designation of any Subsidiary as an Unrestricted Subsidiary shall constitute an Investment by the Borrower or the relevant Subsidiary therein at the date of designation in an amount equal to the net book value of such Person's investment therein. The designation of any Unrestricted Subsidiary as a Subsidiary shall constitute the incurrence at the time of designation of any Debt of such Subsidiary existing at such time.

5.13Additional Guarantors . At any time after the Closing Date that the Borrower (a) obtains a Below Investment Grade Rating, or (b) fails to maintain compliance with the Priority Debt covenant, (1) any Guarantor Significant Subsidiary that is a Domestic Subsidiary, (2) any Person that becomes a Wholly Owned Subsidiary that is a Guarantor Significant Subsidiary after the occurrence of the events described in clauses (a) or (b) above (which for purposes of this Section 5.13 shall exclude (w) any Excluded Regulated Subsidiary, (x) any person prohibited from incurring any guarantee obligations under any applicable financing obligations, (y) any Unrestricted Subsidiary and (z) any Excluded Specified Subsidiary, in each case unless such Subsidiary ceases to qualify as such), or (3) or any Company that either (i) enters into a Guaranty with respect to Funded Debt of the Borrower or (ii) becomes jointly and severally liable for the Funded Debt of the Borrower, the Borrower shall promptly cause such Guarantor Significant Subsidiary, Person or Company, as the case may be, to deliver to the Administrative Agent a Guarantee Agreement, satisfactory legal opinions and other documentation comparable to the documentation and legal opinions delivered on the Closing Date. Additionally, the Borrower may, in its sole discretion, add any Subsidiary as a Guarantor under this Agreement by causing such Subsidiary to comply with this Section 5.13.

5.14Guarantor Release . If one or more Guarantors has entered into a Guarantee Agreement with respect to this Agreement (a) due to the receipt by the Borrower of a Below Investment Grade Rating and the Borrower subsequently obtains a Debt Rating of at least Baa3 (or the equivalent) by Moody's and a Debt Rating of at least BBB- (or the equivalent) by S&P and Fitch (in each case, with at least stable outlook), each Guarantor shall cease to be a Guarantor under this Agreement and any other Loan Papers (notwithstanding anything to the contrary herein) and the Borrower's obligations under Section 5.13 shall cease or (b) for any other reason and the Borrower subsequently obtains a Debt Rating of at least Baa3 (or the equivalent) by Moody's and a Debt Rating of at least BBB- (or the equivalent) by S&P and Fitch (in each case, with at least stable outlook), each Guarantor may, in the sole discretion of the Borrower, cease to be a Guarantor under this Agreement and any other Loan Papers (notwithstanding anything to the contrary herein) and the Borrower's obligations under Section 5.13 shall cease, provided that, in each case, at such time the Borrower is in compliance with Section 6.15(b).

5.15CoBank Equity .

(a) So long as CoBank is a Lender hereunder, the Borrower will acquire equity in CoBank in such amounts and at such times as CoBank may require in accordance with CoBank's Bylaws and Capital Plan (as each may be amended from time to time), except that the maximum amount of equity that the Borrower may be required to purchase in CoBank in connection with the Loans made by CoBank may not exceed the maximum amount permitted by the Bylaws and the Capital Plan on the Closing Date. The Borrower acknowledges receipt of a copy of (i) CoBank's most recent annual report, and if more recent, CoBank's latest quarterly report, (ii) CoBank's Notice to Prospective Stockholders and (iii) CoBank's Bylaws and Capital Plan, which describe the nature of all of the Borrower's stock and other equities in CoBank acquired in connection with its patronage loan from CoBank (the "CoBank Equities") as well as capitalization requirements, and agrees to be bound by the terms thereof.



(b) Each party hereto acknowledges that CoBank's Bylaws and Capital Plan (as each may be amended from time to time) shall govern (x) the rights and obligations of the parties with respect to the CoBank Equities and any patronage refunds or other distributions made on account thereof or on account of the Borrower's patronage with CoBank, (y) the Borrower's eligibility for patronage distributions from CoBank (in the form of CoBank Equities and cash) and (z) patronage distributions, if any, in the event of a sale of a participation interest. CoBank reserves the right to assign or sell participations in all or any part of its Commitments or outstanding Loans hereunder on a non-patronage basis.

(c) Each party hereto agrees that neither the CoBank Equities nor any accrued patronage shall be offset against the Obligations except that, in the event an Event of Default has occurred and is continuing, CoBank may elect, solely at its discretion, to apply the cash portion of any patronage distribution or retirement of equity to amounts due under this Agreement. The Borrower acknowledges that any corresponding tax liability associated with such application is the sole responsibility of the Borrower. CoBank shall have no obligation to retire the CoBank Equities upon any Event of Default, Default or any other default by the Borrower or any other Loan Party, or at any other time, either for application to the Obligations or otherwise.

5.16 Compliance with Anti-Corruption Laws, Sanctions. The Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and Sanctions to the extent such Anti-Corruption Laws and Sanctions are applicable to the respective business or operations of the Borrower or its Subsidiaries.

## **SECTION 6**

### **NEGATIVE COVENANTS.**

So long as any Loan or other amount is owing to any Lender or the Administrative Agent hereunder, the Borrower covenants and agrees with the Administrative Agent and the Lenders as follows:

#### **6.1 Employee Benefit Plans.**

No Company or ERISA Affiliate will, directly or indirectly, if it would have a Material Adverse Effect, (a) engage in any non-exempt Prohibited Transaction, (b) permit any failure of the minimum funding requirements under the Code or ERISA with respect to any Plan or fail to make any required contribution to a Multiemployer Plan, (c) permit any Plan to be subject to involuntary termination proceedings, (d) permit any Plan to fail to comply with any provisions of ERISA and/or the Code (and applicable regulations under either) or with the material terms of such Plan, (e) fully or partially withdraw from any Plan or Multiemployer Plan, or (f) permit any insured medical plan sponsored by such Company on behalf of any current or former employee(s) to fail to satisfy the non-discrimination requirements of section 105 of the Code.



## 6.2 Liens .

Neither the Borrower nor any of its Subsidiaries will create, incur or suffer or permit to be created or incurred or to exist any Lien (other than Permitted Liens) upon its assets unless the Obligations then outstanding shall be secured by such Lien equally and ratably with any and all obligations and indebtedness secured by such Lien. For purposes of this Section 6.2, any liens securing the senior revolving credit facility between CenturyLink and Wells Fargo Bank, National Association or any refinancing thereof or any agreement that has the effect of re-evidencing, replacing or refinancing the Debt originally incurred thereunder shall not constitute Permitted Liens.

## 6.3 Restricted Payments .

The Borrower will not directly or indirectly make or declare any Restricted Payment unless no Default or Event of Default has occurred and is continuing or would result from such Restricted Payment.

## 6.4 Mergers and Consolidations .

No Company will merge or consolidate with any Person other than:

- (a) any merger or consolidation where the Borrower (or another Company, if the Borrower is not a party thereto) is the surviving corporation;
- (b) any merger of any Subsidiary into another Company;
- (c) any merger of a Subsidiary into another Person (other than the Borrower) if after such merger the surviving entity becomes a Subsidiary;
- (d) any sale of assets permitted by Section 6.7 that is structured as a merger or consolidation;
- (e) any Subsidiary that is not a Guarantor Significant Subsidiary may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders; and
- (f) any Subsidiary may merge into any other Person to the extent the transaction constitutes an Investment permitted by Section 6.5;

provided, that in any such case, immediately after such merger or consolidation, there shall not exist any Default or Event of Default.

## 6.5 Loans, Advances, and Investments .

Except as permitted by Section 6.4(b), no Company will make any loan, advance, extension of credit, or capital contribution to, make any investment in, or purchase or commit to purchase any stock or other securities or evidences of Debt of, or interests in, any other Person (all of the foregoing, “Investments”), other than:

- (d) Investments as of the Closing Date;
- (e) Acquisitions;

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- (f) expense accounts for and other loans and advances to directors, officers, and employees of such Company in the ordinary course of business not to exceed \$1,000,000 in the aggregate outstanding at any time;
- (g)(i) investments in (or secured by) obligations of the United States of America and agencies thereof and obligations guaranteed by the United States of America maturing within one year from the date of acquisition: (ii) commercial paper rated A-2 or better by Moody's or P-2 or better by S&P; (iii) certificates of deposit, time deposits and banker's acceptances which are fully insured by the Federal Deposit Insurance Corporation or are issued by commercial banks organized under the Laws of the United States of America or any state thereof and having combined capital, surplus, and undivided profits of not less than \$100,000,000, and which certificates of deposit have one of the two highest ratings from Moody's or S&P, unless the Borrower has a written commitment to borrow funds from such commercial bank; (iv) repurchase agreements with a term of not more than 30 days for securities described in clause (i) above and entered into with a financial institution satisfying the criteria described in clause (iii) above; (v) in case of any foreign Subsidiary, (A) marketable direct obligations issued by, or unconditionally guaranteed by, sovereign nation in which such Person is organized and is conducting business or issued by any agency of such sovereign nation and backed by full faith and credit of such sovereign nation, in each case maturing within one year from date of acquisition, so long as indebtedness of such sovereign nation is rated at least A by S&P, A2 by Moody's or A mid by Dominion Bond Rating Service Limited or carries an equivalent rating from a comparable foreign rating agency or (B) investments of type and maturity described in (ii) through (iv) above of foreign obligors, which investments or obligors have ratings described in such clauses or equivalent ratings from comparable foreign rating agencies;
- (h) time deposits, banker's acceptances or certificates of deposit issued by any of the Lenders;
- (i) investments having one of the two highest ratings from Moody's or S&P;
- (j) extensions of credit in connection with trade receivables and overpayments of trade payables, in each case resulting from transactions in the ordinary course of business;
- (k) (i) loans, investments and capital contributions from any Company to any other Company, provided that any such loans, investments and capital contributions from any Company to an Excluded Specified Subsidiary shall be (x) solely in the form of loans made in connection with cash management activities in the ordinary course of business and (y) transfers for accounting and tax planning purposes in the ordinary course of business and (ii) Guaranties by any Company of the Debt of any other Company, provided that neither the Borrower nor any of its Subsidiaries (other than the applicable Excluded Specified Subsidiary) shall guarantee Excluded Specified Debt;
- (l) investments in the cash surrender value of life insurance policies issued by Persons with a financial rating from A.M. Best Company (as reported in Best's Insurance Reports) of at least A+; provided, however, that if such Person's financial rating is downgraded to less than A+, then within 90 days following such downgrading, either (i) such cash value life insurance policies will be transferred to another insurance company with a financial rating of at least A+, (ii) such cash value life insurance policies will be collapsed and the cash value thereof will be collected by the investing Company, or (iii) such investment will become an investment subject to the limitations of subparagraph (m) of this Section 6.5;

- (m) the purchase of equity or debt securities of any Company, including the Borrower (but, in the case of equity securities of the Borrower, only to the extent permitted by Section 6.3);
- (n) investments in capital stock or securities of or loans to or Guaranties of the Debt (including Permitted Priority Debt) of any Person engaged in the same or similar line of business as set forth on Schedule 3.17 hereto (or any reasonable extensions or expansions thereof) (i) in which a Company possesses (or will possess after such investment) an equity ownership interest in such Person or (ii) secured by the Borrowers interest in such business;
- (o) in the ordinary course of business, investments in the capital stock of the Rural Telephone Bank, CoBank, or the National Rural Utilities Cooperative Finance Corporation, or any other lender from whom the investing Company is intending to borrow money which requires such Company to make an equity investment in such lender in order to so borrow;
- (p) Guaranties of the Debt of the Borrower's employee stock ownership plan;
- (q) investments in readily marketable money market funds registered under the Investment Company Act of 1940 with an investment policy to hold at least 90% of its assets in cash and securities of a type described in subsections (d), (e) and (f) of this Section 6.5;
- (r) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;
- (s) investments consisting of non-cash consideration with respect to the sale of assets permitted by Section 6.7;
- (t) any acquisition of stock or assets to the extent that the consideration is paid in the capital stock of the Borrower;
- (u) (i) interest rate swap agreements, interest rate cap agreements, interest rate collar agreements or other similar agreements or arrangements, (ii) foreign exchange contracts, currency swap agreements, futures contracts, option contracts, synthetic caps or other similar agreements or arrangements, in each case designed to hedge against fluctuations in interest rates or currency values, respectively, or (iii) collars, caps, spreads and other similar agreements or arrangements, in each case designed to hedge against the total cost and consideration for the conversion of equity linked Debt;
- (v) acquisition of in-region wirelines as part of capital expenditures program; and

(w) any loans, advances, Guaranties, and investments which never exceed in the aggregate at any time 25% of Adjusted Consolidated Net Worth (valued on the basis of original cost, plus subsequent cash and stock additions, less any write-down in value), net of any cash return representing return of capital in respect of any such investment or any cash repayment of any such loans, advances or Guarantees (to the extent funded); provided, however, that the aggregate amount at any time of such loans or advances to, Guaranties of, or investments in any joint venture that is not a Domestic Person, including any such joint venture that qualifies as a Subsidiary, shall not exceed \$750,000,000 (valued on the basis of original cost, plus subsequent cash and stock additions, less any write-down in value), net of any cash return representing return of capital in respect of any such investment or any cash repayment of any such loans or advances or Guarantees (to the extent funded);

provided, that this Section 6.5 shall not restrict the investment by any Company of assets held or managed under any Plan.

#### 6.6 Transactions with Affiliates.

No Company will enter into any material transaction with any of its Affiliates, other than (a) transactions between or among entities each of which is either the Borrower or a Wholly Owned Subsidiary (other than an Excluded Specified Subsidiary), (b) in the case of a transaction between (i) the Borrower and a Subsidiary (other than an Excluded Specified Subsidiary) that is not a Wholly Owned Subsidiary, (ii) Subsidiaries (other than Excluded Specified Subsidiaries) one or both of which is not a Wholly Owned Subsidiary or (iii) between Excluded Specified Subsidiaries, in the case of each of (i), (ii) and (iii), if the Borrower has determined that such transaction is in the best interests of the Borrower, (c) in the case of any other transaction between a Company and (i) a Person that is not a Company (such transaction in the ordinary course of business) or (ii) an Excluded Specified Subsidiary, upon fair and reasonable terms not materially less favorable than such Company could obtain or could become entitled to in an arm's-length transaction with a Person that was not its Affiliate; provided that the covenants in this Section 6.6 shall not apply to any transaction between a Company and an Affiliate that is an Affiliate of the Company solely by virtue of the Company's ownership interest in such Affiliate so long as no other Affiliate that is not also a Company owns any interests in such Affiliate, (d) the incurrence of Debt by an Excluded Specified Subsidiary from the Borrower or a Subsidiary and (e) material transactions otherwise permitted under this Agreement. For purposes of this Section 6.6, such transactions are "material" if they, individually or in the aggregate, require any Company to pay more than the greater of \$250,000,000 or 1% of Consolidated Net Worth over the course of such transactions.

#### 6.7 Sale of Assets.

No Company will sell, lease, or otherwise dispose of all or any substantial part of its assets (including a sale by merger of a Subsidiary with or into another Person) other than:

(c) sales of inventory or investments permitted under Section 6.5(d), (e), (f) and (n) in the ordinary course of business;

(d) sales of equipment for a fair and adequate consideration or disposal of obsolete or worn out equipment; provided, that if any such equipment is sold or otherwise disposed of, and a replacement is necessary for the proper operation of the business of such Company, such Company will replace such equipment with adequate equipment;

- (e) the exchange of assets for assets in a Permitted Line of Business (including securities of an entity that owns assets) of equal or greater value;
- (f) the sale, discount, or transfer of delinquent notes or accounts receivable in the ordinary course of business for purposes of collection;
- (g) sales of accounts receivable and related assets or an interest therein of the type specified in the definition of “Qualified Receivables Transaction” made in connection with a Qualified Receivables Transaction (provided that if at any time the aggregate principal amount of all Qualified Receivables Transactions exceeds \$150,000,000, the Borrower shall prepay the Loans and/or reduce the Total Commitments under and as defined in the Revolving Credit Agreement by the amount of such excess);
- (h) sales of assets from one Company to another Company;
- (i) dispositions of assets pursuant to sale and leaseback transactions so long as, after giving effect thereto and the use of proceeds thereof, the aggregate outstanding amount of Attributable Debt of the Companies shall not exceed the greater of \$250,000,000 or 1% of Consolidated Tangible Assets;
- (j) other dispositions of assets (other than (i) accounts receivable and related assets or (ii) in connection with sale and leaseback transactions); provided, that the Companies shall, within the period of 365 days following the consummation of each such transaction, apply (or cause to be applied) an amount equal to the Net Cash Proceeds of such disposition of assets to either (x) make Eligible Reinvestments or (y) prepay the Loans and/or reduce the Total Commitments under and as defined in the Revolving Credit Agreement; and
- (k) to the extent not already permitted by another subsection of this Section 6.7, sales, transfers and other dispositions of assets (other than (i) accounts receivable and related assets or (ii) in connection with sale and leaseback transactions) that are not permitted by clauses (a) through (h) above; provided, that the cumulative consideration for all assets sold, transferred or otherwise disposed of in reliance on this clause (i) shall not exceed \$200,000,000 or 2 ½ % of the Consolidated Total Assets of the Companies (measured as of the last day of the most recent fiscal quarter for which the relevant financial information is available), whichever is greater, in the aggregate, net of Eligible Reinvestments.





#### 6.8 Compliance with Laws and Documents; Use of Proceeds.

(a) No Company will violate the provisions of any Laws or any Material Agreement if such violation alone, or when aggregated with all other such violations, could reasonably be expected to have a Material Adverse Effect. No Company will violate the provisions of its charter or bylaws or modify, repeal, replace, or amend any provision of its charter or bylaws if such action could reasonably be expected to have a Material Adverse Effect. The Borrower will provide to the Administrative Agent a copy of each document that materially modifies, repeals, replaces, or amends the charter or bylaws of the Borrower.

(b) The Borrower will not request any Borrowing, and the Borrower shall not use, and shall procure that its Subsidiaries and its or their respective directors, officers, employees and agents shall not use, the proceeds of any Borrowing (i) in furtherance of an offer, payment, promise to pay, or authorization of the payment or giving of money, or anything else of value, to any Person in violation of any Anti-Corruption Laws, (ii) for the purpose of funding, financing or facilitating any activities, business or transaction of or with any Sanctioned Person, or in any Sanctioned Country, in each case in any material respect, or (iii) in any manner that would result in the violation of any Sanctions applicable to any party hereto.

#### 6.9 New Businesses.

No Company will engage in any material business other than the businesses in which it is presently engaged or businesses related thereto, as described on Schedule 3.17; provided, that the Borrower and its Subsidiaries may engage in lines of business not described on Schedule 3.17 to the extent the aggregate value of assets contributed to such lines of business, at the time of such contribution, does not exceed 10% of Consolidated Tangible Assets as of the end of any final quarter for which Financial Statements of the Borrower and its Subsidiaries are available.

#### 6.10 Assignment.

No Loan Party will assign or transfer any of its Rights, duties, or obligations under any of the Loan Papers.

#### 6.11 Fiscal Year.

The Borrower will not change its fiscal year without the prior written consent of the Administrative Agent (which shall not be unreasonably withheld).

#### 6.12 Investment Company Status.

No Loan Party will conduct its business in such a way that it will become (a) a “public utility” within the meaning of the Federal Power Act, as amended, (b) an “investment company” within the meaning of the Investment Company Act of 1940, as amended, or (c) an “investment adviser” within the meaning of the Investment Advisers Act of 1940, as amended.

#### 6.13 Reserved.

#### 6.14 Financial Covenants.

(d) As calculated at the end of each fiscal quarter of the Borrower (but computed with respect to EBITDA for the four fiscal quarters ending on the last day of such fiscal quarter), the Borrower shall not permit the ratio of Consolidated Total Funded Debt to Consolidated EBITDA of the Companies to exceed 2.85 to 1.0.

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- (e) As calculated at the end of each fiscal quarter of the Borrower (but computed for the four fiscal quarters ending on the last day of such fiscal quarter), the Borrower shall not permit the ratio of Consolidated EBITDA of the Companies to the sum of (i) consolidated interest expense of the Companies (less any non-cash amounts attributable to amortization of financing costs paid in a previous period) and (ii) dividends declared or paid by any Company (other than to another Company) on its preferred capital stock (but if such dividends are declared and paid during such four-quarter period, the amount shall not be counted twice) to be less than 1.50 to 1.0.

For purposes of this Section 6.14(b), Consolidated EBITDA and interest expense of any Subsidiary which is subject to any Subsidiary Encumbrance, shall be reduced to the extent such Subsidiary is restricted by the Subsidiary Encumbrance. As used in this Section 6.14(b), “Subsidiary Encumbrance” shall mean, so long as a default has occurred and is continuing under the agreement creating such encumbrance or restriction, any encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make any other distributions on its capital stock or any other interest or participation in its profits owned by the Borrower or any Subsidiary of the Borrower, or pay any Debt owed to the Borrower or a Subsidiary of the Borrower, (ii) make loans or advances to the Borrower or any of the Borrower’s Subsidiaries or (iii) transfer any of its properties or assets to the Borrower, except for such encumbrances or restrictions (A) existing on the Closing Date (or any Permitted Refinancing Debt with respect thereto so long as such encumbrances or restrictions are no more restrictive than those contained in the debt being refinanced), (B) arising in connection with loans made to any Company by the Rural Electrification Administration, the Rural Utilities Service, the Rural Telephone Bank, or similar lenders such as the Rural Telephone Finance Cooperative, or (C) now existing or hereafter arising under or by reason of either (x) applicable Law or (y) this Agreement and the other Loan Papers.

Further, for purposes of this Section 6.14, Consolidated Total Funded Debt shall include any Company’s Guaranty of Funded Debt of any Person other than another Company or the Borrower’s employee stock ownership plan. For the first four quarters following any Acquisition, calculations under this Section 6.14 shall be made on a pro forma basis as if the properties acquired in connection with such Acquisition were properties of the Companies during the period of calculation. For the avoidance of doubt, Excluded Specified Subsidiaries are to be included for the purposes of calculating the financial covenants set forth in this Section 6.14.

#### 6.15 Priority Debt.

- (i) At all times occurring after the Closing Date that Guarantors are required to provide Guarantee Agreements pursuant to Section 5.13 but prior to the time that the Guarantors are permitted to be released from their Guarantee Agreements pursuant to Section 5.14, the Borrower shall not at any time permit the aggregate principal amount (without duplication) of (i) all Funded Debt of the Borrower or any of its Subsidiaries secured by Liens permitted by clause (b), (c), (j), (k), (r) (to the extent such Liens are incurred pursuant to clause (r) by a Loan Party in favor of a party that is not a Loan Party), (s) (to the extent replacing a Lien permitted pursuant to a different clause of the definition of “Permitted Liens” listed in this Section 6.15(a)), (t), (w), (x), (y) or (aa) of the definition of “Permitted Liens” plus (ii) all Funded Debt of Subsidiaries of the Borrower, whether or not secured (in the case of both clause (i) (other than Debt of Guarantors) and clause (ii), other than any Permitted Priority Debt) to exceed 15% of Consolidated Tangible Assets determined as of the end of the most recent fiscal quarter for which Financial Statements of the Borrower and its Subsidiaries are available.

(j) In the event that the Guarantors are permitted to be released from their Guarantee Agreements pursuant to Section 5.14, the Borrower shall not at any time thereafter permit the aggregate principal amount (without duplication) of (i) all Funded Debt of the Borrower or any of its Subsidiaries secured by Liens permitted by clause (b), (c), (j), (k), (r) (to the extent such Liens are incurred pursuant to clause (r) by a Loan Party in favor of a party that is not a Loan Party), (s), (t), (w), (x), (y) or (aa) of the definition of “Permitted Liens” plus (ii) all Funded Debt of Subsidiaries of the Borrower, whether or not secured, to exceed 20% of Consolidated Tangible Assets determined as of the end of the most recent fiscal quarter for which Financial Statements of the Borrower and its Subsidiaries are available; provided that if the Borrower fails to meet its obligations under clause (i) and clause (ii) of this Section 6.15(b), it shall have the right, by notice to the Administrative Agent, to reinstate as Guarantors all Persons then constituting Guarantors as defined herein (and thereafter Section 5.13 shall again be in effect), at which time it shall no longer have to comply with its obligations under clause (i) and clause (ii) of this Section 6.15(b).

## **SECTION 7**

### **DEFAULT.**

The term “Event of Default” means the occurrence and continuance of any one or more of the following events (including the passage of time, if any, specified therefor) ( provided, that, if any such event occurs and the Lenders or Majority Lenders, as required by the provisions of Section 10.14, subsequently agree in writing that they will not exercise any remedies hereunder as a result thereof, the occurrence and continuance of such event shall no longer be deemed an Event of Default hereunder insofar as the state of facts giving rise to such event is concerned):

#### **7.1 Payment of Obligation.**

The failure or refusal of the Borrower to pay any portion of the Obligation, as the same become due in accordance with the terms of the Loan Papers and, in the case of an interest payment, such failure or refusal continues for a period of 5 Business Days (no grace period being given for failure or refusal to make a principal payment). Notwithstanding the foregoing, the Borrower’s failure to pay, if caused solely by a wire transfer malfunction or similar problem outside the Borrower’s control, shall not be deemed an Event of Default so long as such failure to pay is promptly corrected.

#### **7.2 Covenants.**

- (e) The failure or refusal of the Borrower (and, if applicable, any other Company) to punctually and properly perform, observe, and comply with any covenant, agreement, or condition contained in Section 5.3(e)(iii) or Section 6.
- (f) The failure or refusal of the Borrower (and, if applicable, any other Company) to punctually and properly perform, observe, and comply with any covenant, agreement, or condition contained in any of the Loan Papers to which such Company is a party, other than covenants to pay the Obligation and the covenants listed in clause (a) preceding, and such failure or refusal continues for 30 days after notice from the Administrative Agent to the Borrower.

#### **7.3 Debtor Relief.**

The Companies shall not be Solvent, or any Company (a) fails to pay its Debts generally as they become due, (b) voluntarily seeks, consents to, or acquiesces in the benefit of any Debtor Relief Law, or (c) becomes a party to or is made the subject of any proceeding provided for by any Debtor Relief Law, other than as a creditor or claimant, that could suspend or otherwise adversely affect the Rights of the Administrative Agent or the Lenders granted in the Loan Papers (unless, in the event such proceeding is involuntary, the petition instituting same is dismissed within 60 days after its filing).

#### 7.4 Attachment.

The failure of any Company to have discharged within 60 days after commencement any attachment, sequestration, or similar proceeding which, individually or together with all such other proceedings then pending, affects assets of such Company having a value (individually or collectively) equal to or more than \$250,000,000 or 1% of Consolidated Net Worth, whichever is greater.

#### 7.5 Payment of Judgments.

Any Company fails to pay any judgments or orders for the payment of money in excess of the greater of \$250,000,000 or 1% of Consolidated Net Worth (individually or collectively) rendered against it or any of its assets and either (a) any enforcement proceedings shall have been commenced by any creditor upon any such judgment or order or (b) a stay of enforcement of any such judgment or order, by reason of pending appeal or otherwise, shall not be in effect prior to the time its assets may be lawfully sold to satisfy such judgment.

#### 7.6 Default Under Other Agreements.

A default exists under any Material Agreement to which any Company is a party, the effect of which is to cause, or which permits the holder thereof (or a trustee or representative of such holder) to cause, unpaid consideration of at least 2% of Consolidated Net Worth (individually or in the aggregate) to become due prior to the stated maturity or prior to the regularly scheduled dates of payment. For the purposes of this paragraph, a default by any Company in the payment of any obligation at its stated maturity date (taking into account any applicable cure period) shall be deemed to have caused such obligation to become due prior to such stated final maturity.



The Administrative Agent or any Lender discovers that any statement, representation, or warranty in the Loan Papers, any Financial Statement of the Borrower, or any writing ever delivered to the Administrative Agent or any Lender pursuant to the Loan Papers is false, misleading, or erroneous when made, deemed made or delivered in any material respect.

#### 7.8ERISA.

Any one or more of the following shall have occurred and be continuing: (a) the failure of any Plan to comply with any provisions of ERISA and/or the Code or with the terms of such Plan, (b) any non-exempt Prohibited Transaction, (c) any Reportable Event, (d) the failure of any Plan to satisfy the minimum funding standards (within the meaning of section 412 of the Code or section 302 of ERISA) applicable to such Plan, whether or not waived, or a filing pursuant to section 412(c) of the Code or section 302(c) of ERISA of an application for a waiver of the minimum funding standards with respect to any Plan, (e) a determination that any Plan is, or is expected to be, in “at risk” status (within the meaning of section 430 of the Code or section 303 of ERISA), (f) the appointment of a trustee by a United States district court to administer any Plan or the institution by the PBGC of proceedings to terminate any Plan, (g) the incurrence by any Company or any ERISA Affiliate of liability under Title IV of ERISA with respect to the termination of any Plan, (h) the incurrence by any Company or any ERISA Affiliate of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan, (i) the receipt by any Company or any ERISA Affiliate of any notice concerning the imposition of Withdrawal Liability or a determination that any Multiemployer Plan is, or is expected to be, Insolvent, in Reorganization, “terminated” (within the meaning of section 4041A of ERISA), or in “endangered” or “critical” status (within the meaning of section 432 of the Code or section 305 of ERISA), or (j) the failure of any insured medical plan sponsored by any Company on behalf of any current or former employee(s) to satisfy the non-discrimination requirements of section 105 of the Code; and in each case in clauses (a) through (j) above, such event or condition, together with all other such events or conditions, if any, would result in a Material Adverse Effect.

#### 7.9Validity and Enforceability of Loan Papers.

Any Loan Paper shall, at any time after its execution and delivery and for any reason, cease to be in full force and effect in any material respect or be declared to be null and void, should the Company fail to cure within five days of discovery by the Company or notice from the Administrative Agent to the Borrower, or the validity or enforceability thereof be contested by any Company party thereto or any Company shall deny that it has any liability or obligations under any Loan Paper to which it is a party.

#### 7.10Change in Control. If an Event of Default occurs pursuant to Section 2.23.

### **SECTION 8**

#### **RIGHTS AND REMEDIES**.

#### 8.1Remedies Upon Event of Default.

(g)Should an Event of Default occur and be continuing under Section 7.3, the entire unpaid balance of the Obligation shall automatically become due and payable without any action of any kind whatsoever.

(h)Should any other Event of Default occur and be continuing, subject to any agreement among the Lenders, the Administrative Agent may (and shall upon the request of the Majority Lenders), at its (or the Majority Lenders’) election, do any one or more of the following: (i) if the maturity



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of the Obligation has not already been accelerated under Section 8.1(a), declare the entire unpaid balance of the Obligation, or any part thereof, immediately due and payable, whereupon it shall be due and payable (and notice of such declaration shall promptly be given thereafter by the Administrative Agent to the Borrower); (ii) reduce any claim to judgment; (iii) exercise (or request each Lender to exercise) the Rights of offset or banker's Lien against the interest of the Borrower in and to every account and other property of the Borrower which are in the possession of any Lender to the extent of the full amount of the Obligation; and (iv) exercise any and all other legal or equitable Rights afforded by the Loan Papers, the Laws of the State of New York or any other jurisdiction as the Administrative Agent shall deem appropriate, or otherwise, including, but not limited to, the Right to bring suit or other proceedings before any Tribunal either for specific performance of any covenant or condition contained in any of the Loan Papers or in aid of the exercise of any Right granted to the Lenders in any of the Loan Papers.

#### 8.2 Waivers .

The Borrower hereby waives presentment and demand for payment, protest, notice of intention to accelerate, notice of acceleration, and notice of protest and nonpayment, and agrees that its liability with respect to the Obligation, or any part thereof, shall not be affected by any renewal or extension in the time of payment of the Obligation, by any indulgence, or by any release or change in any security for the payment of the Obligation.

#### 8.3 Performance by Administrative Agent .

If any covenant, duty, or agreement of any Company is not performed in accordance with the terms of the Loan Papers, the Administrative Agent may, at its option (but subject to the approval of the Majority Lenders), perform or attempt to perform such covenant, duty, or agreement on behalf of such Company. In such event, any amount expended by the Administrative Agent in such performance or attempted performance shall be reasonable, payable by the Borrower to the Administrative Agent on demand, shall become part of the Obligation, and shall bear interest at the Default Rate from the date of such expenditure by the Administrative Agent until paid. Notwithstanding the foregoing, it is expressly understood that the Administrative Agent does not assume and shall never have, except by its express written consent, any liability or responsibility for the performance of any covenant, duty, or agreement of any Company.

#### 8.4 Delegation of Duties and Rights .

The Administrative Agent and the Lenders may perform any of their duties or exercise any of their Rights under the Loan Papers by or through the Administrative Agent and their and the Administrative Agent's officers, directors, employees, attorneys, agents, or other representatives.

#### 8.5 Lenders Not in Control .

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None of the covenants or other provisions contained in this Agreement or in any other Loan Paper shall, or shall be deemed to, give the Administrative Agent or the Lenders the Right to exercise control over the assets (including, without limitation, real property), affairs, or management of any Company, the power of the Administrative Agent and the Lenders being limited to the Right to exercise the remedies provided in this Section 8.

#### 8.6 Waivers by Lenders.

The acceptance by the Administrative Agent or the Lenders at any time and from time to time of partial payment on the Obligation shall not be deemed to be a waiver of any Event of Default then existing. No waiver by the Administrative Agent, the Majority Lenders, or all of the Lenders of any Event of Default shall be deemed to be a waiver of any other then-existing or subsequent Event of Default. No delay or omission by the Administrative Agent, the Majority Lenders, or all of the Lenders in exercising any Right under the Loan Papers shall impair such Right or be construed as a waiver thereof or any acquiescence therein, nor shall any single or partial exercise of any such Right preclude other or further exercise thereof, or the exercise of any other Right under the Loan Papers or otherwise.

#### 8.7 Cumulative Rights.

All Rights available to the Administrative Agent and the Lenders under the Loan Papers are cumulative of and in addition to all other Rights granted to the Administrative Agent and the Lenders at law or in equity, whether or not the Obligation is due and payable and whether or not the Administrative Agent or the Lenders have instituted any suit for collection, foreclosure, or other action in connection with the Loan Papers.

#### 8.8 Application of Proceeds.

Any and all proceeds ever received by the Administrative Agent or the Lenders from the exercise of any Rights pertaining to the Obligation shall be applied to the Obligations first, to pay incurred and unpaid fees and expenses of the Administrative Agent under the Loan Papers and second, ratably to pay all other Obligations.

#### 8.9 Certain Proceedings.

The Borrower will promptly execute and deliver or cause the execution and delivery of, all applications, certificates, instruments, registration statements, and all other documents and papers the Administrative Agent or the Lenders may reasonably request in connection with the obtaining of any consent, approval, registration, qualification, permit, license, or authorization of any other Tribunal or other Person necessary or appropriate for the effective exercise of any Rights under the Loan Papers. Because the Borrower agrees that the Administrative Agent's and the Lenders' remedies at Law for failure of the Borrower to comply with the provisions of this paragraph would be inadequate and that such failure would not be adequately compensable in damages, the Borrower agrees that the covenants of this paragraph may be specifically enforced.

#### 8.10 Setoff.

If an Event of Default shall have occurred and is continuing, each Lender is hereby authorized at any time and from time to time, without prior notice to the Borrower (any such notice being hereby expressly waived by the Borrower), to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and any other indebtedness at any time owing by such Lender to or for the credit or the account of the



Borrower against any portion of the Obligation owing to such Lender, irrespective of whether or not all of the Obligation, or any part thereof, shall be then due. Each Lender agrees promptly to notify the Borrower (with a copy to the Administrative Agent) after any such setoff and application; provided, that the failure to give such notice shall not affect the validity of such setoff and application. The rights and remedies of each Lender hereunder are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Lender may have.

## **SECTION 9**

### **THE ADMINISTRATIVE AGENT.**

#### **9.1 Appointment.**

Each Lender hereby irrevocably designates and appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Papers, and each such Lender irrevocably authorizes the Administrative Agent, in such capacity, to take such action on its behalf under the provisions of this Agreement and the other Loan Papers and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement and the other Loan Papers, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Paper or otherwise exist against the Administrative Agent.

#### **9.2 Delegation of Duties.**

The Administrative Agent may execute any of its duties under this Agreement and the other Loan Papers by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

#### **9.3 Exculpatory Provisions.**

Neither the Administrative Agent nor any of its respective officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (a) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement or any other Loan Paper (except to the extent that any of the foregoing are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from its or such Person's own gross negligence or willful misconduct) or (b) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by any Company or any officer thereof contained in this Agreement or any other Loan Paper or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Paper or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Paper or for any failure of any Company a party thereto to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Paper, or to inspect the properties, books or records of any Company.

#### **9.4 Reliance by Administrative Agent.**

The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any instrument, writing, resolution, notice, consent, certificate, affidavit, letter, telecopy or e-mail message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel

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(including counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Paper unless it shall first receive such advice or concurrence of the Majority Lenders (or, if so specified by this Agreement, all Lenders) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Papers in accordance with a request of the Majority Lenders (or, if so specified by this Agreement, all Lenders), and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

#### 9.5 Notice of Default.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a “notice of default.” In the event that the Administrative Agent receives such a notice, the Administrative Agent shall promptly give notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Majority Lenders (or, if so specified by this Agreement, all Lenders); provided, that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders.



#### 9.6 Non-Reliance on the Administrative Agent and Other Lenders.

Each Lender expressly acknowledges that neither the Administrative Agent nor any of their respective officers, directors, employees, agents, advisors, attorneys-in-fact or affiliates have made any representations or warranties to it and that no act by the Administrative Agent hereafter taken, including any review of the affairs of a Company or any affiliate of a Company, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Companies and their affiliates and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Papers, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Companies and their affiliates. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of any Company or any affiliate of a Company that may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, advisors, attorneys-in-fact or affiliates.

#### 9.7 Indemnification.

The Lenders agree to indemnify the Administrative Agent, the Lead Arranger and their respective officers, directors, employees, partners, affiliates, agents, advisors and controlling persons (each, an “Agent Indemnitee”) (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Term Percentages in effect on the date on which indemnification is sought under this Section (or, if indemnification is sought after the date upon which the Loans shall have been paid in full, ratably in accordance with such Term Percentages immediately prior to such date), from and against any and all liabilities, obligations, losses, damages, claims, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever (including reasonable fees, disbursements, settlement costs and other charges of legal counsel) that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent Indemnitee in any way relating to or arising out of, the Loans, this Agreement, any of the other Loan Papers or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by such Agent Indemnitee under or in connection with any of the foregoing; provided, that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, claims, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and nonappealable decision of a court of competent jurisdiction to have resulted from such Agent Indemnitee’s fraud, gross negligence or willful misconduct. The agreements in this Section shall survive the termination of this Agreement and payment of the Loans and all other amounts payable hereunder.

#### 9.8 Administrative Agent in its Individual Capacity .

The Administrative Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with any Company as though such Administrative Agent were not an Administrative Agent. With respect to its Loans made or renewed by it, the Administrative Agent shall have the same rights and powers under this Agreement and the other Loan Papers as any Lender and may exercise the same as though it were not an Administrative Agent, and the terms “Lender” and “Lenders” shall include the Administrative Agent in its individual capacity.

#### 9.9 Successor Administrative Agent .

The Administrative Agent may resign as Administrative Agent upon 10 days’ notice to the Lenders and the Borrower. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the other Loan Papers, then the Majority Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall (unless an Event of Default under Section 7.1 or Section 7.3 with respect to the Borrower shall have occurred and be continuing) be subject to approval by the Borrower (which approval shall not be unreasonably withheld or delayed), whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term “Administrative Agent” shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent’s rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Loans. If no successor agent has accepted appointment as Administrative Agent by the date that is 10 days following a retiring Administrative Agent’s notice of resignation, the retiring Administrative Agent’s resignation shall nevertheless thereupon become effective, and the Lenders shall assume and perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Majority Lenders appoint a successor agent as provided for above. After any retiring Administrative Agent’s resignation as Administrative Agent, the provisions of this Section 9 shall continue to inure to its benefit.

### SECTION 10

#### MISCELLANEOUS.

##### 10.1 Reserved.

##### 10.2 Money and Interest.

Unless stipulated otherwise (a) all references in any of the Loan Papers to “dollars,” “money,” “payments,” or other similar financial or monetary terms are references to currency of the United States of America and (b) all references to interest are to simple and not compound interest.



### 10.3 Number and Gender of Words .

Whenever in any Loan Paper the singular number is used, the same shall include the plural where appropriate, and vice versa; and words of any gender in any Loan Paper shall include each other gender where appropriate. The words “herein,” “hereof,” and “hereunder,” and other words of similar import refer to the relevant Loan Paper as a whole and not to any particular part or subdivision thereof.

### 10.4 Headings .

The headings, captions, and arrangements used in any of the Loan Papers are, unless specified otherwise, for convenience only and shall not be deemed to limit, amplify, or modify the terms of the Loan Papers, nor affect the meaning thereof.

### 10.5 Exhibits .

If any Exhibit, which is to be executed and delivered, contains blanks, the same shall be completed correctly and in accordance with the terms and provisions contained and as contemplated herein prior to, at the time of, or after the execution and delivery thereof.

### 10.6 Notices .

All notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered, or three Business Days after being deposited in the mail, postage prepaid, or, in the case of telecopy notice, when received, addressed as follows in the case of the Borrower and the Administrative Agent, and as set forth in an administrative questionnaire delivered to the Administrative Agent in the case of the Lenders, or to such other address as may be hereafter notified by the respective parties hereto:

Borrower: Qwest Corporation

100 CenturyLink Drive  
Monroe, Louisiana 71203  
Attn: R. Stewart Ewing, Jr.  
Telecopy: (318) 362-1728  
Telephone: (318) 388-9512  
Qwest Corporation  
100 CenturyLink Drive  
Monroe, Louisiana 71203  
Attn: Glynn E. Williams  
Telecopy: (318) 430 5401  
Telephone: (318) 388-9069

with a copy to:

Qwest Corporation  
100 CenturyLink Drive  
Monroe, Louisiana 71203  
Attn: Stacey W. Goff  
Telecopy: (318) 388-9488]  
Telephone: (318) 388-9539]

Administrative Agent:

CoBank, ACB  
900 Circle 75 Parkway  
Suite 1400

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Atlanta, Georgia 30339-5946  
Attn: Communications Banking Group  
Telecopy: (770) 618-3202  
Telephone: (770) 618-3200  
CoBank, ACB  
5500 S. Quebec Street  
Greenwood Village, Colorado 80111  
Attn: Syndication Loan Accounting  
Telecopy: (303) 740-4021  
Telephone: (303) 740-6447

with a copy to:

provided, that any notice, request or demand to or upon the Administrative Agent or the Lenders shall not be effective until received.

Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided, that the foregoing shall not apply to notices pursuant to Section 2 unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided, that approval of such procedures may be limited to particular notices or communications.

#### 10.7 Exceptions to Covenants.

The Borrower shall not take any action or fail to take any action which is permitted as an exception to any of the covenants contained in any of the Loan Papers if such action or omission would result in the breach of any other covenant contained in any of the Loan Papers.

#### 10.8 Survival.

All covenants, agreements, undertakings, representations, and warranties made in any of the Loan Papers (a) shall survive all closings under the Loan Papers, (b) except as otherwise indicated, shall not be affected by any investigation made by any party, and (c) unless otherwise provided herein shall terminate upon the later of the termination of this Agreement and the payment in full of the Obligation.

#### 10.9 Governing Law.

THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.



#### 10.10 Submission to Jurisdiction; Waivers.

The Borrower hereby irrevocably and unconditionally:

- (f) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Papers to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States for the Southern District of New York, and appellate courts from any thereof;
- (g) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;
- (h) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower, as the case may be at its address set forth in Section 10.6 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;
- (i) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and
- (j) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

#### 10.11 WAIVERS OF JURY TRIAL.

THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN PAPER AND FOR ANY COUNTERCLAIM THEREIN.

#### 10.12 Severability.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

#### 10.13 Integration.

This Agreement and the other Loan Papers represent the entire agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the other Loan Papers.



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10.14 Amendments, Etc.

Neither this Agreement, any other Loan Paper, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this Section 10.14. The Majority Lenders and each Loan Party to the relevant Loan Paper may, or, with the written consent of the Majority Lenders, the Administrative Agent and each Loan Party party to the relevant Loan Paper may, from time to time, (a) enter into written amendments, supplements or modifications hereto and to the other Loan Papers for the purpose of adding any provisions to this Agreement or the other Loan Papers or changing in any manner the rights of the Lenders or of the Loan Parties hereunder or thereunder or (b) waive, on such terms and conditions as the Majority Lenders or the Administrative Agent, as the case may be, may specify in such instrument, any of the requirements of this Agreement or the other Loan Papers or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (i) forgive or reduce the principal amount or extend the final scheduled date of maturity of any Loan, reduce the stated rate of any interest or margin payable hereunder (except in connection with the waiver of applicability of any post-default increase in interest rates (which waiver shall be effective with the consent of the Majority Lenders)), extend the scheduled date of any payment thereof, increase the amount or extend the expiration date of any Lender's Commitment or amend, modify or waive any provision of Section 2.13 or 2.14, in each case without the written consent of each Lender and Voting Participant directly affected thereby; (ii) eliminate or reduce the voting rights of any Lender or Voting Participant under this Section 10.14 without the written consent of such Lender or Voting Participant; (iii) reduce any percentage specified in the definition of Majority Lenders or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement and the other Loan Papers or release all or substantially all of the Guarantors from their obligations under the Guarantee Agreement, in each case without the written consent of all Lenders and Voting Participants; or (iv) amend, modify or waive any provision of Section 9 without the written consent of the Administrative Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Loan Parties, the Lenders, the Administrative Agent and all future holders of the Loans. In the case of any waiver, the Companies, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Loan Papers, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) with the written consent of the Majority Lenders, the Administrative Agent and the Borrower (a) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement and the other Loan Papers with the aggregate principal amount of the Loans then outstanding and the accrued interest and fees in respect thereof and (b) to include appropriately the Lenders holding such credit facilities in any determination of the Majority Lenders.

Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) by the Administrative Agent, with the consent of the Borrower, and without the consent of any Lender, in order to correct, amend or cure any ambiguity, inconsistency or defect or correct any typographical error or other manifest error.

#### 10.15 Waivers.

No course of dealing nor any failure or delay by the Administrative Agent, any Lender, or any of their respective officers, directors, employees, agents, representatives, or attorneys with respect to exercising any Right of the Lenders hereunder shall operate as a waiver thereof. A waiver must be in writing and signed by the Lenders (or the Majority Lenders to the extent permitted hereunder) to be effective, and such waiver will be effective only in the specific instance and for the specific purpose for which it is given.

#### 10.16 Governmental Regulation.

Anything contained in this Agreement to the contrary notwithstanding, the Lenders shall not be obligated to extend credit to the Borrower in violation of any Law.

#### 10.17 Multiple Counterparts.

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed signature page of this Agreement by email or facsimile transmission shall be effective as delivery of a manually executed counterpart hereof. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

#### 10.18 Successors and Assigns; Participations; Assignments.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (each, an “Assignee”) all or a portion of its rights and obligations under this Agreement (including all or a portion of the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower; provided, that no consent of the Borrower shall be required for an assignment to a Lender, an affiliate of a Lender, an Approved Fund (as defined below) or, if an Event of Default has occurred and is continuing, any other Person; and provided, further, that the Borrower shall be deemed to have consented to any such assignment unless the Borrower shall object thereto by written notice to the Administrative Agent within ten days after having received notice thereof; and

(B) the Administrative Agent;

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender, an affiliate of a Lender or an Approved Fund or an assignment of the entire remaining amount of the assigning Lender's Loans, the amount of the Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent; provided, that (1) no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing and (2) such amounts shall be aggregated in respect of each Lender and its affiliates or Approved Funds, if any;



- (B)(1) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500 and (2) the assigning Lender shall have paid in full any amounts owing by it to the Administrative Agent;
- (C) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an administrative questionnaire;
- (D) unless otherwise agreed by the Borrower, the Assignee shall either (1) be a “U.S. Person” as defined in Section 7701(a)(30) of the Code or (2) have delivered the documents required by Section 2.19(d);
- (E) in the case of an assignment to a CLO (as defined below), unless such assignment (or an assignment to a CLO managed by the same manager or an Affiliate of such manager) shall have been approved by the Borrower (the Borrower agreeing that such approval, if requested, will not be unreasonably withheld or delayed) the assigning Lender shall retain the sole right to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Papers, provided, that the Assignment and Assumption between such Lender and such CLO may provide that such Lender will not, without the consent of such CLO, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 10.14 and (2) directly affects such CLO; and
- (F) no assignment shall be made to (i) a natural person, (2) the Borrower or (3) any of the Borrower’s Affiliates, Subsidiaries or Unrestricted Subsidiaries.

For the purposes of this Section 10.18, the terms “Approved Fund” and “CLO” have the following meanings:

“ Approved Fund ” means (a) a CLO and (b) with respect to any Lender that is a fund, which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an affiliate of such investment advisor.

“ CLO ” means any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an affiliate of such Lender.

- (iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) below, from and after the effective date specified in each Assignment and Assumption the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender’s rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.10, 2.12, 2.19 and 10.22). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.18 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.
- (iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the “ Register ”). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an Assignee, the Assignee's completed administrative questionnaire (unless the Assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (a " Participant ") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of the Loans owing to it; provided, that (A) such Lender's obligations under this Agreement shall remain unchanged. (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided, that such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that (1) requires the consent of each Lender directly affected thereby pursuant to the proviso to the second sentence of Section 10.14 and (2) directly affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.10, 2.12 and 2.19 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 8.10 as though it were a Lender; provided, that such Participant shall be subject to Section 2.14 as though it were a Lender. Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, solely for tax purposes, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Papers (the " Participant Register "); provided, that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant's interest in any Loans or its other obligations under any Loan Paper) except to the extent that such disclosure is necessary to establish that such Loan or other obligation is in registered form under Section 5f. 103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.10 or 2.19 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent.

- (d) Notwithstanding anything in Section 10.18(c) to the contrary, any Farm Credit Lender that (i) has purchased a participation in the minimum aggregate amount of \$5,000,000 on or after the Closing Date, (ii) is, by written notice to the Borrower and the Administrative Agent (“Voting Participant Notification”), designated by the selling Lender (including any existing Voting Participant) as being entitled to be accorded the rights of a Voting Participant hereunder and (iii) receives the prior written consent of the Borrower and the Administrative Agent, which consent, in each case, shall not be unreasonably withheld, delayed or conditioned, to become a Voting Participant (such consent to be required only to the extent and under the circumstances it would be required if such Voting Participant were to become a Lender pursuant to an assignment in accordance with Section 10.18(b)) (any Farm Credit Lender so designated and consented to being called a “Voting Participant”), shall be entitled to vote for so long as such Farm Credit Lender owns such participation and notwithstanding any sub-participation by such Farm Credit Lender (and the voting rights of the selling Lender (including any existing Voting Participant) shall be correspondingly reduced), on a dollar for dollar basis, as if such participant were a Lender, on any matter requiring or allowing a Lender to provide or withhold its consent, or to otherwise vote on any proposed action. To be effective, each Voting Participant Notification shall, with respect to any Voting Participant, (x) state the full name, as well as all contact information required of an assignee in an Assignment and Assumption and (y) state the dollar amount of the participation purchased in any or all of its Loans. Notwithstanding the foregoing, each Farm Credit Lender designated as a Voting Participant on Schedule 10.18 hereto shall be deemed a Voting Participant without delivery of a Voting Participant Notification and without the prior written consent of the Borrower or the Administrative Agent. The selling Lender (including any existing Voting Participant) and the purchasing Voting Participant shall notify the Administrative Agent and the Borrower within 3 Business Days’ of any termination of, or reduction or increase in the amount of, such participation. The Borrower and the Administrative Agent shall be entitled to conclusively rely on information contained in notices delivered pursuant to this paragraph or on Schedule 10.18. The voting rights hereunder are solely for the benefit of the Voting Participant and shall not inure to any assignee or participant of the Voting Participant that is not a Farm Credit Lender.
- (e) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided, that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or Assignee for such Lender as a party hereto.
- (f) The Borrower, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (d) above.

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10.19 Confidentiality.

- (a) No Lender will use confidential information obtained from the Borrower by virtue of the transactions contemplated hereby or its other relationships with the Borrower in connection with the performance by such Lender of services for other companies that are not affiliates of such Lender, and no Lender will furnish any such information to such other companies. The Borrower acknowledges that no Lender has any obligation to use in connection with the transactions contemplated hereby, or to furnish to the Borrower, confidential information obtained from other companies.
- (b) Each Lender agrees to keep confidential, and not to publish, disclose or otherwise divulge to anyone (and to cause their respective officers, directors, employees, agents and representatives to keep confidential, and not to publish, disclose or otherwise divulge to anyone) all information with respect to the Companies, including all financial information and projections or all other information (the “Confidential Information”) except that the Lenders shall be permitted to disclose Confidential Information: (i) to the Administrative Agent, any other Lender or any affiliate thereof, (ii) to their respective officers, directors, employees, agents, advisors, attorneys, accountants and representatives on a “need-to-know” basis in connection with the respective roles of the Lenders described herein, provided, that the Lenders implement reasonable precautions to prevent disclosure by any such personnel, (iii) to the extent required by applicable laws and regulations or requested or required in connection with any litigation or other legal process, provided, that the Lenders will use reasonable efforts to provide the Borrower with a reasonable opportunity to challenge the disclosure and request confidentiality protection for any Confidential Information that is required to be disclosed, (iv) subject to an agreement to comply with the provisions of this Section, to (A) actual or prospective transferees or (B) any direct or indirect counterparty to any Swap Agreement (or any professional advisor to such counterparty), (v) to the extent requested by any regulatory authority or self-regulatory body with jurisdiction or oversight over any Lender or any Affiliate of any Lender, (vi) to the extent such Confidential Information (A) becomes publicly available other than as a result of a breach of this agreement known to the disclosing Lender, (B) becomes available to such Lender on a non-confidential basis from a source other than the Borrower or (C) was available to such Lender on a non-confidential basis prior to its disclosure by the Borrower, (vii) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender’s investment portfolio in connection with ratings issued with respect to such Lender, or (viii) to the extent the Borrower shall have consented to such disclosure. Notwithstanding anything to the contrary contained above, the Lenders shall be entitled to use the Confidential Information in exercising remedies under this Agreement or any other Loan Paper.



**10.20**Patriot Act .

The Administrative Agent and the Lenders hereby notifies the Borrower that, pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law on October 26, 2001) (the “Patriot Act”), it is required to obtain, verify and record information that identifies the Borrower, which information includes names and addresses and other information that will allow the Administrative Agent or Lender to identify the Borrower in accordance with the Patriot Act.

**10.21**Conflicts and Ambiguities .

Any conflict or ambiguity between the terms and provisions herein and terms and provisions in any other Loan Paper shall be controlled by the terms and provisions herein.



10.22 GENERAL INDEMNIFICATION.

THE BORROWER SHALL INDEMNIFY, PROTECT, AND HOLD THE ADMINISTRATIVE AGENT, THE LEAD ARRANGER AND THE LENDERS AND THEIR RESPECTIVE PARENTS, SUBSIDIARIES, AFFILIATES, DIRECTORS, OFFICERS, EMPLOYEES, REPRESENTATIVES, PARTNERS, ADVISORS, AGENT, SUCCESSORS, ASSIGNS, AND ATTORNEYS (COLLECTIVELY, THE “ INDEMNIFIED PARTIES ”) HARMLESS FROM AND AGAINST ANY AND ALL LIABILITIES, OBLIGATIONS, LOSSES, DAMAGES, PENALTIES, ACTIONS, JUDGMENTS, SUITS, CLAIMS, COSTS, EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS’ FEES AND LEGAL EXPENSES WHETHER OR NOT SUIT IS BROUGHT AND SETTLEMENT COSTS), AND DISBURSEMENTS OF ANY KIND OR NATURE WHATSOEVER WHICH MAY BE IMPOSED ON, INCURRED BY, OR ASSERTED AGAINST EACH INDEMNIFIED PARTY. IN ANY WAY RELATING TO OR ARISING OUT OF THE LOAN PAPERS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN (COLLECTIVELY, THE “ INDEMNIFIED LIABILITIES ”). TO THE EXTENT THAT ANY OF THE INDEMNIFIED LIABILITIES RESULTS, DIRECTLY OR INDIRECTLY, FROM ANY CLAIM MADE OR ACTION, SUIT, OR PROCEEDING COMMENCED BY OR ON BEHALF OF ANY PERSON OTHER THAN SUCH INDEMNIFIED PARTY; PROVIDED , HOWEVER, THAT ALTHOUGH EACH INDEMNIFIED PARTY SHALL HAVE THE RIGHT TO BE INDEMNIFIED FROM ITS OWN ORDINARY NEGLIGENCE, NO INDEMNIFIED PARTY SHALL HAVE THE RIGHT TO BE INDEMNIFIED HEREUNDER FOR ITS OWN FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT. THE PROVISIONS OF AND UNDERTAKINGS AND INDEMNIFICATION SET FORTH IN THIS PARAGRAPH SHALL SURVIVE THE SATISFACTION AND PAYMENT OF THE OBLIGATION AND TERMINATION OF THIS AGREEMENT FOR THE PERIOD OF TIME SET FORTH IN ANY APPLICABLE STATUTE OF LIMITATIONS.

[Remainder of page left intentionally blank. Signature pages follow.]

EXECUTED as of the day and year first mentioned.

QWEST CORPORATION

By:

Name:

Title:

COBANK, ACB

as Administrative Agent and a Lender

By:

Name:

Title:

Schedule 1.1 - Commitments

Lender	Commitment
CoBank, ACB	\$100,000,000

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Schedule 3.3 – Guarantor Significant Subsidiaries

NONE

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Schedule 3.12 – Transactions with Affiliates

NONE.

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Schedule 3.17 – Business of Companies

The Borrower is an integrated communications company engaged primarily in providing an array of communications services to residential, business, governmental and wholesale customers. The Borrower's communications services include local, broadband, private line (including special access), network access, Ethernet, information technology, wireless and video services. In certain local and regional markets, the Borrower also provides local access and fiber transport services to competitive local exchange carriers.

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Schedule 10.18- Voting Participants

<u>Voting Participant</u>	<u>Commitment</u>
Farm Credit Bank of Texas 4801 Plaza on the Lake Drive Austin, TX 78746 Nicholas King Phone: (512) 465-0294 nicholas.king@farmcreditbank.com	25,000,000.00

## QWEST CORPORATION

## CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Successor				Predecessor	
	Years Ended December 31,			Nine Months Ended December 31,	Three Months Ended March 31,	Year Ended December 31,
	2014	2013	2012	2011	2011	2010
	(Dollars in millions)					
Income before income tax expense	\$ 1,609	1,566	1,391	892	490	1,873
Add: estimated fixed charges	546	557	513	342	171	689
Add: estimated amortization of capitalized interest	8	8	9	7	2	10
Less: interest capitalized	(17)	(17)	(18)	(5)	(3)	(12)
Total earnings available for fixed charges	\$ 2,146	2,114	1,896	1,236	660	2,560
Estimate of interest factor on rentals	\$ 25	26	28	38	18	62
Interest expense, including amortization of premiums, discounts and debt issuance costs	504	514	467	299	150	615
Interest capitalized	17	17	18	5	3	12
Total fixed charges	\$ 546	557	513	342	171	689
Ratio of earnings to fixed charges	3.9	3.8	3.7	3.6	3.9	3.7

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Qwest Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-179888-01) on Form S-3 of Qwest Corporation of our report dated February 27, 2015 with respect to the consolidated balance sheets of Qwest Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, cash flows, and stockholder's equity for each of the years in the three-year period ended December 31, 2014, which report appears in the December 31, 2014 annual report on Form 10-K of Qwest Corporation.

/s/ KPMG LLP

Shreveport, Louisiana  
February 27, 2015

**CERTIFICATION**

I, Glen F. Post, III, certify that:

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

Date: February 27, 2015

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and President

**CERTIFICATION**

I, R. Stewart Ewing, Jr., certify that:

1. I have reviewed this annual report on Form 10-K 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.

Dated: February 27, 2015

/s/ R. Stewart Ewing, Jr.

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

**CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER CERTIFICATION**

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 Annual Report on Form 10-K for the year ended December 31, 2014 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-K 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: February 27, 2015

By: /s/ Glen F. Post, III  
Glen F. Post, III  
Chief Executive Officer and President

Dated: February 27, 2015

By: /s/ R. Stewart Ewing, Jr.  
R. Stewart Ewing, Jr.  
Executive Vice President and Chief Financial Officer