

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. 001-7784

 **CenturyLink™**
CENTURYLINK, INC.
(Exact name of registrant as specified in its charter)

Louisiana (State or other jurisdiction of incorporation or organization)	72-0651161 (I.R.S. Employer Identification No.)
100 CenturyLink Drive, Monroe, Louisiana (Address of principal executive offices)	71203 (Zip Code)
(318) 388-9000 (Registrant's telephone number, including area code)	

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Stock Options

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 ☐ Smaller reporting company ☐
(Do not check if a 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 17, 2015, 566,483,129 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2014 was \$18.0 billion.
DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2015 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

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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 and long-distance, broadband, private line (including special access), Multi-Protocol Label Switching ("MPLS"), data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, video, wireless and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

Based on our approximately 12.4 million total access lines at December 31, 2014, we believe we are the third largest wireline telecommunications company in the United States. We operate 74% of our total access lines in portions of Colorado, Arizona, Washington, Minnesota, Florida, North Carolina, Oregon, Iowa, Utah, New Mexico, Missouri, and Nevada. We also provide local service in portions of Idaho, Ohio, Wisconsin, Virginia, Texas, Nebraska, Pennsylvania, Montana, Alabama, Indiana, Arkansas, Wyoming, Tennessee, New Jersey, South Dakota, North Dakota, Kansas, Louisiana, South Carolina, Michigan, Illinois, Georgia, Mississippi, Oklahoma, and California. In the portion of these 37 states where we have access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2014 we served approximately 6.1 million broadband subscribers. We also operate 58 data centers throughout North America, Europe and Asia.

We were incorporated under the laws of the State of Louisiana in 1968. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

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 ⁽¹⁾	2013 ⁽²⁾	2012
	(Dollars in millions)		
Consolidated statements of operations summary data:			
Operating revenues	\$ 18,031	18,095	18,376
Operating expenses	15,621	16,642	15,663
Operating income	\$ 2,410	1,453	2,713
Net income (loss)	\$ 772	(239)	777

⁽¹⁾ During 2014, we recognized a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 17—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.

⁽²⁾ During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to our then hosting (now business) segment and a litigation settlement charge of \$235 million.

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	\$ 50,147	51,787
Total long-term debt ⁽¹⁾	20,671	20,966
Total stockholders' equity	15,023	17,191

⁽¹⁾ Total long-term debt is the sum of current maturities of long-term debt and long-term debt 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 except for data centers, which are actuals)		
Operational metrics:			
Total broadband subscribers ⁽¹⁾	6,082	5,991	5,851
Total access lines ⁽¹⁾	12,394	13,002	13,751
Total data centers ⁽²⁾	58	55	54

⁽¹⁾ 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.

⁽²⁾ We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located throughout North America, Europe and Asia.

Our methodology for counting access lines, broadband subscribers and data centers 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 total consolidated operating revenues are from customers located in the United States. We estimate that approximately 2% of our consolidated revenues is derived from providing telecommunications and hosting services outside the United States.

Operations

Segments

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as four segments: business, consumer, wholesale and hosting. As a result of this reorganization, we now operate and report the following two segments in our consolidated financial statements:

- Business.* Consists generally of providing strategic, legacy and data integration products and services to enterprise, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our private line (including special access), broadband, Ethernet, MPLS, Voice over Internet Protocol ("VoIP"), network management services, colocation, managed hosting and cloud hosting services. Our legacy services offered to these customers primarily include switched access, long-distance, and local services, including 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; and

- *Consumer.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance service.

The following table shows the composition of our revenues by segment under our current segment categorization for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,			Percent Change	
	2014	2013	2012	2014 vs 2013	2013 vs 2012
Percentage of revenues:					
Business	61%	61%	60%	— %	1 %
Consumer	33%	33%	34%	— %	(1)%
Other operating revenues	6%	6%	6%	— %	— %
Total	100%	100%	100%		

For additional information on our segment data, including information on our certain centrally-managed assets and expenses not reflected in our segment results, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

Products and Services

Our products and services include local and long-distance, broadband, private line (including special access), MPLS, data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, video, wireless and other ancillary services.

We offer our customers the ability to bundle together several products and services. For example, we offer integrated and unlimited local and long-distance services. Our customers can also bundle two or more services such as broadband, video (including DIRECTV through our strategic partnership), voice and Verizon Wireless (through our 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 12.4 million access lines 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

We primarily focus our marketing and sales efforts on our “strategic” services, which are those services for which demand remains strong and that we believe are most important to our future performance. Generally speaking, our strategic services enable our customers to access the Internet, connect to private networks and transmit and store data, and enhance the security, reliability and efficiency of our customers’ communications and data storage. Our strategic services are comprised of the following:

- *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;
- *MPLS.* Multi-Protocol Label Switching is standards-approved data networking technology that we provide to support real-time voice and video. This technology allows network operators flexibility to divert and route traffic around link failures, congestion and bottlenecks;

- *Managed Hosting.* Managed hosting includes provision of centralized information technology ("IT") infrastructure and a variety of managed services including cloud and traditional computing, application management, back-up, storage, and advanced services including planning, design, implementation and support services;
- *Colocation.* Colocation services enable our customers to install their own IT equipment in our state-of-the-art data centers through our centralized IT infrastructure;
- *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;
- *Video.* Our video services include our facilities-based video, marketed as CenturyLink Prism, which is a premium entertainment service that allows our customers to watch hundreds of television or cable channels and record up to four shows on one home digital video recorder. We also offer satellite digital television under an arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name;
- *VoIP.* Voice over Internet Protocol, or VoIP, is a real-time, two-way voice communication service (similar to our traditional voice services) that originates over a broadband connection and often terminates on the PSTN; and
- *Managed Services.* Managed services represents a blend of network, hosting, cloud, and IT services, typically combined with customer premise equipment. These services include development of solutions to customers' communications requirements, end-to-end deployment and the ongoing operation and proactive management of the solution for the customer. Managed services may also include consulting and software development.

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 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;
- *Long-distance Voice Service.* We offer our residential, business and wholesale customers domestic and international long-distance services and toll-free services. Our international long-distance services include voice calls that either terminate or originate with our customers in the United States;
- *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.

Data Integration

Data integration includes the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for our governmental and business customers.

Other Revenues

Other operating revenues include 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.

Additional Information

From time to time, we also make investments in other communications or technology companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

Patents, Trade Names, Trademarks and Copyrights

Either directly or through our subsidiaries, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business, such as our CenturyLink® and Prism® brand names. 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 of this Annual Report, and Note 14—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. Our switched digital television service offering is branded under the name "Prism." The wireless service that we offer under our 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, wholesale and governmental 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. We also market through indirect channels, including collaboration with existing clients and technology providers, telecommunications companies and system integrators.

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 1.1 million miles of copper plant and approximately 177 thousand miles of fiber-optic plant.

Most of our long-distance voice service is provided directly through our own switches and network equipment, with the balance being provided through reselling arrangements with other long-distance carriers. All of our satellite television and wireless voice service is provided by other carriers under agency agreements.

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 several companies we have acquired in the past. 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.

Our telephone operating companies are considered incumbent local exchange carriers ("ILECs"). Historically, 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. 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) administrated 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 \$500 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 \$523 million, \$534 million and \$543 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 2.9%, 3.0% and 3.0% of our 2014, 2013 and 2012 total operating revenues, respectively.

Broadband Regulation

The FCC is contemplating the adoption of 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 proposed a new broadband 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, our telephone operating subsidiaries 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.

Other Regulations

Certain of our telecommunications and hosting services conducted in foreign countries are or may become subject to various foreign laws, including those regulating the protection and retention of data. Some of the legal requirements governing our foreign operations conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks. For additional information, see “Risk Factors—Risks Relating to Recent Acquisitions—Our international operations expose us to various regulatory, currency, tax, legal and other risks."

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. We compete with cable and satellite companies, wireless providers, national telecommunications providers (such as AT&T, Inc. and Verizon Communications Inc.) and a variety of other competitors. 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. In addition, the communications industry has, in recent years, experienced substantial consolidation; and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

Wireless telephone services increasingly constitute a significant source of competition with our ILEC 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. We anticipate this trend will continue, particularly as wireless service 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. 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 voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through reselling an ILEC's local services, through use of an ILEC's unbundled network elements or through their own facilities.

Technological developments have led to the development of new products and services that have reduced the demand for our traditional services, as noted above, or that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively marketed these services. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services. In addition, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster average broadband transmission speeds than ours. Rapid changes in technology are also increasing the competitiveness of the information technology services industry.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Such activities will continue to place downward pressure on the demand for and pricing of our services.

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.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers or alternative access vendors. These systems are capable of originating or terminating calls without use of an ILEC's networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of an ILEC's access lines. We anticipate that all these trends will continue and lead to decreased billable use of our networks.

Additional information about competitive pressures is located (i) under the heading "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this Annual Report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our segments.

Business

Strategic Services

In connection with providing strategic services to our business, wholesale and governmental customers, we compete against other telecommunication providers, as well as other regional and national carriers, other fiber providers, cable companies, CLECs and other enterprises, some of whom are substantially larger than us. The manner in which we compete for broadband customers in this segment is substantially similar to the manner in which we compete for residential customers, as described in the following section. Competition for private line services is based on price, network reach and reliability, service, promotions and bundled offerings. For our wholesale customers, we believe the forecasted growth in fiber-based special access provided to wireline and wireless carriers for backhaul will, over time, ultimately offset the decline in copper-based special access provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain.

Our competitors for providing integrated data, Internet, voice services and other IT services to our business and governmental customers range from mid-sized businesses to large enterprises. Due to the size and capacity of some of these companies, they may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing sophisticated, secure and performance-driven services to our business customers through our global infrastructure.

The number of companies providing business services has grown and increased competition for these services, particularly with respect to smaller business customers. Many of our competitors for 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.

Our competitors for cloud, hosting, colocation and other IT services include telecommunications companies, technology companies, hardware manufacturers and system integrators that support the in-house IT operations for a business or offer outsourcing solutions. Due to the size and capacity of some of these companies, they may be able to offer more inexpensive solutions to our customers. The increase in recent years in the number of companies providing these services has placed substantial downward pressure on pricing for a wide range of cloud, hosting, colocation and other IT services.

Legacy Services

For all the reasons noted in "Business—Competition—Consumer—Legacy Services" we face intense competition in connection with providing our legacy services to our business and governmental customers, and continue to see customers migrating from these services into strategic services. For our wholesale customers, we will continue to be adversely affected by product substitution, technological migration, industry consolidation and mandated rate reductions. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers as well as some of our own wholesale markets customers, many of which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce traffic on our network.

Data Integration

In providing data integration to our business and governmental customers, we compete primarily with large integrators, equipment providers and national telecommunication providers. Competition is based on package offerings, and as such we focus on providing these customers individualized and customizable packages. Our strategy is to provide our data integration through packages that include other strategic and legacy services. As such, in providing data integration we often face many of the same competitive pressures as we face in providing strategic and legacy services, as discussed above.

We expect data integration revenues to continue to fluctuate from quarter to quarter as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our governmental customers. We further expect the profit margins on our data integration offerings to continue to be lower than those of our strategic and legacy services.

Consumer

Strategic Services

With respect to providing our strategic services to residential customers, 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. In providing broadband services, we compete primarily with cable companies, wireless providers, technology companies and other broadband service providers. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Our Prism residential video service faces substantial competition from a variety of competitors, including well-established cable companies, satellite companies and several national companies that deliver content over the Internet and on mobile devices at little or no cost to their customers. Many of our competitors for these strategic services are not subject to the same regulatory requirements as we are, and therefore are able to avoid significant regulatory costs and obligations.

Our strategy for maintaining and increasing our base of broadband customers is based on pricing, packaging of services and features, quality of service and meeting customer care needs. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our network, which allows for the delivery of higher speed broadband services. While traditional ATM-based broadband services are declining, they have been more than offset by growth in fiber-based broadband services. We also continue to expand our marketing and product bundling efforts as we compete in a maturing market in which a significant portion of consumers already have broadband services.

Legacy Services

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 and long distance services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Our strategy to manage access line loss is based primarily on our pricing, packaging of services and features, quality of service and meeting customer care needs. While bundle price discounts have resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention.

Acquisitions

Recent Acquisitions

During the fourth quarter of 2014, we acquired all of the outstanding stock of two companies for total consideration of \$95 million, net of \$2 million acquired cash and including immaterial future cash payments. The valuation for both acquisitions is preliminary and subject to change. During the year ended December 31, 2013, we acquired all of the outstanding stock of two companies for total cash consideration of \$160 million. In each case, the acquisitions were designed to augment our hosting services or our emerging IT services. The acquisitions did not materially impact the consolidated results of operations in either 2014 or 2013 and would not materially impact pro forma results of operations. For more information on the financial impact of these recent acquisitions, see Note 2—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of Part II of this Annual Report.

Historical Acquisitions

On April 1, 2011, we acquired all of the outstanding common stock of Qwest Communications International Inc., a provider of data, broadband, video and voice services nationwide and globally, for aggregate consideration of approximately \$12.3 billion. We assumed approximately \$12.7 billion of long-term debt in connection with our acquisition of Qwest Communications International Inc. In addition, on July 15, 2011, we acquired all outstanding common stock of Savvis, Inc., a provider of cloud hosting, managed hosting, colocation and network services in domestic and international markets, for aggregate consideration of approximately \$2.4 billion.

On July 1, 2009, we acquired all of the outstanding common stock of Embarq Corporation, a provider of data, Internet, video and voice services, for aggregate consideration of \$6.1 billion. We assumed approximately \$4.9 billion of long-term debt in connection with this acquisition.

Potential Acquisitions

We regularly evaluate the possibility of acquiring additional assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement.

Environmental Compliance

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating prior industrial sites or operating 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, but have generally been highest during the third quarter and have been related to damage from severe storms, including hurricanes, tropical storms and tornadoes in our markets along the Atlantic and Gulf of Mexico coastlines.

Employees

At December 31, 2014, we had approximately 45,000 employees, of which approximately 16,000 are members of either the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). 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 our acquisitions, (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 *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*) 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 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 we make any changes (other than by a technical, administrative or non-substantive amendment) to, or provide any waivers from, the provisions of our code of conduct applicable to our directors or executive officers, we intend 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 our guidelines on significant governance issues and the charters of our 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/* 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* 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 its related regulations. In addition, during 2014, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

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, dividend and stock repurchase 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 ability to use our net operating loss carryforwards in projected amounts;
- 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 us;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, 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. 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 (including our dividend or stock repurchase 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.

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.

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 cloud, hosting, collocation and other IT services industries. 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;
- greater use of service bundles; and
- acquisitions to increase our scale and strengthen our product offerings, including new products and services provided by our hosting operations and IT services.

However, some of these strategic services generate lower profit margins than our traditional services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to these newer products. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated from reduced sales of our legacy products. 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 and data hosting centers. 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 we maintain 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, including those resulting from certain incompatibilities between our newer and older systems;
- 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 the networks of companies we have acquired in the past. 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.

Negative publicity may adversely impact us.

Outages or other service failures of networks operated by us or other operators could cause substantial adverse publicity affecting us specifically or our industry generally. In either case, media coverage and public statements that insinuate improper actions by us or other operators, regardless of their factual accuracy or truthfulness, may result in negative publicity, litigation, governmental investigations or additional regulations. Addressing negative publicity and any resulting litigation or investigations may distract management, increase costs and divert resources. Negative publicity may have an adverse impact on our reputation and the morale of our employees, which could adversely affect our business, financial condition or results of operations.

Our future results will suffer if we do not effectively adjust to changes in our business, and will further suffer if we do not effectively manage our expanded operations.

The above-described changes in our industry have placed a higher premium on technological, engineering, product development, marketing and provisioning skills. Our recent acquisitions also significantly changed the composition of our markets and product mix. 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.

We may not be successful in protecting and enforcing our intellectual property rights.

We rely on various patent, copyright, trademark, service mark, trade secret and other similar laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe on our intellectual property. We may be unable to prevent competitors from acquiring proprietary rights that are similar to, infringe upon, or diminish the value of our proprietary rights. Enforcement of our intellectual property rights may also depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.

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” included in Item 7 of Part II of this Annual Report.

We also rely on reseller and sales agency arrangements with 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 (i) software vendors to support our business management systems, (ii) content suppliers to provide programming to our video operations, and (iii) consultants to assist us in connection with our network consolidation initiatives. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, space, utilities or programming on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Reliance on utility providers and landlords. We operate a substantial number of data center facilities, which are susceptible to electrical power shortages or outages. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers. Due to the increasing sophistication of equipment and our products, our demand or our customers’ demand for power may exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers.

We lease most of our data centers. Although the majority of these leases provide us with the opportunity to renew the lease, many of these renewal options provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. If the fair market rental rates are significantly higher than our current rental rates, we may be unable to offset these costs by charging more for our services, which could have a negative impact on our financial results. We cannot assure you that our data centers in the future will have access to sufficient space or power on attractive terms or at all.

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.

Reliance on financial institutions. We rely on several financial institutions to provide us with short-term liquidity under our credit facility. If one or more of these lenders default on their funding commitments, our access to revolving credit could be adversely affected.

Rising costs, changes in consumer behaviors and other industry changes may adversely impact our video business

The costs of purchasing video programming has risen significantly in recent years and continues to rise. Moreover, an increasing number of consumers are receiving access to video content through video streaming or other services pursuant to new technologies for a nominal or no fee, which will likely reduce demand for more traditional video products, such as the satellite TV services that we resell and our Prism TV services.

New technologies are also affecting consumer behavior in ways that are changing how content is viewed and delivered as consumers seek more control over when, where and how they consume content, which may have a negative impact on our satellite TV services and our Prism TV services. Increased access to various media through wireless devices, has the potential to reduce the viewing of our content through traditional distribution outlets, which could adversely affect the demand for our video services. These new technologies have increased the number of entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. Some of these newer technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis. These changes, coupled with changing consumer preferences and other related developments, could reduce the profitability or demand for our video products and services.

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 36% 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.

Our business customers may seek to shift risk to us.

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

Our international operations expose us to various regulatory, currency, tax, legal and other risks.

Our foreign operations are subject to varying degrees of regulation in each of the foreign jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions, and can change significantly over time. Regulations that require the awarding of contracts to local contractors or the employment of local citizens could potentially adversely affect our operations in these jurisdictions. Future regulatory, judicial and legislative changes or interpretations may have a material adverse effect on our ability to deliver services within various foreign jurisdictions.

Many of these foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to content distributed over the Internet. For example, the European Union has enacted a data retention system that, once implemented by individual member states, will involve requirements to retain certain Internet protocol, or IP, data that could have an impact on our operations in Europe. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products we seek to offer.

In addition to these international regulatory risks, some of the other risks inherent in conducting business internationally include:

- tax, licensing, political or other business restrictions or requirements;
- import and export restrictions, including the risk of fines or penalties assessed for violations;
- longer payment cycles and problems collecting accounts receivable;
- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;

- currency restrictions and exchange rate fluctuations;
- the ability to secure and maintain the necessary physical and telecommunications infrastructure;
- the inability in certain jurisdictions to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;
- the inability in certain jurisdictions to adequately protect intellectual property rights;
- laws, policies or practices that restrict with whom we can contract or otherwise limit the scope of operations that can legally or practicably be conducted within any particular country;
- potential submission of disputes to the jurisdiction of a foreign court or arbitration panel;
- limitations in the availability, amount or terms of insurance coverage;
- the imposition of unanticipated or increased taxes, increased communications or privacy regulations or other forms of public or governmental regulation that increase our operating expenses; and
- challenges in staffing and managing foreign operations.

Many of these risks are beyond our control, and we cannot predict the nature or the likelihood of the occurrence or corresponding effect of any such events, each of which could have an adverse effect on our financial condition and results of operations.

Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. In certain instances, these local operators, partners or agents may have interests that are not always aligned with ours. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products, or being held liable under the FCPA or other anti-corruption laws for actions taken by our strategic or local partners or agents even though these partners or agents may not themselves be subject to the FCPA or other applicable anti-corruption laws. Any determination that we have violated the FCPA or other anti-corruption laws could have a material adverse effect on our business, results of operations, reputation or prospects.

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 acquisitions, please see the risks described below under the heading “Risk Factors—Risks Relating to our Recent Acquisitions.”

We may be unable to integrate successfully our recently-acquired operations and realize the anticipated benefits of our recent acquisitions.

Historically, much of our growth has been attributable to acquisitions, including our purchases over the last couple of years of several businesses primarily to augment our hosting services. These acquisitions involved the combination of companies which previously operated as independent companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of CenturyLink and the acquired companies. We may encounter difficulties in the integration process, including the following

- the inability to successfully combine our businesses in the manner contemplated, either due to technological or staffing challenges or otherwise, any of which could increase our acquisition integration costs or result in the anticipated benefits of the acquisitions not being realized partly or wholly in the time frame anticipated or at all;
- the inability to successfully integrate the separate product development and service delivery processes of each of the companies, including delays or limitations in connection with offering existing or new products or services arising out of the multiplicity of different legacy systems, networks and processes used by each of the companies;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from multiple companies, while at the same time attempting to provide consistent, high-quality products and services under a unified culture;
- the difficulties of producing combined financial information concerning a larger, more complex organization using dispersed personnel with different past practices and disparate billing systems, including the attendant risk of errors;

- the complexities of combining companies with different histories, regulatory restrictions, cost structures, products, sales forces, markets, marketing strategies, and customer bases;
- the failure to retain key employees, some of whom could be critical to integrating, operating or expanding the companies;
- potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the acquisitions; and
- performance shortfalls at one or all of the companies as a result of the diversion of management’s attention caused by integrating the companies’ operations.

For all these reasons, you should be aware that our remaining efforts to integrate these companies and businesses could distract our management, disrupt our ongoing business or create inconsistencies in our products, services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of our recent acquisitions, or could otherwise adversely affect our business and financial results.

Any additional future acquisitions by us would subject us to additional business, operating and financial risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure or financial position.

From time to time in the future we may pursue other acquisition or expansion opportunities in an effort to implement our business strategies. These transactions could involve acquisitions of entire businesses or investments in start-up or established companies, and could take several forms, including mergers, joint ventures, investments in new lines of business, or the purchase of equity interests or assets. These types of transactions may present significant risks and uncertainties, including distraction of management from current operations, insufficient revenue acquired to offset liabilities assumed, unexpected expenses, inadequate return of capital, regulatory or compliance issues, potential infringements, potential violations of covenants in our debt instruments and other unidentified issues not discovered in due diligence. To the extent we acquire a business that is financially unstable or is otherwise subject to a high level of risk, we may be affected by the currently unascertainable risks of that business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular business or assets that we may acquire. Moreover, we cannot guarantee that any such transaction will ultimately result in the realization of the benefits of the transaction originally anticipated by us or that any such transaction will not have a material adverse impact on our financial condition or results of operations. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional securities or the borrowing of additional funds. Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

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 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 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 CAF 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. For instance, if enhanced regulation of greenhouse gas emissions increase our energy costs, the profitability of our hosting and other operations could be adversely affected.

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. For a discussion of regulatory risks associated with our international operations, see “Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks.”

“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 of our pending key legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets.

There are several material proceedings pending against us, as described in Note 14—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this Annual Report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. Any of the proceedings described in Note 14 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

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.

We continue to carry significant debt. As of December 31, 2014, our consolidated long-term debt was approximately \$20.7 billion. Approximately \$3.4 billion of our consolidated debt, excluding capital lease and other obligations, matures over the 36 months ending December 31, 2017.

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

- limiting the ability of CenturyLink and its subsidiaries to access the capital markets;
- exposing CenturyLink and its subsidiaries to the risk of credit rating downgrades, as described further below;
- 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, stock repurchases 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 securities or 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.

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

Our debt agreements and the debt agreements of our 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 our 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.

We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities of CenturyLink, Qwest Corporation or both. Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Prevailing market conditions could be adversely affected by 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 our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefitted, on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce our debt obligations.

We may also need to obtain additional financing under a variety of other circumstances, including if:

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;
- we engage in any acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements in one or more of the matters discussed in Note 14—Commitments and Contingencies to our consolidated financial statements included elsewhere in this report.

For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us or at all.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities 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. Certain of 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.

As noted above, If we are unable to make required debt payments or refinance our debt, we would likely have to consider other options, such as selling assets, issuing additional securities, reducing or terminating our dividend payments, cutting costs or otherwise reducing our cash requirements, or negotiating with our lenders to restructure the applicable debt. Our current and future debt instruments may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms or at all.

Any downgrade in the credit ratings of us or our affiliates 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.

Nationally recognized credit rating organizations have issued credit ratings relating to our long-term debt and the long-term debt of several of our subsidiaries. Most of these ratings are below “investment grade”, which results in higher borrowing costs than "investment grade" debt as well as reduced marketability of our debt securities. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency’s judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt or equity securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

Under certain circumstances upon a change of control, we will be obligated to offer to repurchase certain of our outstanding debt securities, which could have certain adverse ramifications.

If the credit ratings relating to certain of our long-term debt securities are downgraded in the manner specified thereunder in connection with a “change of control” of CenturyLink, then we will be required to offer to repurchase such debt securities. If, due to lack of cash, legal or contractual impediments, or otherwise, we fail to offer to repurchase such debt securities, such failure could constitute an event of default under such debt securities, which could in turn constitute a default under other of our agreements relating to our indebtedness outstanding at that time. Moreover, the existence of these repurchase covenants may in certain circumstances render it more difficult or discourage a sale or takeover of us, or the removal of our incumbent directors.

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.

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and their distribution of those earnings to us in the form of dividends, loans or other payments. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing or cash management purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. State law applicable to each of our subsidiaries restricts the amount of dividends that they may pay. Restrictions that have been or may be imposed by state regulators (either in connection with obtaining necessary approvals for our acquisitions or in connection with our regulated operations), and restrictions imposed by credit instruments or other agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included elsewhere in this report for further discussion of these matters.

We cannot assure you that we will continue paying dividends at the current rates or at all.

For the reasons noted below, we cannot assure you that we will continue periodic dividends on our capital stock at the current rates or at all.

As noted in the immediately preceding risk factor, because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to furnish funds to us in the form of dividends, loans or other payments.

Any quarterly dividends on our common stock and our outstanding shares of preferred stock will be paid from funds legally available for such purpose when, as and if declared by our Board of Directors. Decisions on whether, when and in which amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason, including without limitation any of the following:

- our supply of cash or other liquid assets is anticipated to decrease due to our projected payment of higher cash taxes and might decrease further for any of the reasons or potential adverse events or developments described in this report, including (i) changes in competition, regulation, Universal Service support payments, technology, taxes, capital markets, operating costs or litigation costs, or (ii) the impact of any liquidity shortfalls caused by the below-described restrictions on the ability of our subsidiaries to lawfully transfer cash to us;
- our cash requirements or plans might change for a wide variety of reasons, including changes in our capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding payments, or financial position;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and restrictions imposed by our existing or future credit facilities, debt securities, outstanding preferred stock securities, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions described in the immediately preceding risk factor.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock or our outstanding shares of preferred stock for any period for any reason, regardless of whether we have funds legally available for such purposes. Holders of our equity securities should be aware that they have no contractual or other legal right to receive dividends.

Similarly, holders of our common stock should be aware that repurchases of our common stock under our current repurchase plan are completely discretionary, and may be suspended or discontinued at any time for any reason regardless of our financial position.

Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.

The current practice of our Board of Directors to pay common share dividends reflects a current intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us, or at all.

We cannot assure you whether, when or in what amounts we will be able to use our net operating losses, or when they will be depleted.

At December 31, 2014, we had approximately \$1.6 billion of federal net operating losses, or NOLs, which relate primarily to pre-acquisition losses of Qwest. Under certain circumstances, these NOLs can be used to offset our future federal taxable income. Additionally, we had state NOLs of \$12 billion, which have a gross tax benefit of \$528 million.

The acquisitions of Qwest and Savvis caused “ownership changes” under federal tax laws relating to the post-acquisition use of NOLs and other federal tax attributes. As a result, these laws could limit our ability to use the federal NOLs and certain other federal tax attributes. Further limitations could apply if we are deemed to undergo an ownership change in the future. Despite this, we expect, based on current laws and circumstances, to use substantially all of the federal NOLs and other federal tax attributes to reduce our federal tax liability in 2015.

A significant portion of the state NOLs are generated in states where separate company income tax returns are filed and our subsidiaries that generated the losses may not have the ability to generate income in sufficient amounts to realize these losses. In addition, certain of these state NOLs will be limited by state laws related to ownership changes. As a result, we do not expect to utilize a large portion of the state NOLs, and a valuation allowance has been established against the state NOLs in the amount of \$312 million.

Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.

With approximately 45,000 employees, and approximately 67,000 pension retirees and approximately 24,000 former employees with vested benefits participating in our benefit plans as of December 31, 2014, the costs of pension and healthcare benefits for our active and retired employees have a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and discount rates used to calculate the funding status of our pension and other post-retirement plans;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- increasing longevity of our employees and retirees;
- the continuing implementation of the Patient Protection and Affordable Care Act, and the related reconciliation act and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows.

As of December 31, 2014, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 7—Employee Benefits to our consolidated financial statements included in Item 8 of Part II of this Annual Report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations” included in Item 7 of Part II of this Annual Report.

Our cash flows may not be adequate to fund all of our current objectives.

As noted in the foregoing risk factor disclosures, changes in competition, technology, regulation and demand for our legacy services continue to place downward pressure on our consolidated cash flows. We rely upon these cash flows to partially or wholly fund several of our commitments and business objectives, including without limitation funding our capital expenditures, operating costs, share repurchases, dividends, pension funding payments, and debt repayments. We cannot assure you that our future cash flows will be sufficient to fund all of our cash requirements in the manner currently contemplated, especially after we deplete our current net operating loss carryforwards. Our inability to fund certain of these payments could have an adverse impact on our business, operations, competitive position, or the value of our stock.

For additional information concerning our liquidity and capital resources, see Items 7 and 8 of Part II of this Annual Report. For a discussion of certain currency and liquidity risks associated with our international operations, see "Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks."

Other Risks

We face hurricane and other natural disaster risks, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.

A substantial number of our facilities are located in Florida, Alabama, Louisiana, Texas, North Carolina, South Carolina and other coastal states, which subjects them to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our plant (excluding our outside plant) and may under certain circumstances be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such hurricanes and natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for hazard-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles and to provide for premium adjustments based on claims. Moreover, we do not carry insurance against all types of losses. For instance, we are not insured for loss of use of all our outside plant, business interruption or terrorism. For all these reasons, any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

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 54% 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 (most recently for the third quarter of 2013), we have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional 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.

Like all large businesses, we are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

We believe that we have adequately provided for tax contingencies. However, our 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.

Our agreements and organizational documents and applicable law could limit another party’s ability to acquire us.

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC on July 1, 2009. This could deprive our shareholders of any related takeover premium.

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	2%	2%
Fiber, conduit and other outside plant ⁽¹⁾	41%	41%
Central office and other network electronics ⁽²⁾	36%	35%
Support assets ⁽³⁾	18%	19%
Construction in progress ⁽⁴⁾	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, data centers, 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 both in the United States and internationally. 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.

Our net property, plant and equipment was \$18.4 billion and \$18.6 billion at December 31, 2014 and 2013, respectively. Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. 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.

Several putative class actions have been filed against us disputing our use of certain rights-of-way as described in "Legal Proceedings—Pending Matters" in Item 3 of Part I of this Annual Report. If we lose any of these rights-of-way or are unable to renew them, we may find it necessary to move or replace the affected portions of our network. However, we do not currently expect any material adverse impacts as a result of the loss of any of these rights.

ITEM 3. LEGAL PROCEEDINGS

The information contained under the subheadings "Pending Matters" and "Other Proceedings and Disputes" in Note 14—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

Our common stock is listed on the New York Stock Exchange ("NYSE") and the Berlin Stock Exchange and is traded under the symbol CTL and CYT, respectively. The following table sets forth the high and low reported sales prices on the NYSE along with the quarterly dividends, for each of the quarters indicated.

	Sales Price		Cash Dividend per Common Share	
	High	Low		
2014				
First quarter	\$	32.98	27.93	0.540
Second quarter		38.21	32.45	0.540
Third quarter		45.67	35.70	0.540
Fourth quarter		41.99	37.56	0.540
2013				
First quarter	\$	42.01	32.05	0.540
Second quarter		38.40	33.83	0.540
Third quarter		36.49	31.21	0.540
Fourth quarter		34.18	29.93	0.540

Dividends on common stock during 2014 and 2013 were paid each quarter. On February 23, 2015, our Board of Directors declared a common stock dividend of \$0.54 per share.

As described in greater detail in Item 1A of Part I of this Annual Report, the declaration and payment of dividends is at the discretion of our Board of Directors, and will depend upon our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

At February 17, 2015, there were approximately 146,000 stockholders of record, although there were significantly more beneficial holders of our common stock. At February 17, 2015, the closing stock price of our common stock was \$39.23.

Issuer Purchases of Equity Securities

In February 2014, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 repurchase program. During the three months ended December 31, 2014, we repurchased approximately 2.3 million shares of our outstanding common stock in the open market (excluding common shares that, as of December 31, 2014, we had agreed to purchase under the program for an aggregate of \$6 million in transactions that settled early in the first quarter of 2015). These shares were repurchased for an aggregate market price of \$91 million or an average purchase price of \$39.84 per share. The common stock repurchased has been retired. For additional information, see Note 17—Repurchase of CenturyLink Common Stock to our consolidated financial statements included in Item 8 of Part II of this Annual Report.

The following table contains information about shares of our previously-issued common stock that were repurchased under our current 24-month Stock Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
Period				
October 2014	—	—	—	\$ 890,725,201
November 2014	863,498	\$ 40.43	863,498	855,811,879
December 2014	1,413,410	39.47	1,413,410	800,020,486
Total	2,276,908	39.84	2,276,908	

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the fourth quarter of 2014 to satisfy the related minimum tax withholding obligations:

	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
Period		
October 2014	25,725	\$ 40.10
November 2014	19,517	40.73
December 2014	8,408	39.61
Total	53,650	

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 tables of 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.

The results of operations include Savvis for periods after July 15, 2011 and Qwest Communications International Inc. ("Qwest") for periods after April 1, 2011.

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

	Years Ended December 31, ⁽¹⁾				
	2014 ⁽²⁾	2013 ⁽³⁾	2012	2011	2010
	(Dollars in millions, except per share amounts and shares in thousands)				
Operating revenues	\$ 18,031	18,095	18,376	15,351	7,042
Operating expenses	15,621	16,642	15,663	13,326	4,982
Operating income	<u>\$ 2,410</u>	<u>1,453</u>	<u>2,713</u>	<u>2,025</u>	<u>2,060</u>
Income before income tax expense	1,110	224	1,250	948	1,531
Net income (loss)	772	(239)	777	573	948
Basic earnings (loss) per common share	1.36	(0.40)	1.25	1.07	3.13
Diluted earnings (loss) per common share	1.36	(0.40)	1.25	1.07	3.13
Dividends declared per common share	2.16	2.16	2.90	2.90	2.90
Weighted average basic common shares outstanding	568,435	600,892	620,205	532,780	300,619
Weighted average diluted common shares outstanding	569,739	600,892	622,285	534,121	301,297

- ⁽¹⁾ 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 years ended December 31, 2014, 2013 and 2012.
- ⁽²⁾ During 2014, we recognized a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 17—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.
- ⁽³⁾ During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to our then hosting segment (now business) and a litigation settlement charge of \$235 million.

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

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Net property, plant and equipment	\$ 18,433	18,646	18,909	19,361	8,754
Goodwill ⁽¹⁾	20,755	20,674	21,627	21,627	10,261
Total assets	50,147	51,787	53,940	55,964	22,038
Total long-term debt ⁽²⁾	20,671	20,966	20,605	21,836	7,328
Total stockholders' equity ⁽¹⁾	15,023	17,191	19,289	20,827	9,647

- ⁽¹⁾ We recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion during 2013 for goodwill attributed to our then hosting segment.
- ⁽²⁾ Total long-term debt is the sum of current maturities of long-term debt and long-term debt 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 data is as follows:

Years Ended December 31,					
	2014	2013	2012	2011	2010
(Dollars in millions)					
Net cash provided by operating activities	\$ 5,188	5,559	6,065	4,201	2,045
Net cash used in investing activities	(3,077)	(3,148)	(2,690)	(3,647)	(859)
Net cash used in financing activities	(2,151)	(2,454)	(3,295)	(577)	(1,175)
Payments for property, plant and equipment and capitalized software	(3,047)	(3,048)	(2,919)	(2,411)	(864)

The following table presents certain of our selected operational metrics:

As of December 31,					
	2014	2013	2012	2011	2010
(in thousands except for data centers, which are actuals)					
Operational metrics:					
Total broadband subscribers ⁽¹⁾	6,082	5,991	5,851	5,655	2,349
Total access lines ⁽¹⁾	12,394	13,002	13,751	14,587	6,489
Total data centers ⁽²⁾	58	55	54	51	—

- ⁽¹⁾ 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.
- ⁽²⁾ We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located throughout North America, Europe and Asia.

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 and long-distance, broadband, private line (including special access), Multi-Protocol Label Switching ("MPLS"), data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, video, wireless and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

At December 31, 2014, we operated approximately 12.4 million access lines in 37 states, served approximately 6.1 million broadband subscribers, and operated 58 data centers throughout North America, Europe and Asia. Our methodology for counting access lines, broadband subscribers and data centers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

Our consolidated financial statements include the accounts of CenturyLink, Inc. ("CenturyLink") and its majority-owned subsidiaries.

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as four segments: consumer, business, wholesale and hosting. As a result of this reorganization, we now operate and report the following two segments in our consolidated financial statements:

- Business.* Consists generally of providing strategic, legacy and data integration products and services to enterprise, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our private line (including special access), broadband, Ethernet, MPLS, Voice over Internet Protocol ("VoIP"), network management services, colocation, managed hosting and cloud hosting services. Our legacy services offered to these customers primarily include switched access, long-distance, and local services, including 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; and
- Consumer.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance services.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014 ⁽¹⁾	2013 ⁽²⁾	2012
(Dollars in millions except per share amounts)			
Operating revenues	\$ 18,031	18,095	18,376
Operating expenses	15,621	16,642	15,663
Operating income	2,410	1,453	2,713
Other expense, net	1,300	1,229	1,463
Income tax expense	338	463	473
Net income (loss)	\$ 772	(239)	777
Basic earnings (loss) per common share	\$ 1.36	(0.40)	1.25
Diluted earnings (loss) per common share	\$ 1.36	(0.40)	1.25

- ⁽¹⁾ During 2014, we recognized a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 17—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.
- ⁽²⁾ During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to our then hosting (now business) segment and a litigation settlement charge of \$235 million.

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

	As of December 31,		
	2014	2013	2012
(in thousands except for data centers, which are actuals)			
Operational metrics:			
Total broadband subscribers ⁽¹⁾	6,082	5,991	5,851
Total access lines ⁽¹⁾	12,394	13,002	13,751
Total data centers ⁽²⁾	58	55	54
Total employees	45	47	47

- ⁽¹⁾ 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.
- ⁽²⁾ We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located throughout North America, Europe and Asia.

During the last decade, we have experienced revenue declines primarily due to declines in access lines, switched access rates and minutes of use. To mitigate these declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- provide a wide array of diverse services, including additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our broadband and premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable;

- increase usage of our networks; and
- market our products and services to new customers.

Operating Revenues

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

- *Strategic services*, which include primarily broadband, private line (including special access), MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video), hosting (including cloud hosting and managed hosting), colocation, Ethernet, video (including our facilities-based video services, which we now offer in fourteen markets, and our commissions on satellite service), VoIP and Verizon Wireless services;
- *Legacy services*, which include primarily local, long-distance, switched access, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), and traditional wide area network ("WAN") services (which allow a local communications network to link to networks in remote locations);
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our business customers; and
- *Other revenues*, which consists primarily of Universal Service Fund ("USF") support and USF surcharges. 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 amounts we collect based on specific items we list on our customers invoices to fund the FCC's universal service programs. Unlike the first three revenue categories, other revenues are not included in our segment revenues.

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

	Years Ended December 31,		Increase /	
	2014	2013	(Decrease)	% Change
(Dollars in millions)				
Strategic services	\$ 9,200	8,823	377	4 %
Legacy services	7,138	7,616	(478)	(6)%
Data integration	690	656	34	5 %
Other	1,003	1,000	3	— %
Total operating revenues	\$ 18,031	18,095	(64)	— %

	Years Ended December 31,		Increase /	
	2013	2012	(Decrease)	% Change
(Dollars in millions)				
Strategic services	\$ 8,823	8,427	396	5 %
Legacy services	7,616	8,221	(605)	(7)%
Data integration	656	672	(16)	(2)%
Other	1,000	1,056	(56)	(5)%
Total operating revenues	\$ 18,095	18,376	(281)	(2)%

Our total operating revenues decreased by \$64 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 and operating revenues decreased by \$281 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The decline in revenues for both periods was primarily due to lower legacy services revenues, which decreased by \$478 million, or 6%, and \$605 million, or 7%, for the respective periods. The decline in revenues reflects the continuing loss of access lines and loss of access revenue primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including internet and wireless communication services. At December 31, 2014, we had approximately 12.4 million access lines, or approximately 4.7% less than the number of access lines we operated at December 31, 2013. At December 31, 2013, we had approximately 13.0 million access lines, or approximately 5.4% less than the number of access lines we operated at December 31, 2012. We estimate that the rate of our access lines losses will be between 4.4% and 5.0% over the full year of 2015. The growth in our strategic services revenues for both periods was primarily due to increases in broadband, Ethernet, MPLS, facilities-based video and hosting services, which were substantially offset by a decline in private line (including special access) services. Data integration revenues, which are typically more volatile than our other sources of revenues, increased by \$34 million, or 5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to several large sales of customer premise equipment to governmental and business customers and related professional services in 2014. Data integration decreased by \$16 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to declines in governmental sales and professional services, which were partially offset by an increase in maintenance services. Other operating revenues increased for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to higher USF surcharge revenues related to increased universal service fund contribution factors. Other revenues decreased by \$56 million, or 5%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to USF surcharge rate reductions.

We are aggressively marketing our strategic services (including our hosting services) to offset the continuing declines in our legacy services revenues.

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."

Further analysis of our operating revenues by segment is provided below in "Segment Results."

Operating Expenses

Our current definitions of operating expenses are as follows:

- 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 data integration and modem expenses); payments to 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; and
- Selling, general and administrative expenses* are 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.

These expense classifications may not be comparable to those of other companies.

The following tables summarize our operating expenses:

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,846	7,507	339	5 %
Selling, general and administrative	3,347	3,502	(155)	(4)%
Depreciation and amortization	4,428	4,541	(113)	(2)%
Impairment of goodwill	—	1,092	(1,092)	nm
Total operating expenses	\$ 15,621	16,642	(1,021)	(6)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,507	7,639	(132)	(2)%
Selling, general and administrative	3,502	3,244	258	8 %
Depreciation and amortization	4,541	4,780	(239)	(5)%
Impairment of goodwill	1,092	—	1,092	nm
Total operating expenses	\$ 16,642	15,663	979	6 %

nm - Attributing changes in impairment of goodwill to the 2013 goodwill impairment charge are considered not meaningful.

The decrease in total operating expenses of \$1.021 billion for fiscal 2014 over fiscal 2013 was substantially impacted by a goodwill impairment charge of \$1.092 billion and a charge of \$235 million in connection with a litigation settlement recorded in 2013. Excluding the effects of this goodwill impairment charge and litigation charge, total operating expenses for the year ended December 31, 2014 increased by \$306 million, or 2%, as compared to the year ended December 31, 2013. The increase was primarily attributable to increases in employee-related costs, customer premise equipment installation and maintenance costs, facility costs, network expense and real estate and power costs. These increases were partially offset by lower amortization expense. In the fourth quarter of 2014, we recorded \$63 million of expense associated with lump sum payments to former vested employees in settlement of future pension benefits. For additional information on the pension plan settlement accounting, see Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report.

The increase in total operating expenses of \$979 million for fiscal 2013 over fiscal 2012 was substantially impacted by a goodwill impairment charge of \$1.092 billion and a charge of \$235 million in connection with a litigation settlement recorded in 2013. Excluding the effects of the goodwill impairment charge and litigation charge, total operating expenses for the year ended December 31, 2013 decreased by \$348 million, or 2%, as compared to the year ended December 31, 2012. The decrease was primarily attributable to lower depreciation and amortization expense and lower employee-related costs, bad debt expense and customer premise equipment installation and maintenance costs, which were partially offset by increases in facility costs, network expense and real estate and power costs.

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

Cost of services and products (exclusive of depreciation and amortization) increased by \$339 million, or 5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to increases in employee-related costs (which was significantly impacted by the above noted lump sum pension payments), customer premise equipment installation expenses related to the increase in data integration revenues, facility and network costs, real estate and power costs and Prism TV programming expenses. Cost of services and products (exclusive of depreciation and amortization) decreased by \$132 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in professional fees, customer premise equipment installation and maintenance costs and employee-related costs. These decreases were partially offset by increases in facility costs, network expenses and real estate and power costs.

Selling, General and Administrative

Selling, general and administrative expenses decreased by \$155 million, or 4%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to the above-mentioned \$235 million decrease in legal reserves from the prior year's litigation settlement. The decrease was partially offset by increases in employee-related costs (including severance costs), insurance expense and impairment charges related to office buildings sold and currently being held for sale. Selling, general and administrative expenses increased by \$258 million, or 8%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a charge of \$235 million in connection with the above-mentioned litigation settlement. The increase was also attributed to increases in employee-related costs, professional fees and external commissions, which were partially offset by a decrease in bad debt expense. For all periods presented, our expenses include the transaction, severance and integration expenses related to our acquisitions since 2009, including the Qwest Communications International Inc. ("Qwest"), Savvis, Inc. ("Savvis") and Embarq Corporation ("Embarq") acquisitions.

Non-recurring Operating Expenses Related to Acquisitions

We have incurred certain non-recurring operating expenses related to our acquisitions since 2009, including our acquisitions of Embarq in July 2009, Qwest in April 2011 and Savvis in July 2011. These expenses are reflected in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations, as summarized below.

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Cost of services and products:			
Integration and other expenses associated with acquisitions	\$ 15	15	22
Total	<u>\$ 15</u>	<u>15</u>	<u>22</u>
Selling, general and administrative:			
Integration and other expenses associated with acquisitions	\$ 36	28	25
Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions	—	10	36
Total	<u>\$ 36</u>	<u>38</u>	<u>61</u>

Based on current plans and information, we estimate, in relation to our Qwest acquisition, total integration, severance and retention expenses to be between \$600 million to \$625 million (which includes approximately \$562 million of cumulative expenses incurred through December 31, 2014) and our capital expenditures associated with integration activities will approximate \$150 million (which includes approximately \$128 million of cumulative capital expenditures incurred through December 31, 2014). We anticipate that the amount of our integration costs in future years will vary substantially based on integration activities conducted during those periods and could in certain cases be higher than those incurred by us during the year ended December 31, 2014.

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	\$ 2,958	2,952	6	— %
Amortization	1,470	1,589	(119)	(7)%
Total depreciation and amortization	<u>\$ 4,428</u>	<u>4,541</u>	<u>(113)</u>	<u>(2)%</u>
	(Dollars in millions)			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Depreciation	\$ 2,952	3,070	(118)	(4)%
Amortization	1,589	1,710	(121)	(7)%
Total depreciation and amortization	<u>\$ 4,541</u>	<u>4,780</u>	<u>(239)</u>	<u>(5)%</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 increased by \$6 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The 2014 depreciation expense was higher than the respective prior period depreciation expense due to new plant additions in 2014 and changes in the estimated lives of certain property, plant and equipment, which was partially offset by our plant aging and becoming fully depreciated or retired. 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. Additionally, we recently developed a plan to migrate customers from one of our networks to another between the fourth quarter of 2014 and the fourth quarter of 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. These changes resulted in an increase in depreciation expense of approximately \$90 million for the year ended December 31, 2014 and is expected to result in an increase of approximately \$48 million for 2015 relative to these certain assets. Depreciation expense decreased \$118 million, or 4%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The 2013 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 2013. For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation to our consolidated financial statements in Item 8 of Part II of this Annual Report.

Amortization expense decreased by \$119 million, or 7%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease was due to the use of accelerated amortization methods for a portion of the customer relationship assets acquired in connection with the acquisitions of Embarq in 2009 and Qwest in 2011. These annual declines are expected to continue. Additionally, amortization expense declined due to software becoming fully amortized faster than new software is acquired, which was partially offset by increased amortization resulting from changes in the estimate of the remaining economic lives of the Savvis trade name and certain cloud software. Amortization expense decreased by \$121 million, or 7%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The decrease was due to the above-mentioned use of accelerated amortization methods for a portion of the customer relationship assets acquired in connection with the Embarq and Qwest acquisitions. Additionally amortization expense declined due to software becoming fully amortized faster than new software is acquired, which was partially offset by the above-mentioned increase resulting from changes in the estimate of the remaining economic lives of the Savvis trade name and certain cloud software. For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation to our consolidated financial statements in Item 8 of Part II of this Annual Report.

Further analysis of our operating expenses by segment is provided below in "Segment Results."

Goodwill Impairment

During our 2013 annual goodwill impairment assessment, we concluded the carrying value of goodwill assigned to our then hosting reporting unit exceeded its estimated implied fair value by \$1.092 billion. The decline in our then hosting reporting unit’s estimated fair value was the result of slower than previously projected revenue and margin growth and greater than anticipated competitive pressures.

For additional information on the risk associated with intangible assets, see "Critical Accounting Policies and Estimates-Goodwill, Customer Relationships and Other Intangibles Assets" below and "Risk Factors" in Item 1A of Part I of this Annual Report.

Further analysis of our operating expenses by segment is provided below in "Segment Results."

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	\$ (1,311)	(1,298)	13	1 %
Net gain on early retirement of debt	—	10	(10)	100 %
Other income, net	11	59	(48)	(81)%
Total other expense, net	<u>\$ (1,300)</u>	<u>(1,229)</u>	71	6 %
Income tax expense	<u>\$ 338</u>	<u>463</u>	(125)	(27)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
(Dollars in millions)				
Interest expense	\$ (1,298)	(1,319)	(21)	(2)%
Net gain (loss) on early retirement of debt	10	(179)	189	106 %
Other income, net	59	35	24	69 %
Total other expense, net	<u>\$ (1,229)</u>	<u>(1,463)</u>	(234)	(16)%
Income tax expense	\$ 463	473	(10)	(2)%

Interest Expense

Interest expense increased by \$13 million, or 1%, 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, which were partially offset by the reversal of certain tax interest reserves and increased capitalized interest. Interest expense decreased by \$21 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a lower amount of average debt outstanding along with lower interest rates, which were partially offset by a reduction in the amortization of debt premiums.

Net Gain or Loss on Early Retirement of Debt

In the fourth quarter of 2013, Qwest Communications International Inc. ("QCII") redeemed its outstanding debt securities, which resulted in a gain of \$10 million.

In the second quarter of 2012, our subsidiaries Embarq and Qwest Corporation ("QC") completed premium-priced cash tender offers for the purchase of certain of their respective outstanding debt securities, resulting in an aggregate loss of \$190 million. Also in the second quarter of 2012, our subsidiaries Embarq and QCII redeemed certain of their respective outstanding debt securities which resulted in a net loss of \$9 million.

During 2012, QCII and QC redeemed certain of their outstanding debt securities, which resulted in an aggregate gain of \$20 million.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including our share of income from our 49% interest in a cellular partnership, interest income, gains and losses from non-operating asset dispositions and foreign currency gains and losses. Other income, net decreased by \$48 million, or 81%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a second quarter of 2014 impairment charge of \$14 million recorded in connection with the then pending sale of our 700 MHz A-Block wireless spectrum licenses and a \$32 million gain on the sale of wireless spectrum in the first quarter of 2013. The sale of our 700 MHz A-Block wireless spectrum licenses closed on November 3, 2014, and we received \$39 million in cash in the aggregate. Other income, net increased by \$24 million, or 69%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to the above-mentioned \$32 million gain on the sale of wireless spectrum in January 2013, which was larger than the gain on sale of auction rate securities recognized in 2012.

Income Tax Expense

Income tax expense decreased by \$125 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013. Our income tax expense for the year ended December 31, 2013 decreased by \$10 million from the amounts for the comparable prior year. For the years ended December 31, 2014, 2013 and 2012, our effective income tax rate was 30.5%, 206.7% and 37.8%, respectively. The effective tax rate for the year ended December 31, 2014, reflects a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset, an indirect investment in KPNQwest, N.V. The subsidiary was acquired as part of the acquisition of Qwest and we assigned it no fair value in the acquisition due to the bankruptcy proceedings, which were then ongoing. The effective tax rate for the year ended December 31, 2014also reflects a \$13 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating losses ("NOLs"). The rate also reflects the absence of tax benefits from the impairment and disposition of our 700 MHz A-Block wireless spectrum licenses in 2014, because we are not likely to generate income of a character required to realize a tax benefit from the loss on disposition during the period permitted by law for utilization of that loss. The 2013 effective tax rate reflects the impacts of the \$1.092 billion non-deductible goodwill impairment and of an unfavorable accounting adjustment of \$17 million related to non-deductible life insurance costs. The 2013 tax expense also includes the impacts of a favorable settlement with the Internal Revenue Service ("IRS") of \$33 million and a favorable adjustment of \$22 million related to the reversal of liabilities for uncertain tax positions. The 2012 effective tax rate reflects the \$16 million reversal of a valuation allowance related to the auction rate securities we sold in 2012, a \$12 million benefit related to state NOLs net of valuation allowance, and a \$6 million expense associated with reversing a receivable related to periods that have been effectively settled with the IRS. See Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report and "Critical Accounting Policies and Estimates—Income Taxes" below for additional information.

Segment Results

The results for our business and consumer segments are summarized below for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Total segment revenues	\$ 17,028	17,095	17,320
Total segment expenses	8,509	8,167	8,147
Total segment income	<u>\$ 8,519</u>	<u>8,928</u>	<u>9,173</u>
Total margin percentage	50%	52%	53%
Business:			
Revenues	\$ 11,034	11,091	11,156
Expenses	6,089	5,808	5,729
Income	<u>\$ 4,945</u>	<u>5,283</u>	<u>5,427</u>
Margin percentage	45%	48%	49%
Consumer:			
Revenues	\$ 5,994	6,004	6,164
Expenses	2,420	2,359	2,418
Income	<u>\$ 3,574</u>	<u>3,645</u>	<u>3,746</u>
Margin percentage	60%	61%	61%

Recent Changes in Segment Reporting

We have recast our previously reported segment results due to the reorganization of our business. The segment recast resulted in increases in consumer segment expenses and decreases in business segment expenses for the years ended December 31, 2013 and 2012. The nature of the most significant changes to segment expenses are as follows:

- Certain business segment expenses were reassigned to consumer segment expense; and
- Certain business segment expenses were reassigned to corporate overhead.

For the years ended December 31, 2013 and 2012, the segment recast resulted in an increase in consumer expenses of \$28 million and \$32 million, respectively, and a decrease in business expenses of \$45 million and \$59 million, respectively.

During 2014, we adopted several changes with respect to the assignment of certain expenses to our then segments. We have restated our previously reported segment results for the years ended December 31, 2013 and 2012 to conform to the current presentation. The nature of the most significant changes to segment expenses are as follows:

- The method for allocating certain shared costs of consumer sales and care, including bad debt expense and credit card fees, was revised, which resulted in an increase in consumer segment expenses with a corresponding decrease in business segment expenses; and
- The progress of our integration efforts and centralization of certain administrative functions enabled us to discontinue the inclusion of finance, information technology, legal and human resources expenses in our then hosting segment, which resulted in a decrease in business segment expenses.

For the years ended December 31, 2013 and 2012, the reassignments of expenses resulted in an increase in consumer expenses of \$100 million and \$95 million, respectively, and a decrease in business expenses of \$165 million for both years.

The following table reconciles our total segment revenues and total segment income presented above to consolidated operating revenues and consolidated operating income reported in our consolidated statements of operations.

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Total segment revenues	\$ 17,028	17,095	17,320
Other operating revenues	1,003	1,000	1,056
Operating revenues reported in our consolidated statements of operations	<u>\$ 18,031</u>	<u>18,095</u>	<u>18,376</u>
Total segment income	\$ 8,519	8,928	9,173
Other operating revenues	1,003	1,000	1,056
Depreciation and amortization	(4,428)	(4,541)	(4,780)
Impairment of goodwill (Note 2)	—	(1,092)	—
Other unassigned operating expenses	(2,684)	(2,842)	(2,736)
Operating income reported in our consolidated statement of operations	<u>\$ 2,410</u>	<u>1,453</u>	<u>2,713</u>

Allocation of Revenues and Expenses

Our segment revenues include all revenues from our strategic services, legacy services and data integration as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. For information on how we allocate expenses to our segments, as well as other additional information about our segments, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report.

The operations of our business segment have been impacted by several significant trends, including those described below:

- *Strategic services.* Our mix of total business segment revenues continues to migrate from legacy services to strategic services as our enterprise, wholesale and governmental customers increasingly demand customized and integrated data, Internet and voice services. Although we are experiencing price compression on our strategic services due to competition, we expect strategic revenues from these services to continue to grow during 2015. Demand for our private line services (including special access) from our wholesale customers continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. While we expect that these factors will continue to negatively impact our wholesale customers, we believe the demand for our fiber-based special access services provided to wireless carriers for backhaul will partially offset the decline in copper-based special access services provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration remains uncertain. We anticipate continued pricing pressure for our colocation services as wholesale vendors continue to expand their enterprise colocation operations. We believe, however, that our hybrid data centers, which offer multiple products and services (including colocation, managed hosting, cloud and network services), will help differentiate our products and services from those offered by competitors with a narrower range of products and services. We have remained focused on expanding our managed hosting services, specifically our cloud services offerings, by endeavoring to add differentiating features to our cloud products and acquiring additional companies that we believe have strengthened our cloud products. In recent years, our competitors, as well as several large, diversified technology companies, have made substantial investments in cloud computing, which has intensified competitive pressures. We believe that this expansion in competitive cloud computing offerings has led to increased pricing pressure and competition for enterprise customers, and we expect these trends to continue. Segment revenue for hosting area network products supporting colocation and managed hosting service offerings have been relatively flat due to providing lower volumes of such services, as well as pricing pressures on VPN and bandwidth services;
- *Legacy services.* We face intense competition with respect to our higher margin legacy services and continue to see customers migrating away from these services and into lower margin strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. Our access, local services and long-distance revenues have been and we expect will continue to be adversely affected by customer migration to more technologically advanced services, declining demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, many wholesale customers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. Our switched access revenues have been and will continue to be impacted by changes related to the Connect America and Intercarrier Compensation Reform order ("the 2011 order") adopted by the FCC in 2011, which we believe has increased the pace of reductions in the amount of switched access revenues we receive from our wholesale customers. Conversely, the FCC instituted an access recovery charge that we believe will allow us to recover the majority of these lost wholesale revenues directly from other customers. We expect the net effect of these factors will continue to adversely impact our business segment revenues from our wholesale customers;
- *Data integration.* We expect both data integration revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have recently experienced substantial budget cuts with the possibility of additional future budget cuts; and
- *Operating efficiencies.* We continue to evaluate our segment 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, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas, including the hiring of additional sales employees. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our business segment:

	Business			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Segment revenues:				
Strategic services	\$ 6,350	6,173	177	3 %
Legacy services	3,998	4,267	(269)	(6)%
Data integration	686	651	35	5 %
Total revenues	11,034	11,091	(57)	(1)%
Segment expenses:				
Total expenses	6,089	5,808	281	5 %
Segment income	\$ 4,945	5,283	(338)	(6)%
Segment margin percentage	45%	48%		

	Business			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Segment revenues:				
Strategic services	\$ 6,173	5,952	221	4 %
Legacy services	4,267	4,539	(272)	(6)%
Data integration	651	665	(14)	(2)%
Total revenues	11,091	11,156	(65)	(1)%
Segment expenses:				
Total expenses	5,808	5,729	79	1 %
Segment income	\$ 5,283	5,427	(144)	(3)%
Segment margin percentage	48%	49%		

Segment Revenues

Business segment revenues decreased by \$57 million, or 1%, for the year ended December 31, 2014 as compared to the year endedDecember 31, 2013 primarily due to the decline in legacy services revenues, which were partially offset by the growth in our strategic services and data integration revenues. The decline in legacy services revenues was attributable to lower volumes of local access and traditional WAN services. The growth in our strategic services revenues was primarily due to strong MPLS unit growth and higher Ethernet volume, which were substantially offset by a decline in private line (including special access) services. The increase in data integration revenues was primarily due to higher sales of customer premise equipment to governmental and business customers during the period. Business segment revenues decreased by \$65 million, or 1%, for the year ended December 31, 2013 as compared to the year endedDecember 31, 2012. The decline in legacy services revenues was caused by the same factors noted above for 2014. The increase in strategic services revenues came from increases in MPLS, colocation, and Ethernet services, which were partially offset by declines in private line (including special access) services. The decline in data integration revenues was primarily due to lower sales of customer premise equipment to governmental and business customers.

Segment Expenses

Business segment expenses increased by \$281 million, or 5%, for the year ended December 31, 2014 as compared to the year endedDecember 31, 2013 primarily due to increases in employee-related costs attributable to higher wages, benefits and internal commissions, customer premise equipment costs resulting from higher governmental and business sales noted above, facility costs driven by MPLS unit growth and real estate and power costs. Business segment expenses increased by \$79 million, or 1%, for the year ended December 31, 2013as compared to the year ended December 31, 2012 primarily due to increases in employee-related costs, facility costs, real estate and power costs and external commissions, which were partially offset by a decrease in equipment and maintenance costs.

Segment Income

Business segment income decreased by \$338 million, or 6%, for the year ended December 31, 2014 as compared to the year endedDecember 31, 2013 primarily due to customers migrating from legacy services to lower margin strategic services. Business segment income decreased by \$144 million, or 3%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in expenses.

Consumer

The operations of our consumer segment have been impacted by several significant trends, including those described below:

- *Strategic services.* In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. 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 consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in Items 1 and 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 average broadband speed than ours or expanding their advanced wireless data service offerings. We also continue to expand our other strategic product offerings, including facilities-based video services. The expansion of our facilities-based video service infrastructure requires us to incur substantial content and start-up expenses in advance of marketing and selling the service. Although, over time, we expect that our revenue for facilities-based video services will offset the expenses incurred, the timing of this revenue growth is uncertain and the video business is growing increasingly competitive. We believe these efforts to expand our offerings will improve our ability to compete and increase our strategic revenues;
- *Legacy services.* Our voice 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 substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of higher margin services 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, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment; and
- *Operating efficiencies.* We continue to evaluate our segment 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. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

	Consumer			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Segment revenues:				
Strategic services	\$ 2,850	2,650	200	8 %
Legacy services	3,140	3,349	(209)	(6)%
Data integration	4	5	(1)	(20)%
Total revenues	5,994	6,004	(10)	— %
Segment expenses:				
Total expenses	2,420	2,359	61	3 %
Segment income	\$ 3,574	3,645	(71)	(2)%
Segment margin percentage	60%	61%		

	Consumer			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2013	2012		
	(Dollars in millions)			
Segment revenues:				
Strategic services	\$ 2,650	2,475	175	7 %
Legacy services	3,349	3,682	(333)	(9)%
Data integration	5	7	(2)	(29)%
Total revenues	6,004	6,164	(160)	(3)%
Segment expenses:				
Total expenses	2,359	2,418	(59)	(2)%
Segment income	\$ 3,645	3,746	(101)	(3)%
Segment margin percentage	61%	61%		

Segment Revenues

Consumer segment revenues decreased by \$10 million, or less than 1%, for year ended December 31, 2014 as compared to the year ended December 31, 2013 and decreased by \$160 million, or 3%, for the year ended December 31, 2013 as compared to the year endedDecember 31, 2012. The increase in strategic services revenues for both periods was due primarily to increases in the number of our facilities-based video customers and increases in the number of broadband subscribers, as well as from price increases on various services. The decline in legacy services revenues for both periods was primarily due to declines in local and long-distance service volumes associated with access line losses resulting from the competitive and technological changes described above, offset in part by increases in access recovery charges.

Segment Expenses

Consumer segment expenses increased by \$61 million, or 3%, for the year ended December 31, 2014 as compared to the year endedDecember 31, 2013 primarily due to increases in marketing and advertising expenses, Prism TV content costs resulting from subscriber growth in our Prism TV markets and the number of modems shipped for Prism customer premise equipment, which were partially offset by reductions in employee-related costs and facility costs. Consumer segment expenses decreased by \$59 million, or 2%, for the year endedDecember 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in bad debt expense, salaries and wages and facility costs, partially offset by increases in Prism TV content costs resulting from subscriber growth and external commissions.

Consumer segment income decreased by \$71 million, or 2%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to customers migrating from legacy services to lower margin strategic services, which caused our segment expenses to increase at a faster pace than segment revenues. Consumer segment income decreased by \$101 million, or 3%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a decline in total revenues.

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) loss contingencies and litigation reserves; 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.

Goodwill, Customer Relationships and Other Intangible Assets

We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. 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.

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. We assign goodwill to the reporting units using a relative fair value approach. We utilize the trailing twelve months earnings before interest, taxes, depreciation and amortization as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized. The use of other fair value assignment methods could result in materially different results. For additional information on the November 1, 2014 reorganization of our segments, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report.

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 reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of our reporting units. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment test. For 2014, our annual assessment date for testing goodwill impairment was October 31.

As of October 31, 2014, we assessed our reporting units, which were our then four reportable segments at such date (business, consumer, wholesale and hosting) and concluded the estimated fair value of our business and wholesale reporting units was substantially in excess of our carrying value of equity and the estimated fair value of our consumer and hosting reporting units exceeded our carrying value of equity by 8% and 12%, respectively.

For additional information on our goodwill balances by segment, see Note 2—Goodwill, Customer Relationships and Other Intangible Assets in Item 8 of Part II of this Annual Report.

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 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 segments. 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

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date, plus the estimated value of any associated legally or contractually required asset retirement obligation. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required asset retirement obligation. 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 3 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 \$440 million annually or increased depreciation expense by approximately \$630 million annually, respectively.

Pension and Post-retirement Benefits

We sponsor a noncontributory qualified defined benefit pension plan (referred to as our pension plan) for a substantial portion of our employees. In addition to this tax qualified pension plan, we also maintain several non-qualified pension plans for certain eligible highly compensated employees. We also maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. On December 31, 2014, we merged our existing qualified pension plans, which included merging the Qwest Pension Plan and the Embarq Retirement Pension Plan into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan.

In 2014, approximately 16% of the pension plan's January 1, 2014 net actuarial loss balance of \$1.1 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plans. The other 84% of the pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2014. The entire beginning net actuarial loss of \$37 million for the post-retirement benefit plans was treated as indefinitely deferred during 2014.

In 2013, approximately 33% of the pension plans' January 1, 2013 net actuarial loss balance of \$2.2 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 12 years for the plans. The other 67% of the pension plans' beginning net actuarial loss balance was treated as indefinitely deferred during 2013. The entire beginning net actuarial loss of \$446 million for the post-retirement benefit plans was treated as indefinitely deferred during 2013.

In computing the pension and post-retirement health care and life insurance benefit obligations, our most significant assumptions we make are the discount rate and mortality rates. In computing the periodic pension and post-retirement benefit expense, the most significant assumptions we make are the discount rate and the expected rate of return on plan assets.

The discount rate for each plan is the rate at which we believe we could effectively settle the plan's benefit obligations as of the end of the year. We selected each plan's discount rate based on a cash flow matching analysis using hypothetical yield curves from U.S. corporate bonds rated high quality and projections of the future benefit payments that constitute the projected benefit obligation for the plans. This process establishes the uniform discount rate that produces the same present value of the estimated future benefit payments as is generated by discounting each year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 60th to 90th percentile of U.S. high quality bonds.

Mortality rates help predict the expected life of plan participants and are based on historical demographic studies by the Society of Actuaries. In 2014, the Society published new mortality rate tables reflecting increases in the projected life expectancies of North Americans since its publications of earlier tables. We adopted the new tables immediately. This resulted in an increase to the projected benefit obligation of approximately \$1.3 billion for our pension and post-retirement benefit plans and is expected to result in additional expense of approximately \$159 million in 2015.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets in the future. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations to which we then add a factor of 50 basis points to reflect the benefit we expect to result from our active management of the assets. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

To compute the expected return on pension and post-retirement benefit plan assets, we apply an expected rate of return to the fair value of the pension plan assets and to the fair value of the post-retirement benefit plan assets adjusted for contribution timing and for projected benefit payments to be made from the plan assets. Annual market volatility for these assets is reflected in the net actuarial losses.

Changes in any of the above factors could significantly impact operating expenses in the consolidated statements of operations and other comprehensive (loss) income in the consolidated statements of comprehensive (loss) income as well as the value of the liability and accumulated other comprehensive loss of stockholders' equity on our consolidated balance sheets. The expected return on plan assets is reflected as a reduction to our pension and post-retirement benefit expense. If our assumed expected rates of return for 2014 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2014 would have increased by \$59 million. If our assumed discount rates for 2014 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2014 would have decreased by \$12 million and our projected benefit obligation for 2014 would have increased by approximately \$2.3 billion.

Loss Contingencies and Litigation Reserves

We are involved in several material legal proceedings, as described in more detail in Note 14—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report. We assess potential losses in relation to these and other pending or threatened tax and legal matters. 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. To the extent these estimates are more or less than the actual liability resulting from the resolution of these matters, our earnings will be increased or decreased accordingly. If the differences are material, our consolidated financial statements could be materially impacted.

For matters related to income taxes, if we determine in our judgment 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 in our financial statements 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 we determine in our judgment that the position has less than a 50% likelihood of being sustained. Though the validity of any tax position is a matter of tax law, the body of statutory, regulatory and interpretive guidance on the application of the law is complex and often ambiguous. Because of this, whether a tax position will ultimately be sustained may be uncertain. The overall tax liability recorded for uncertain tax positions as of December 31, 2014, considers the anticipated utilization of any applicable tax credits and NOLs.

Income Taxes

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 net operating losses, or NOLs, 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.

In connection with recording deferred income tax assets and liabilities, we establish valuation allowances when necessary to reduce deferred income tax assets to amounts that we believe are more likely than not to be realized. We evaluate our deferred tax assets quarterly to determine whether adjustments to our valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. In making this evaluation, we rely on our recent history of pre-tax earnings. We also rely on our forecasts of future earnings and the nature and timing of future deductions and benefits represented by the deferred tax assets, all which involve the exercise of significant judgment. At December 31, 2014, we established a valuation allowance of \$409 million, primarily related to state NOLs, as it is more likely than not that these NOLs will expire unused. If forecasts of future earnings and the nature and estimated timing of future deductions and benefits change in the future, we may determine that a valuation allowance for certain deferred tax assets is appropriate, which 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

At December 31, 2014, we held cash and cash equivalents of \$128 million and we had approximately \$1.3 billion of borrowing capacity available under our \$2.0 billion revolving credit facility (referred to, as amended, as our "Credit Facility", which is described further below). At December 31, 2014, cash and cash equivalents of \$58 million were held in foreign bank accounts for the purpose of funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

In connection with our budgeting process in early 2015, our executive officers and our Board of Directors reviewed our sources and potential uses of cash over the next several years, including among other things the previously-disclosed effect of the anticipated depletion of our federal net operating loss carryforwards during 2015.

Based on our current capital allocation objectives, during 2015 we anticipate expending approximately \$3.0 billion of cash for capital investment in property, plant and equipment and up to \$1.2 billion for dividends on our common stock, based on the current annual common stock dividend rate of \$2.16 and the current number of outstanding common shares. We have debt maturities of approximately \$442 million, scheduled debt principal payments of approximately \$22 million, and scheduled capital lease and other obligation payments of approximately \$86 million due during 2015. We also anticipate expending cash for repurchasing common stock, but the amount will largely depend on market conditions.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We use our revolving credit facility as a source of liquidity for operating activities and to give us additional flexibility to finance, among other things, our capital investments, repayments of debt, pension contributions, dividends or stock repurchases.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations. Based on our current objectives, we estimate our total 2015 capital expenditures to be approximately \$3.0 billion.

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

Debt and Other Financing Arrangements

Approximately \$350 million of CenturyLink, Inc. Series M 5.000% notes matured on 2/17/15, and \$92 million of our QC 7.625%senior notes will mature on 6/15/15.

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

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation debt securities to refinance its maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us and Qwest Corporation by credit rating agencies, among other factors. For further information on our debt maturities, see below "Future Contractual Obligations."

As of the date of this Annual Report, the credit ratings for the senior unsecured debt of CenturyLink, Inc. and Qwest Corporation were as follows:

Agency	CenturyLink, Inc.	Qwest Corporation
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc.	Ba2	Baa3
Fitch Ratings	BB+	BBB-

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

Net Operating Loss Carryforwards

We are currently using NOLs to offset our federal taxable income. At December 31, 2014, we had approximately \$1.6 billion of federal net operating losses. Based on current laws and circumstances, including the statutory extension of allowing bonus depreciation for 2014, we now expect to deplete substantially all of these tax benefits during 2015. Once our NOLs are fully utilized, we expect that the amounts of our cash flows dedicated to the payment of federal taxes will increase substantially. The amounts of those payments will depend upon many factors, including future earnings, tax law changes and future tax circumstances. Based on current laws and circumstances applied to estimates of 2015 earnings, we estimate our income tax liability related to 2015 to be between \$300 million and \$400 million. Approximately \$275 million of this amount will be paid in early 2016 in accordance with federal tax installment provisions. For 2016, we estimate our income tax payments to be between \$1.1 billion and \$1.3 billion, which includes the installment payments of approximately \$275 million related to our 2015 federal tax liability. Should bonus depreciation be extended for 2015, we estimate that our income tax liability for 2015 would be between \$50 million and \$100 million and for 2016 would be between \$850 million and \$1.0 billion. Approximately \$300 million of the 2016 amount would be paid in early 2017 in accordance with federal tax installment provisions.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason. In early 2013, our Board of Directors approved a 25.5% reduction in our quarterly common stock dividend rate to \$0.54 per share, which we believe increased our flexibility to balance our multiple objectives of managing our business, paying our fixed commitments and returning cash to our shareholders. Assuming continued payment at this rate of \$0.54 per share, our total dividends paid each quarter would be approximately \$307 million based on our current number of outstanding shares (which does not reflect shares that we might repurchase or issue in future periods). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this Annual Report.

Stock Repurchase Program

In February 2014, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of \$1.0 billion of our outstanding common stock. This 2014 stock repurchase program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. For the year ended December 31, 2014, we repurchased 5.2 million shares for \$200 million or an average purchase price of \$38.40 per share under this 2014 stock repurchase program (excluding common shares that, as of December 31, 2014, we had agreed to purchase under the program for an aggregate of \$6 million in transactions that settled early in the first quarter of 2015). The repurchased common stock has been retired. As of February 20, 2015, we had repurchased 7.7 million shares for \$298 million, or an average purchase price of \$38.57 per share. We currently expect to continue purchasing shares under this 2014 program in open market transactions, subject to market conditions and other factors. As of December 31, 2014, we had approximately \$800 million remaining available for stock repurchases under this 2014 stock repurchase program. For additional information on repurchases made during the quarter ended December 31, 2014, see Item 5 of Part II of this Annual Report.

Credit Facilities

On December 3, 2014, we amended our existing \$2.0 billion revolving credit facility to extend the maturity date to December 3, 2019. The amended Credit Facility (the "Credit Facility") has 16 lenders, with commitments ranging from \$3.5 million to \$198.5 million and allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries. At December 31, 2014, we had \$725 million in borrowings and no amounts of letters of credit outstanding under the Credit Facility.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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 14—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report, 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.

At December 31, 2014, we owed \$380 million under a term loan maturing in 2019, which includes covenants substantially the same as those set forth in the Credit Facility.

We have a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2014, our outstanding letters of credit totaled \$124 million under this facility.

In January 2015, we entered into a \$100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility.

For information on our outstanding debt securities, see immediately below "Future Contractual Obligations" and Note 3—Long-Term Debt and Credit Facilities 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:

	2015	2016	2017	2018	2019	2020 and thereafter	Total
(Dollars in millions)							
Long-term debt, including current maturities and capital lease obligations (excluding unamortized premiums, discounts and other, net.)	\$ 550	1,494	1,497	248	1,474	15,519	20,782
Interest on long-term debt and capital leases ⁽¹⁾	1,349	1,279	1,211	1,124	1,097	15,543	21,603
Operating leases	311	280	257	233	202	974	2,257
Purchase commitments ⁽²⁾	141	98	56	28	22	62	407
Post-retirement benefit obligation ⁽³⁾	57	57	57	93	91	1,008	1,363
Non-qualified pension obligations ⁽³⁾	6	6	5	5	5	20	47
Unrecognized tax benefits ⁽⁴⁾	—	—	—	—	—	47	47
Other	13	7	5	6	9	67	107
Total future contractual obligations ⁽⁵⁾	\$ 2,427	3,221	3,088	1,737	2,900	33,240	46,613

- (1) Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt. Interest on our floating rate debt was calculated for all years using the rates effective at December 31, 2014.
- (2) 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.
- (3) Reflects only the portion of total obligation that is contractual in nature. See Note 5 below
- (4) Represents the amount of tax and interest we would pay for our unrecognized tax benefits. The \$47 million is composed of unrecognized tax benefits of \$17 millionand related estimated interest of \$30 million, which would result in future cash payments if our tax positions were not upheld. See Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information. The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "2020 and thereafter" column in the above table.
- (5) 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;
 - cash funding requirements for qualified pension benefits payable to certain eligible current and future retirees. Benefits paid by our qualified pension plans are paid through trusts. Cash funding requirements for these trusts are not included in this table as we are not able to reliably estimate required contributions to the trusts. Our funding projections are discussed further below;
 - certain post-retirement benefits payable to certain eligible current and future retirees. Not all of our post-retirement benefit obligation amount is a contractual obligation and only the portion that we believe is a contractual obligation is reported in the table. See additional information on our benefits plans in Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report;
 - 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 use the network facilities of other carriers and to purchase other goods and services. Our contracts to use other carriers' network facilities generally have no minimum volume requirements and are based on an interrelationship of volumes and discounted rates. Assuming we terminate these contracts in 2015, the contract termination fees would be approximately \$272 million. Under the same assumption, we estimate that our termination fees for these contracts to purchase goods and services would be approximately \$157 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

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. The accounting unfunded status (benefit obligations) as of December 31, 2014 of our defined benefit pension plans and post-retirement benefit plans were \$2.5 billion and \$3.5 billion, respectively. See Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plan are paid through a trust that holds all plan assets. We made cash contributions to the trust totaling \$157 million in 2014 to our qualified pension plan. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan for 2015. The amount of required contributions to our qualified pension plan in 2016 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations.

Certain of our 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. We estimate that the more liquid assets in the trust 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 us or from the trusts as the remaining assets become liquid. This projected two year period could be shorter or longer depending on returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

For 2015, our 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.

Recently the accounting unfunded status for our pension and post-retirement benefit plans were significantly increased due to our adoption of new mortality assumptions. For additional information on this and other factors that could influence our funding commitments under our benefit plans, see "Critical Accounting Policies and Estimates—Pension and Post-Retirement Benefits" in this Item 7 of Part II and "Risk Factors—Risks Affecting Our Liquidity and Capital Resources—Increases in costs for pension and healthcare benefits for our active and retired employee may reduce our profitability and increase our funding commitments" 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 \$500 million per year for six years, which is approximately \$150 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 \$500 million per year. Conversely, if we elect in 2015 to forego all available CAF Phase 2 funding, we will continue to receive approximately \$344 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 \$344 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, we received \$40 million in funding 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, we are 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 \$40 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 /
	2014	2013	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 5,188	5,559	(371)
Net cash used in investing activities	(3,077)	(3,148)	(71)
Net cash used in financing activities	(2,151)	(2,454)	(303)

	Years Ended December 31,		Increase /
	2013	2012	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 5,559	6,065	(506)
Net cash used in investing activities	(3,148)	(2,690)	458
Net cash used in financing activities	(2,454)	(3,295)	(841)

Net cash provided by operating activities decreased by \$371 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a negative variance in net income adjusted for non-cash items along with a payment of approximately \$235 million in the first quarter of 2014 to settle certain litigation. These decreases were substantially offset by positive variances in the changes in accounts payable and retirement benefits. Net cash provided by operating activities decreased by \$506 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012 substantially due to a decrease in net (loss) income adjusted for non-cash items, a negative variance in the change in the retirement benefits and other noncurrent assets and liabilities. For additional information about our operating results, see "Results of Operations" above.

Net cash used in investing activities decreased by \$71 million for the year end December 31, 2014 as compared to the year ended December 31, 2013 with no significant variances noted. Net cash used in investing increased by \$458 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to amounts paid for acquisitions in 2013, increased payments for purchases of property, plant and equipment and less proceeds from the sale of property and intangible assets.

Net cash used in financing activities decreased by \$303 million for the year ended December 31, 2014 as compared to the year endedDecember 31, 2013 primarily due to reductions in net debt paydowns in 2014 versus net borrowings in 2013, common stock repurchases and dividend payments. Net cash used in financing activities decreased by \$841 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a significant change from net debt paydowns (including early retirement costs) in 2012 to net proceeds in 2013. Additionally, there was a decrease in dividends paid due to our reduction in our per share common stock dividend rate. These items were partially offset by a significant increase in stock repurchases (due to our buyback program announced in February 2013).

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

On September 29, 2014, QC 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.

On April 1, 2014, a subsidiary of Embarq paid at maturity the \$30 million principal amount of its 7.46% first mortgage bonds.

During the year ended December 31, 2014, we repurchased 18.9 million shares of the company's outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$633 million, or an average purchase price of \$33.42 per share. The repurchased common stock has been retired. For additional information, see "Note 17—Repurchase of CenturyLink Stock" in Item 8 of Part II of this Annual Report.

In 2012 and early 2013, we 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. We intend to use the funds to deploy broadband service for up to 45 thousand homes in unserved rural areas principally in Colorado, Minnesota, New Mexico, Virginia and Washington. In 2013, the FCC announced another round of CAF funding and we 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 thousand 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 us by the FCC, which we accepted in late 2013, was approximately \$40 million.

Certain Matters Related to Acquisitions

When we acquired Qwest and Savvis in 2011, Qwest's pre-acquisition debt obligations consisted primarily of debt securities issued by QCII and two of its subsidiaries while Savvis' long-term debt obligations (after the discharge of its convertible senior notes in connection with the completion of the acquisition) consisted primarily of capital leases, the remaining outstanding portions of which are all now included in our consolidated debt balances. The indentures governing Qwest's remaining debt securities contain customary covenants that restrict the ability of Qwest or its subsidiaries from making certain payments and investments, granting liens and selling or transferring assets. Based on current circumstances, we do not anticipate that these covenants will significantly restrict our ability to manage cash balances or transfer cash between entities within our consolidated group of companies as needed.

In accounting for the Qwest acquisition, we recorded Qwest's debt securities at their estimated fair values, which totaled \$12.292 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 Qwest's debt securities exceeded their stated principal balances on the acquisition date by \$693 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:

	Years Ended December 31,		From April 1, 2011 through December 31, 2012	Total Since Acquisition
	2014	2013		
(Dollars in millions)				
Amortized	\$ 42	62	240	344
Extinguished ⁽¹⁾	—	41	235	276
Total	\$ 42	103	475	620

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

The remaining premium of \$73 million as of December 31, 2014, will reduce interest expense in future periods, unless otherwise extinguished.

Other Matters

CenturyLink has cash management arrangements with certain of its principal subsidiaries, in which substantial portions of the subsidiaries' cash is regularly advanced to CenturyLink. Although CenturyLink periodically repays these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time CenturyLink may owe a substantial sum to our subsidiaries under these advances, which, in accordance with generally accepted accounting principles, are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

We also are involved in various legal proceedings that could have a material adverse effect on our financial position. See Note 14—Commitment and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report for the current status of such legal proceedings.

Market Risk

We are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. 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 \$20.2 billion (excluding capital lease and other obligations with a carrying amount of \$509 million) of long-term debt outstanding, approximately 95.0% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. At December 31, 2014, we had \$980 million floating rate debt exposed to changes in the London InterBank Offered Rate (LIBOR). A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$10 million.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies in which our international subsidiaries operate in currencies other than the U.S. Dollar, primarily the British Pound, the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are immaterial, future volatility in exchange rates and an increase in the number of transactions could adversely impact our consolidated results of operations. We use a sensitivity analysis to estimate our exposure to this foreign currency risk, measuring the change in financial position arising from hypothetical 10% change in the exchange rates of these currencies, relative to the U.S. Dollar with all other variables held constant. The aggregate potential change in the fair value of financial assets resulting from a hypothetical 10% change in these exchange rates was \$21 million at December 31, 2014.

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 14—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 Stockholders
CenturyLink, Inc.:

We have audited the accompanying consolidated balance sheets of CenturyLink, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, cash flows, and stockholders' 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2015

The Board of Directors and Stockholders
CenturyLink, Inc.:

We have audited CenturyLink, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2014, and our report dated February 24, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2015

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUES	\$ 18,031	18,095	18,376
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	7,846	7,507	7,639
Selling, general and administrative	3,347	3,502	3,244
Depreciation and amortization	4,428	4,541	4,780
Impairment of goodwill (Note 2)	—	1,092	—
Total operating expenses	15,621	16,642	15,663
OPERATING INCOME	2,410	1,453	2,713
OTHER (EXPENSE) INCOME			
Interest expense	(1,311)	(1,298)	(1,319)
Net gain (loss) on early retirement of debt	—	10	(179)
Other income, net	11	59	35
Total other (expense) income	(1,300)	(1,229)	(1,463)
INCOME BEFORE INCOME TAX EXPENSE	1,110	224	1,250
Income tax expense	338	463	473
NET INCOME (LOSS)	\$ 772	(239)	777
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE			
BASIC	\$ 1.36	(0.40)	1.25
DILUTED	\$ 1.36	(0.40)	1.25
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	568,435	600,892	620,205
DILUTED	569,739	600,892	622,285

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
NET INCOME (LOSS)	\$ 772	(239)	777
OTHER COMPREHENSIVE (LOSS) INCOME:			
Items related to employee benefit plans:			
Change in net actuarial (loss) gain, net of \$742, \$(606) and \$432 tax	(1,200)	981	(694)
Change in net prior service credit, net of \$1, \$52 and \$4 tax	(1)	(84)	(6)
Auction rate securities marked to market, net of \$—, \$— and \$(1) tax	—	—	2
Auction rate securities settlements reclassified to net income, net of \$—, \$— and \$(1) tax	—	—	3
Foreign currency translation adjustment and other, net of \$1, \$— and \$— tax	(14)	2	6
Other comprehensive (loss) income	(1,215)	899	(689)
COMPREHENSIVE (LOSS) INCOME	\$ (443)	660	88

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2014	2013
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 128	168
Accounts receivable, less allowance of \$162 and \$155	1,988	1,977
Deferred income taxes, net	880	1,165
Other	580	597
Total current assets	3,576	3,907
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	36,718	34,307
Accumulated depreciation	(18,285)	(15,661)
Net property, plant and equipment	18,433	18,646
GOODWILL AND OTHER ASSETS		
Goodwill	20,755	20,674
Customer relationships, net	4,893	5,935
Other intangible assets, net	1,647	1,802
Other, net	843	823
Total goodwill and other assets	28,138	29,234
TOTAL ASSETS	\$ 50,147	51,787
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 550	785
Accounts payable	1,226	1,111
Accrued expenses and other liabilities		
Salaries and benefits	641	650
Income and other taxes	309	339
Interest	256	273
Other	210	514
Advance billings and customer deposits	726	737
Total current liabilities	3,918	4,409
LONG-TERM DEBT	20,121	20,181
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	4,030	4,753
Benefit plan obligations, net	5,808	4,049
Other	1,247	1,204
Total deferred credits and other liabilities	11,085	10,006
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock — non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 568,517 and 583,637 shares	569	584
Additional paid-in capital	16,324	17,343
Accumulated other comprehensive loss	(2,017)	(802)
Retained earnings	147	66
Total stockholders' equity	15,023	17,191
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 50,147	51,787

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income (loss)	\$ 772	(239)	777
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,428	4,541	4,780
Impairment of goodwill (Note 2)	—	1,092	—
Impairment of assets	32	—	—
Deferred income taxes	291	391	394
Provision for uncollectible accounts	159	152	187
Gain on sale of intangible assets	—	(32)	—
Net long-term debt premium amortization	(33)	(57)	(88)
Net (gain) loss on early retirement of debt	—	(10)	179
Share based compensation	79	71	110
Changes in current assets and liabilities:			
Accounts receivable	(163)	(212)	(154)
Accounts payable	70	(76)	(72)
Accrued income and other taxes	(84)	28	(14)
Other current assets and liabilities, net	(270)	263	16
Retirement benefits	(184)	(342)	(169)
Changes in other noncurrent assets and liabilities, net	99	19	161
Other, net	(8)	(30)	(42)
Net cash provided by operating activities	5,188	5,559	6,065
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(3,047)	(3,048)	(2,919)
Cash paid for acquisitions	(93)	(160)	—
Proceeds from sale of property and intangible assets	63	80	191
Other, net	—	(20)	38
Net cash used in investing activities	(3,077)	(3,148)	(2,690)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	483	2,481	3,362
Payments of long-term debt	(800)	(2,010)	(5,118)
Net (payments) borrowings on credit facility	(4)	(95)	543
Early retirement of debt costs	—	(31)	(346)
Dividends paid	(1,228)	(1,301)	(1,811)
Net proceeds from issuance of common stock	50	73	110
Repurchase of common stock	(650)	(1,586)	(37)
Other, net	(2)	15	2
Net cash used in financing activities	(2,151)	(2,454)	(3,295)
Effect of exchange rate changes on cash and cash equivalents	—	—	3
Net (decrease) increase in cash and cash equivalents	(40)	(43)	83
Cash and cash equivalents at beginning of period	168	211	128
Cash and cash equivalents at end of period	\$ 128	\$ 168	\$ 211
Supplemental cash flow information:			
Income taxes paid, net	\$ (27)	\$ (48)	(82)
Interest paid (net of capitalized interest of \$47, \$41 and \$43)	\$ (1,338)	\$ (1,333)	(1,405)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
COMMON STOCK (represents dollars and shares)			
Balance at beginning of period	\$ 584	626	619
Issuance of common stock through dividend reinvestment, incentive and benefit plans	4	4	8
Repurchase of common stock	(19)	(46)	—
Shares withheld to satisfy tax withholdings	—	—	(1)
Balance at end of period	569	584	626
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	17,343	19,079	18,901
Issuance of common stock through dividend reinvestment, incentive and benefit plans	46	69	102
Repurchase of common stock	(591)	(1,551)	—
Shares withheld to satisfy tax withholdings	(16)	(18)	(34)
Share-based compensation and other, net	82	85	110
Dividends declared	(540)	(321)	—
Balance at end of period	16,324	17,343	19,079
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period	(802)	(1,701)	(1,012)
Other comprehensive (loss) income	(1,215)	899	(689)
Balance at end of period	(2,017)	(802)	(1,701)
RETAINED EARNINGS			
Balance at beginning of period	66	1,285	2,319
Net income (loss)	772	(239)	777
Dividends declared	(691)	(980)	(1,811)
Balance at end of period	147	66	1,285
TOTAL STOCKHOLDERS' EQUITY	\$ 15,023	17,191	19,289

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless the context requires otherwise, references in this Annual Report to "CenturyLink," "we," "us" and "our" refer to 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 and long-distance, broadband, private line (including special access), Multi-Protocol Label Switching ("MPLS"), data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, public access, wireless, video and other ancillary services.

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.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income (expense), (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 12—Segment Information for additional information. These changes had no impact on total revenues, total operating expenses or net income (loss) for any period.

In January 2013, we sold \$43 million of our wireless spectrum assets held for sale. The sale resulted in a gain of \$32 million, which is recorded as other income on our consolidated statements of operations.

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 a net increase in depreciation expense of approximately \$78 million for the year ended December 31, 2014. This net increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$48 million, or \$0.08 per basic and diluted common share, for the year ended December 31, 2014.

Additionally, during the third quarter of 2014, we developed a plan to migrate customers from one of our networks to another between the fourth quarter of 2014 through the fourth quarter of 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. These changes increased depreciation expense of approximately \$12 million for the year ended December 31, 2014 and is expected to increase depreciation expense by approximately \$48 million for 2015. The increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$7 million, or \$0.01 per basic and diluted common share, for the year ended December 31, 2014.

During the fourth quarter 2013, we changed the estimates of the remaining economic lives of certain intangible assets, specifically, the Savvis trade name, which is no longer being utilized, and certain Savvis cloud software, which has been replaced by cloud software acquired through our more recent acquisitions. These changes resulted in an increase in amortization expense of approximately \$23 million for the year ended December 31, 2014. This increase in amortization expense, net of tax, reduced consolidated net income by approximately \$14 million, or \$0.02 per basic and diluted common share, for the year ended December 31, 2014. As of December 31, 2014, the Savvis trade name and the Savvis cloud software were fully amortized.

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, investments, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, 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. These estimates, judgments and assumptions can affect the reported amounts of assets, liabilities and components of stockholders' equity 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, our consolidated statements of comprehensive (loss) income 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 14—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 our agreements with DIRECTV and Verizon Wireless, we offer these services through sales agency relationships which are reported on a net basis.

For our hosting operations, we have service level commitments pursuant to contracts with certain of our clients. To the extent that such service levels are not achieved or are otherwise disputed due to performance or service issues or other service interruptions or conditions, we will estimate the amount of credits to be issued and record a reduction to revenues, with a corresponding increase in the credit reserve.

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 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 \$214 million, \$210 million and \$189 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

We file a consolidated federal income tax return with our eligible subsidiaries. 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 tax net operating losses ("NOLs"), 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.

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. A significant portion of our net deferred tax assets relate to tax benefits attributable to NOLs. 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. In evaluating investments for classification as cash equivalents, we require that individual securities have original maturities of ninety days or less and that individual investment funds have dollar-weighted average maturities of ninety days or less. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Book overdrafts occur when checks have been issued but have not been presented to our controlled disbursement bank accounts for payment. Disbursement bank accounts allow us to delay funding of issued checks until the checks are presented for payment. Until the issued checks are presented for payment, the book overdrafts are included in accounts payable on our consolidated balance sheet. This activity is included in the operating activities section in our consolidated statements of cash flows.

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

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date plus the estimated value of any associated legally or contractually required retirement obligations. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required retirement obligations. 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 have asset retirement obligations associated with the legally or contractually required removal of a limited group of property, plant and equipment assets from leased properties and the disposal of certain hazardous materials present in our owned properties. When an asset retirement obligation is identified, usually in association with the acquisition of the asset, we record the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Where the removal obligation is not legally binding, the net cost to remove assets is expensed in the period in which the costs are actually incurred.

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, capitalized software, trademarks and trade names, are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We amortize our other intangible assets predominantly using the sum-of-the-years-digits method over an estimated life of 4 years. Other intangible assets not arising from business combinations are initially recorded at cost. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite-lived and such intangible assets are not amortized.

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.

Our long-lived intangible assets, other than goodwill, with indefinite lives are assessed for impairment annually, or, under certain circumstances, more frequently, such as when events or circumstances indicate there may be an impairment. These assets are carried at the estimated fair value at the time of acquisition and assets not acquired in acquisitions are recorded at historical cost. However, if their estimated fair value is less than the carrying amount, other indefinite-lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

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 review.

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 reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment assessment is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment assessment.

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 for consumer, wholesale and business reporting units was not impaired and our goodwill for hosting reporting unit was not further impaired as of that date.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. Goodwill is reassigned to the reporting units using a relative fair value approach. We utilize the earnings before interest, taxes, depreciation and amortization as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized.

See Note 2—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

Pension and Post-Retirement Benefits

We recognize the funded status of our defined benefit and post-retirement plans as an asset or a liability on our consolidated balance sheet. Each year's actuarial gains or losses are a component of our other comprehensive (loss) income, which is then included in our accumulated other comprehensive loss. Pension and post-retirement benefit expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make significant assumptions (including the discount rate, expected rate of return on plan assets, mortality and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 7—Employee Benefits for additional information.

Foreign Currency

Our results of operations include foreign subsidiaries, which are translated from the applicable functional currency to the United States Dollar using the average exchange rates during the reporting period, while assets and liabilities are translated at the reporting date. We include gains or losses from foreign currency remeasurement in other income, net in our consolidated statements of operations. Certain non-U.S. subsidiaries designate the local currency as their functional currency, and we record the translation of their assets and liabilities into U.S. dollars at the balance sheet date as translation adjustments and include them as a component of accumulated other comprehensive loss in our consolidated balance sheets.

Common Stock

At December 31, 2014, we had 4 million unissued shares of CenturyLink common stock reserved for acquisitions. In addition, we had 27 million shares authorized for future issuance under our equity incentive plans.

Preferred stock

Holders of outstanding CenturyLink preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon CenturyLink's liquidation and vote as a single class with the holders of common stock.

Dividends

We pay dividends out of retained earnings to the extent we have retained earnings on the date the dividend is declared. If the dividend is in excess of our retained earnings on the declaration date, then the excess is drawn from our additional paid-in capital.

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.

Out-of-Period Adjustments

During the year ended December 31, 2012, we discovered and corrected an error that resulted in an overstatement of depreciation expense in 2011. We evaluated the error considering both quantitative and qualitative factors and concluded that the error was immaterial to our previously issued and current period consolidated financial statements. Therefore, we recognized a \$30 million reduction in depreciation expense during the year ended December 31, 2012. The correction of the error resulted in an increase in net income of \$19 million, or approximately \$0.03 per basic and diluted common share, for the year ended December 31, 2012.

(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	\$ 20,755	20,674
Customer relationships, less accumulated amortization of \$4,682 and \$3,641	4,893	5,935
Indefinite-life intangible assets	268	321
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$1,533 and \$1,193	1,338	1,415
Trade names and patents, less accumulated amortization of \$196 and \$208	41	66
Total other intangible assets, net	\$ 1,647	1,802

Total amortization expense for intangible assets for the years ended December 31, 2014, 2013 and 2012 was \$1.470 billion, \$1.589 billion and \$1.710 billion, respectively. As of December 31, 2014, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$33.706 billion.

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)
2015	\$ 1,244
2016	1,145
2017	1,036
2018	922
2019	805

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

During the first quarter of 2013, we reorganized our operating segments to support our then operating structure. As a result, we reassigned goodwill to our reporting units using a relative fair value allocation approach. As of January 3, 2013, we assigned our aggregate goodwill balance to our then four reportable segments as follows.

	As of January 3, 2013 (Dollars in millions)
Business	6,363
Consumer	10,348
Wholesale	3,274
Hosting	1,642
Total goodwill	\$ 21,627

We assess our goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the recorded amount of goodwill exceeds the fair value. For 2014, our annual goodwill impairment assessment date was October 31, at which date we assessed goodwill at our reporting units, which were our then four reportable segments (consumer, business, wholesale and hosting). See Note 1—Basis of Presentation and Summary of Significant Accounting Policies, for information about the change in our goodwill impairment assessment date. Our annual impairment assessment date for indefinite-lived intangible assets other than goodwill is December 31.

Our reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. For each reporting unit, we compare its estimated fair value of equity to its carrying value of equity that we assign to the reporting unit. If the estimated fair value of the reporting unit is greater than the carrying value, we conclude that no impairment exists. If the estimated fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to the carrying value of goodwill that we assigned to the reporting unit. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

As of October 31, 2014, we estimated the fair value of our then consumer, business and wholesale reporting units by considering both a market approach and a discounted cash flow method and our then hosting reporting unit by considering only 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 of the reporting units beyond the cash flows from the discrete projection period. We discounted the estimated cash flows for our then consumer, wholesale and business reporting units 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%). We discounted the estimated cash flows of our then hosting reporting unit using a rate that represents our estimated weighted average cost of capital, which we determined to be approximately 11.0% as of the assessment date (which was comprised of an after-tax cost of debt of 2.9% and a cost of equity of 12.4%). We also reconciled the estimated fair values of the reporting units to our market capitalization as of October 31, 2014 and concluded that the indicated implied control premium of approximately 4.3% was reasonable based on recent transactions in the market place.

As of October 31, 2014, based on our assessment performed with respect to these reporting units as described above, we concluded that our goodwill for our then four reporting units was not impaired as of that date. During 2013, our then hosting reporting unit experienced slower than previously projected revenues and margin growth and greater than anticipated competitive pressures and as a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill assigned to our then hosting reporting unit.

The following table shows the rollforward of goodwill assigned to our reportable segments from the January 3, 2013 reorganization through December 31, 2014.

	Business	Consumer	Wholesale	Hosting	Total
	(Dollars in millions)				
As of January 3, 2013	\$ 6,363	10,348	3,274	1,642	21,627
Acquisitions	—	—	—	139	139
Impairment	—	—	—	(1,092)	(1,092)
As of December 31, 2013	\$ 6,363	10,348	3,274	689	20,674
Purchase accounting adjustments	—	—	—	(11)	(11)
November 1, 2014 reorganization	4,022	(70)	(3,274)	(678)	—
Acquisitions	92	—	—	—	92
As of December 31, 2014	\$ 10,477	10,278	—	—	20,755

During the year ended December 31, 2014, we acquired all of the outstanding stock of two companies for total consideration of \$95 million, net of \$2 million acquired cash and including immaterial future cash payments of which \$92 million was attributed to goodwill and the remainder to various assets and liabilities. The valuation for both acquisitions is preliminary and subject to change during the measurement period which ends in December of 2015. The acquisitions were consummated to expand the product offerings of our business segment and therefore the goodwill has been assigned to that segment. The goodwill is attributed primarily to expected future increases in business segment revenue from the sale of new products. The goodwill is not deductible for tax purposes.

During the year ended December 31, 2013, we acquired all of the outstanding stock of two companies for total cash consideration of \$160 million, of which \$139 million was attributed to goodwill and the remainder to various other assets and liabilities. During 2014, we finalized the valuation for one entity resulting in an increase in other intangibles assets of \$19 million with a corresponding reduction in goodwill of \$11 million and deferred taxes of \$8 million. The acquisitions were consummated to expand the product offerings of our business segment and therefore the goodwill has been assigned to that segment. The goodwill is primarily attributable to expected future increases in business segment revenue from the sale of new products to existing customers as well as the acquisition of new customers due to the products acquired. The goodwill is not deductible for tax purposes.

The acquisitions did not materially impact the consolidated results of operations from the dates of the acquisitions in either 2014 or 2013 and would not materially impact pro forma results of operations.

For additional information on the reorganization of our segments see Note 12—Segment Information.

We completed our qualitative assessment of our indefinite-lived intangible assets other than goodwill as of December 31, 2014 and concluded it is more likely than not that our indefinite-lived intangible assets are not impaired; thus, no impairment charge was recorded in 2014.

(3) Long-Term Debt and Credit Facilities

Long-term debt, including unamortized discounts and premiums, consisted of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest Corporation ("QC"), Qwest Capital Funding, Inc. and Embarq Corporation and subsidiaries ("Embarq"), were as follows:

	Interest Rates	Maturities	As of December 31,	
			2014	2013
			(Dollars in millions)	
CenturyLink, Inc.				
Senior notes	5.000% - 7.650%	2015 - 2042	\$ 7,825	7,825
Credit facility ⁽¹⁾	1.910% - 4.000%	2019	725	725
Term loan	2.420%	2019	380	402
Subsidiaries				
Qwest Corporation				
Senior notes	6.125% - 8.375%	2015 - 2054	7,311	7,411
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation and subsidiaries				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	2,669
First mortgage bonds	7.125% - 8.770%	2017 - 2025	232	262
Other	9.000%	2019	150	150
Capital lease and other obligations	Various	Various	509	619
Unamortized discounts, net			(111)	(78)
Total long-term debt			20,671	20,966
Less current maturities			(550)	(785)
Long-term debt, excluding current maturities			\$ 20,121	20,181

⁽¹⁾ The outstanding amount of our Credit Facility borrowings at both December 31, 2014 and 2013 was \$725 million, with weighted average interest rates of 2.270% and 2.176%, respectively. These amounts change on a regular basis.

2014

On September 29, 2014, QC 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 November 27, 2013, CenturyLink, Inc. issued \$750 million aggregate principal amount of 6.75% Notes due 2023, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$742 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, at any time at a redemption price equal to the greater of par or a "make-whole" rate specified in the Notes, plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to December 1, 2016, we may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 106.75% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings. Under certain circumstances, we will be required to make an offer to repurchase the Notes at a price of 101% of their aggregate principal amount plus accrued and unpaid interest to the repurchase date.

On May 23, 2013, QC issued \$775 million aggregate principal amount of 6.125% Notes due 2053, including \$25 million principal amount that was sold pursuant to an over-allotment option granted to the underwriters for the offering, in exchange for net proceeds, after deducting underwriting discounts and 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.

On March 21, 2013, CenturyLink, Inc. issued \$1 billion aggregate principal amount of 5.625% Notes due 2020 in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$988 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, at any time at a redemption price equal to the greater of par or a "make-whole" rate specified in the Notes, plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2016, we may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net cash proceeds of certain equity offerings. Under certain circumstances, we will be required to make an offer to repurchase the Notes at a price of 101% of their aggregate principal amount plus accrued and unpaid interest to the repurchase date.

Repayments

2014

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

On April 1, 2014, a subsidiary of Embarq paid at maturity the \$30 million principal amount of its 7.46% first mortgage bonds.

2013

On December 27, 2013, Qwest Communications International Inc. ("QCII") redeemed \$186 million of its 7.125% Notes due 2018 for \$196 million including premium, fees and accrued interest, which resulted in a \$3 million gain.

On November 27, 2013, QCII completed a cash tender offer with respect to \$800 million of its 7.125% Notes due 2018. QCII received and accepted tenders of approximately \$614 million aggregate principal amount of these notes, or 77%, for \$646 million including premium, fees and accrued interest, which resulted in a \$7 million gain.

On August 15, 2013, a subsidiary of Embarq paid at maturity the \$50 million principal amount of its 6.75% Notes.

On July 15, 2013, a subsidiary of Embarq paid at maturity the \$59 million principal amount of its 6.875% Notes.

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

On April 1, 2013, CenturyLink, Inc. paid at maturity the \$176 million principal amount of its 5.50% Notes.

Credit Facilities

On December 3, 2014, we amended our existing \$2 billion revolving credit facility to extend the maturity date to December 3, 2019. The amended Credit Facility (the "Credit Facility") has 16 lenders, with commitments ranging from \$3.5 million to \$198.5 million and allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries.

In April 2011, we entered into a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2014 and 2013, our outstanding letters of credit totaled \$124 million and \$132 million, respectively, under this facility.

In January 2015, we entered into a \$100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility.

Aggregate Maturities of Long-Term Debt

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

	(Dollars in millions) ⁽¹⁾
2015	\$ 550
2016	1,494
2017	1,497
2018	248
2019	1,474
2020 and thereafter	15,519
Total long-term debt	\$ 20,782

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

Interest Expense

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

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 1,358	1,339	1,362
Capitalized interest	(47)	(41)	(43)
Total interest expense	\$ 1,311	1,298	1,319

Covenants

Certain of our loan agreements contain various restrictions, as described more fully below. Under current circumstances, we believe the covenants currently in place result in no significant restriction to the transfer of funds from our consolidated subsidiaries to CenturyLink.

The senior notes of CenturyLink were issued under an indenture dated March 31, 1994. This indenture does not contain any financial covenants, but does include restrictions that limit our ability to (i) incur, issue or create liens upon our property and (ii) consolidate with or merge into, or transfer or lease all or substantially all of our assets to any other party. The indenture does not contain any provisions that are impacted by our credit ratings or that restrict the issuance of new securities in the event of a material adverse change to us. However, if the credit ratings relating to certain of our long-term debt securities issued under this indenture are downgraded in the manner specified thereunder in connection with a "change of control" of CenturyLink, then we will be required to offer to repurchase such debt securities.

The senior notes of QC were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures do not contain any financial covenants, but do contain restrictions on the incurrence of liens and the consummation of certain transactions substantially similar to the above-described covenants in CenturyLink's March 31, 1994 indenture. The senior notes of Qwest Capital Funding, Inc. were issued under an indenture dated June 29, 1998 containing terms substantially similar to those set forth in QC's indentures.

Embarq's senior notes were issued pursuant to an indenture dated as of May 17, 2006. While Embarq is generally prohibited from creating liens on its property unless its senior notes are secured equally and ratably, Embarq can create liens on its property without equally and ratably securing its senior notes so long as the sum of all indebtedness so secured does not exceed 15% of Embarq's consolidated net tangible assets. The indenture contains customary events of default, none of which are impacted by Embarq's credit rating. None of the above-listed indentures contain any financial covenants or restrictions on the ability to issue new securities in accordance with the terms of the indenture.

Several of our Embarq subsidiaries have outstanding first mortgage bonds. Each issue of these first mortgage bonds is secured by substantially all of the property, plant and equipment of the issuing subsidiary. Approximately 10% of our net property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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 14—Commitments and Contingencies, 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.

At December 31, 2014, we believe we were in compliance with all of the provisions and covenants contained in our Credit Facility and other material debt agreements.

Subsequent Event

On February 17, 2015, CenturyLink paid at maturity the \$350 million principal and amount due under its Series M 5.00% Notes.

On February 20, 2015, QC entered into a new credit agreement with several lenders that allows QC to borrow up to \$100 million under a term loan. Under this new credit agreement, QC 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	\$ 1,821	1,862
Earned and unbilled receivables	307	252
Other	22	18
Total accounts receivable	2,150	2,132
Less: allowance for doubtful accounts	(162)	(155)
Accounts receivable, less allowance	<u>\$ 1,988</u>	<u>1,977</u>

We are exposed to concentrations of credit risk from residential and business customers within our local service area, business customers outside of our local service area and from other telecommunications service providers. 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	\$ 155	159	(152)	162
2013	\$ 158	152	(155)	155
2012	\$ 145	187	(174)	158

(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)	
Land	n/a	\$ 575	585
Fiber, conduit and other outside plant ⁽¹⁾	15-45	15,151	14,187
Central office and other network electronics ⁽²⁾	3-10	13,248	12,178
Support assets ⁽³⁾	3-30	6,578	6,420
Construction in progress ⁽⁴⁾	n/a	1,166	937
Gross property, plant and equipment		36,718	34,307
Accumulated depreciation		(18,285)	(15,661)
Net property, plant and equipment		\$ 18,433	18,646

- (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, data centers, 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 \$2.958 billion, \$2.952 billion and \$3.070 billion for the years ended December 31, 2014, 2013and 2012, respectively.

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.

In the second quarter of 2014, we entered into a separate definitive agreement to sell an office building for \$12 million, which closed during the fourth quarter of 2014.

Asset Retirement Obligations

At December 31, 2014, our asset retirement obligations balance was primarily related to estimated future costs of removing equipment from leased properties and estimated future costs of properly disposing of asbestos and other hazardous materials upon remodeling or demolishing buildings. Asset retirement obligations are included in other long-term liabilities on our consolidated balance sheets.

The following table provides asset retirement obligation activity:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Balance at beginning of year	\$ 106	106	109
Accretion expense	7	7	7
Liabilities incurred	6	—	1
Liabilities settled and other	(2)	(4)	(1)
Change in estimate	(10)	(3)	(10)
Balance at end of year	<u>\$ 107</u>	<u>106</u>	<u>106</u>

During 2014, 2013 and 2012 we revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$10 million, \$3 million and \$10 million, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment and revisions to assets specifically identified are recorded as a reduction to accretion expense.

(6) Severance and Leased Real Estate

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, 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. As noted in Note 12—Segment Information, we do not allocate these severance expenses to our segments.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate for which we have ceased using, net of estimated sublease rentals. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically, we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities-other and report the noncurrent portion in deferred credits and other liabilities in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At December 31, 2014, the current and noncurrent portions of our leased real estate accrual were \$14 million and \$82 million, respectively. The remaining lease terms range from 0.3 years to 11.0 years, with a weighted average of 8.5 years.

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2012	\$ 17	131
Accrued to expense	31	—
Payments, net	(31)	(16)
Reversals and adjustments	—	(2)
Balance at December 31, 2013	17	113
Accrued to expense	87	1
Payments, net	(78)	(16)
Reversals and adjustments	—	(2)
Balance at December 31, 2014	<u>\$ 26</u>	<u>96</u>

(7) Employee Benefits

Pension, Post-Retirement and Other Post-Employment Benefits

We sponsor various defined benefit pension plans (qualified and non-qualified), which in the aggregate cover a substantial portion of our employees including legacy CenturyLink, legacy Qwest and legacy Embarq employees. On December 31, 2014, we merged our existing qualified pension plans, which included merging the Qwest Pension Plan and Embarq Retirement Pension Plan into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan ("Combined Plan"). Pension benefits for participants of the new Combined Plan who are represented by a collective bargaining agreement are based on negotiated schedules. All other participants' pension benefits are based on each individual participant's years of service and compensation. We use a December 31 measurement date for all our plans. We also maintain non-qualified pension plans for certain current and former highly compensated employees. We maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. We also provide other post-employment benefits for eligible former employees.

Pension Benefits

Current funding laws require a company with a plan shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Our funding policy for our Combined Plan is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due under the terms of the plans. The accounting unfunded status of our qualified pension plans was \$2.4 billion as of December 31, 2014.

In 2014, we made cash contributions of approximately \$157 million to our qualified pension plans and paid approximately \$6 million of benefits directly to participants of our non-qualified pension plans. Based on current laws and circumstances, we are not required to make any contributions to our qualified pension plans in 2015, but we estimate that we will pay approximately \$6 million of benefits to participants of our non-qualified pension plans.

Our pension plans contain provisions that allow us, from time to time, to offer lump sum payment options to certain employees in settlement of their future retirement benefits. We record these payments as a settlement only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit cost, which represents the settlement threshold. On December 8, 2014, lump sum pension settlement payments to terminated, but not-yet-retired participants in our Qwest qualified pension plan amounted to \$460 million, which exceeded the settlement threshold of \$418 million. As a result, we were required to recognize a non-cash settlement charge of \$63 million in 2014 to accelerate the recognition of a portion of the previously unrecognized actuarial losses in the qualified pension plan, which has been allocated and reflected in cost of services and products (exclusive of depreciation and amortization) and selling, general and administrative in our consolidated statement of operations for the year ended December 31, 2014. This non-cash charge reduced our recorded net income and retained earnings, with an offset to accumulated other comprehensive loss in shareholders' equity. The amount of any future non-cash settlement charges will be dependent on the level of lump sum benefit payments made in 2015 and beyond.

Post-Retirement Benefits

Our post-retirement health care plans provide post-retirement benefits to qualified retirees. The post-retirement health care plans we assumed as part of our acquisitions of Qwest and Embarq provide post-retirement benefits to qualified retirees and allow (i) eligible employees retiring before certain dates to receive benefits at no or reduced cost and (ii) eligible employees retiring after certain dates to receive benefits on a shared cost basis. The post-retirement health care plans are primarily funded by us and we expect to continue funding these post-retirement obligations as benefits are paid.

No contributions were made to the post-retirement trusts in 2014, and we do not expect to make a contribution in 2015. However, in 2014 we paid approximately \$88 million of benefits (net of participant contributions and direct subsidies) that were not payable by the trusts, and we estimate that in 2015, we will pay approximately \$139 million of benefits (net of participant contributions and direct subsidies) that are not payable by the trusts.

We expect our health care cost trend rate to decrease between 0.25% to 0.15% per year from 6.00% in 2015 to an ultimate rate of 4.50% in 2024. Our post-retirement health care expense, for certain eligible Legacy Qwest retirees and certain eligible Legacy CenturyLink retirees, is capped at a set dollar amount. Therefore, those health care benefit obligations are not subject to increasing health care trends after the effective date of the caps.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2014:

	100 Basis Points Change	
	Increase	(Decrease)
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit expense (consolidated statement of operations)	\$ 4	(3)
Effect on benefit obligation (consolidated balance sheet)	92	(82)

Expected Cash Flows

The qualified pension, non-qualified pension and post-retirement health care benefit payments and premiums and life insurance premium payments are paid by us or distributed from plan assets. The estimated benefit payments provided below are based on actuarial assumptions using the demographics of the employee and retiree populations and have been reduced by estimated participant contributions.

	Pension Plans	Post-Retirement Benefit Plans	Medicare Part D Subsidy Receipts
	(Dollars in millions)		
Estimated future benefit payments:			
2015	\$ 1,061	309	(7)
2016	1,011	300	(7)
2017	996	292	(7)
2018	980	285	(7)
2019	965	279	(7)
2020 - 2024	4,568	1,276	(31)

Net Periodic Benefit Expense

The actuarial assumptions used to compute the net periodic benefit expense for our qualified pension, non-qualified pension and post-retirement benefit plans are based upon information available as of the beginning of the year, as presented in the following table.

	Pension Plans			Post-Retirement Benefit Plans		
	2014	2013	2012	2014	2013	2012
Actuarial assumptions at beginning of year:						
Discount rate	4.20% - 5.10%	3.50% - 4.20%	4.25% - 5.10%	4.50%	3.60%	4.60% - 4.80%
Rate of compensation increase	3.25%	3.25%	3.25%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	6.00% - 7.50%	6.00% - 7.30%	6.00% - 7.50%
Initial health care cost trend rate	N/A	N/A	N/A	6.00% - 6.50%	6.50% - 7.00%	8.00%
Ultimate health care cost trend rate	N/A	N/A	N/A	4.50%	4.50%	5.00%
Year ultimate trend rate is reached	N/A	N/A	N/A	2024	2022	2018

N/A-Not applicable

Net periodic (income) expense for our qualified and non-qualified pension plans include the following components:

	Pension Plans		
	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Service cost	\$ 77	91	87
Interest cost	602	544	625
Expected return on plan assets	(891)	(896)	(847)
Settlements	63	—	—
Recognition of prior service cost	5	5	4
Recognition of actuarial loss	22	84	35
Net periodic pension benefit income	\$ (122)	(172)	(96)

Net periodic expense (income) for our post-retirement benefit plans include the following components:

	Post-Retirement Plans		
	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Service cost	\$ 22	24	22
Interest cost	159	140	173
Expected return on plan assets	(33)	(39)	(45)
Recognition of prior service cost	20	—	—
Recognition of actuarial loss	—	4	—
Net periodic post-retirement benefit expense	\$ 168	129	150

We report net periodic benefit (income) expense for our qualified pension, non-qualified pension and post-retirement benefit plans in both 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.

Benefit Obligations

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31,2014 and 2013 and are as follows:

	Pension Plans		Post-Retirement Benefit Plans	
	December 31,		December 31,	
	2014	2013	2014	2013
Actuarial assumptions at end of year:				
Discount rate	3.50% - 4.10%	4.20% - 5.10%	3.80%	4.50%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	6.00% / 6.50%	6.50% / 7.00%
Ultimate health care cost trend rate	N/A	N/A	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	2024	2022 / 2024

N/A-Not applicable

For our defined benefit plans, we adopted a new mortality rate table in 2014 to better reflect the expected lifetimes of our plan participants. The table used is based on Society of Actuaries tables and increases the projected benefit obligation by approximately \$1.3 billion. The increase in the projected obligation was recognized as part of the net actuarial loss and is included in the other comprehensive loss, a portion of which is subject to be amortized over the remaining estimated life of plan participants (approximately 8 years).

The following tables summarize the change in the benefit obligations for the pension and post-retirement benefit plans:

	Pension Plans		
	Years Ended December 31,		
	2014	2013	2012
(Dollars in millions)			
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 13,401	14,881	13,596
Service cost	77	91	87
Interest cost	602	544	625
Plan amendments	4	—	14
Actuarial loss (gain)	2,269	(1,179)	1,565
Settlements	(460)	—	—
Benefits paid by company	(6)	(5)	(5)
Benefits paid from plan assets	(845)	(931)	(1,001)
Benefit obligation at end of year	\$ 15,042	13,401	14,881

	Post-Retirement Benefit Plans		
	Years Ended December 31,		
	2014	2013	2012
(Dollars in millions)			
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 3,688	4,075	3,930
Service cost	22	24	22
Interest cost	159	140	173
Participant contributions	69	96	86
Plan amendments	23	141	—
Direct subsidy receipts	9	13	19
Actuarial loss (gain)	245	(399)	260
Benefits paid by company	(166)	(266)	(268)
Benefits paid from plan assets	(219)	(136)	(147)
Benefit obligation at end of year	\$ 3,830	3,688	4,075

Our aggregate benefit obligation as of December 31, 2014, 2013 and 2012 was \$18.872 billion, \$17.089 billion and \$18.956 billion, respectively.

Plan Assets

We maintain plan assets for our qualified pension plans and certain post-retirement benefit plans. The qualified pension plan assets are used for the payment of pension benefits and certain eligible plan expenses. The post-retirement benefit plan's assets are used to pay health care benefits and premiums on behalf of eligible retirees and to pay certain eligible plan expenses. The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

The following tables summarize the change in the fair value of plan assets for the pension and post-retirement benefit plans:

	Pension Plans		
	Years Ended December 31,		
	2014	2013	2012
(Dollars in millions)			
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 12,346	12,321	11,814
Return on plan assets	1,373	810	1,476
Employer contributions	157	146	32
Settlements	(460)	—	—
Benefits paid from plan assets	(845)	(931)	(1,001)
Fair value of plan assets at end of year	<u>\$ 12,571</u>	<u>12,346</u>	<u>12,321</u>

	Post-Retirement Benefit Plans		
	Years Ended December 31,		
	2014	2013	2012
(Dollars in millions)			
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 535	626	693
Return on plan assets	37	45	80
Benefits paid from plan assets	(219)	(136)	(147)
Fair value of plan assets at end of year	<u>\$ 353</u>	<u>535</u>	<u>626</u>

Pension Plans: Our investment objective for the pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits and minimize the risk of large losses. Our pension plan investment strategy is designed to meet this objective by broadly diversifying plan assets across numerous strategies with differing expected returns, volatilities and correlations. The pension plan assets have target allocations of 41.5% to interest rate sensitive investments and 58.5% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 26% of plan assets targeted primarily to long-duration investment grade bonds, 10.5% targeted to high yield and emerging market bonds and 5% targeted to diversified strategies, which primarily have exposures to global bonds, as well as some exposures to global stocks and commodities. Assets expected to provide higher returns than the interest rate sensitive assets include broadly diversified equity investments with targets of approximately 14.5% to U.S. stocks and 14.5% to developed and emerging market non-U.S. stocks. Approximately 11% is targeted to broadly diversified multi-asset class strategies that have the flexibility to adjust exposures to different asset classes. Approximately 10.5% is allocated to private markets investments including funds primarily invested in private equity, private debt and hedge funds. Real estate investments are targeted at 8% of plan assets. At the beginning of 2015, our expected annual long-term rate of return on pension assets is assumed to be 7.5%.

Post-Retirement Benefit Plans: Our investment objective for the post-retirement benefit plan assets is to achieve an attractive risk-adjusted return and minimize the risk of large losses over the expected life of the assets. Investment risk is managed by broadly diversifying assets across numerous strategies with differing expected returns, volatilities and correlations. Our investment strategy is designed to be consistent with the investment objective, with particular focus on providing liquidity for the reimbursement of our union-represented employees' post-retirement health care costs. The post-retirement benefit plan assets have target allocations of 30% to equities and 70% to non-equity investments. Specific target allocations within these broad categories are allowed to vary to provide liquidity in order to meet reimbursement requirements. Equity investments are broadly diversified with exposure to publicly traded U.S., non-U.S. and emerging market stocks and private market investments. While no new private market investments have been made in recent years, the percent allocation to existing private market investments is expected to increase as liquid, publicly traded stocks are drawn down for the reimbursement of health care costs. The 70% non-equity allocation includes investment grade bonds, real estate, hedge funds and diversified strategies. At the beginning of 2015, our expected annual long-term rate of return on post-retirement benefit plan assets is assumed to be 7.5%.

Permitted investments: Plan assets are managed consistent with the restrictions set forth by the Employee Retirement Income Security Act of 1974, as amended, which requires diversification of assets and also generally prohibits defined benefit and welfare plans from investing more than 10% of their assets in securities issued by the sponsor company. At December 31, 2014 and 2013, the pension and post-retirement benefit plans did not directly own any shares of our common stock or any of our debt.

Derivative instruments: Derivative instruments are used to reduce risk as well as provide return. The pension and post-retirement benefit plans use exchange traded futures to gain exposure to equity and Treasury markets consistent with target asset allocations. Interest rate swaps are used in the pension plans to reduce risk relative to measurement of the benefit obligation, which is sensitive to interest rate changes. Foreign exchange forward contracts are used to manage currency exposures. Credit default swaps are used to manage credit risk exposures in a cost effective and targeted manner relative to transacting with physical corporate fixed income securities. Options are currently used to manage interest rate exposure taking into account the implied volatility and current pricing of the specific underlying market instrument. Some derivative instruments subject the plans to counterparty risk. The external investment managers, along with Plan Management, monitor counterparty exposure and mitigate this risk by diversifying the exposure among multiple high credit quality counterparties, requiring collateral and limiting exposure by periodically settling contracts.

The gross notional exposure of the derivative instruments directly held by the plans is shown below. The notional amount of the derivatives corresponds to market exposure but does not represent an actual cash investment.

	Gross Notional Exposure				
	Pension Plans		Post-Retirement Benefit Plans		
			Years Ended December 31,		
	2014	2013	2014	2013	
	(Dollars in millions)				
<u>Derivative instruments:</u>					
Exchange-traded U.S. equity futures	\$	134	95	7	16
Exchange-traded non-U.S. equity futures		—	—	—	—
Exchange-traded Treasury futures		2,451	3,011	—	—
Interest rate swaps		579	556	—	—
Credit default swaps		382	253	—	—
Foreign exchange forwards		1,195	938	13	29
Options		529	261	—	—

Fair Value Measurements: 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. For additional information on the fair value hierarchy, see Note 10—Fair Value Disclosure.

At December 31, 2014, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2014:

- Level 1—Assets were valued using the closing price reported in the active market in which the individual security was traded.
- Level 2—Assets were valued using quoted prices in markets that are not active, broker dealer quotations, net asset value of shares held by the plans and other methods by which all significant input were observable at the measurement date.
- Level 3—Assets were valued using unobservable inputs in which little or no market data exists as reported by the respective institutions at the measurement date.

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values atDecember 31, 2014. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivables, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2014				
	Level 1	Level 2	Level 3	Total
(Dollars in millions)				
Investment grade bonds (a)	\$ 1,013	1,480	—	\$ 2,493
High yield bonds (b)	—	1,480	33	1,513
Emerging market bonds (c)	208	434	—	642
Convertible bonds (d)	—	14	—	14
Diversified strategies (e)	—	718	—	718
U.S. stocks (f)	1,389	87	—	1,476
Non-U.S. stocks (g)	1,169	384	—	1,553
Emerging market stocks (h)	—	102	—	102
Private equity (i)	—	—	673	673
Private debt (j)	—	—	395	395
Market neutral hedge funds (k)	—	928	100	1,028
Directional hedge funds (k)	—	530	28	558
Real estate (l)	—	483	216	699
Derivatives (m)	—	17	—	17
Cash equivalents and short-term investments (n)	—	690	—	690
Total investments	\$ 3,779	7,347	1,445	12,571
Total pension plan assets				\$ 12,571

Fair Value of Post-Retirement Plan Assets at December 31, 2014				
	Level 1	Level 2	Level 3	Total
(Dollars in millions)				
Investment grade bonds (a)	\$ 5	72	—	\$ 77
High yield bonds (b)	—	15	—	15
Emerging market bonds (c)	—	1	—	1
Diversified strategies (e)	—	89	—	89
U.S. stocks (f)	35	—	—	35
Non-U.S. stocks (g)	33	—	—	33
Emerging market stocks (h)	6	—	—	6
Private equity (i)	—	—	28	28
Private debt (j)	—	—	3	3
Market neutral hedge funds (k)	—	25	—	25
Directional hedge funds (k)	—	1	—	1
Real estate (l)	—	24	4	28
Cash equivalents and short-term investments (n)	—	12	—	12
Total investments	\$ 79	239	35	353
Total post-retirement plan assets				\$ 353

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values atDecember 31, 2013. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivable, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2013				
	Level 1	Level 2	Level 3	Total
(Dollars in millions)				
Investment grade bonds (a)	\$ 813	1,504	—	\$ 2,317
High yield bonds (b)	—	1,265	26	1,291
Emerging market bonds (c)	196	367	—	563
Convertible bonds (d)	—	389	—	389
Diversified strategies (e)	—	723	—	723
U.S. stocks (f)	1,408	92	—	1,500
Non-U.S. stocks (g)	1,159	299	—	1,458
Emerging market stocks (h)	—	110	—	110
Private equity (i)	—	—	721	721
Private debt (j)	—	—	436	436
Market neutral hedge funds (k)	—	867	99	966
Directional hedge funds (k)	—	582	32	614
Real estate (l)	—	306	265	571
Derivatives (m)	—	(34)	—	(34)
Cash equivalents and short-term investments (n)	—	721	—	721
Total investments	<u>\$ 3,576</u>	<u>7,191</u>	<u>1,579</u>	12,346
Total pension plan assets				<u>\$ 12,346</u>

Fair Value of Post-Retirement Plan Assets at December 31, 2013				
	Level 1	Level 2	Level 3	Total
(Dollars in millions)				
Investment grade bonds (a)	\$ 21	56	—	\$ 77
High yield bonds (b)	—	56	—	56
Emerging market bonds (c)	—	37	—	37
Diversified strategies (e)	—	86	—	86
U.S. stocks (f)	56	—	—	56
Non-U.S. stocks (g)	58	—	—	58
Emerging market stocks (h)	—	12	—	12
Private equity (i)	—	—	40	40
Private debt (j)	—	—	5	5
Market neutral hedge funds (k)	—	35	—	35
Directional hedge funds (k)	—	14	—	14
Real estate (l)	—	22	12	34
Cash equivalents and short-term investments (n)	—	24	—	24
Total investments	<u>\$ 135</u>	<u>342</u>	<u>57</u>	534
Contribution receivable				1
Total post-retirement plan assets				<u>\$ 535</u>

The plans' assets are invested in various asset categories utilizing multiple strategies and investment managers. For several of the investments in the tables above and discussed below, the plans own units in commingled funds and limited partnerships that invest in various types of assets. Interests in commingled funds are valued using the net asset value ("NAV") per unit of each fund. The NAV reported by the fund manager is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding. Commingled funds held by the plans that can be redeemed at NAV within a year of the financial statement date are generally classified as Level 2. Investments in limited partnerships represent long-term commitments with a fixed maturity date, typically ten years. Valuation inputs for these limited partnership interests are generally based on assumptions and other information not observable in the market and are classified as Level 3 investments. The assumptions and valuation methodologies of the pricing vendors, account managers, fund managers and partnerships are monitored and evaluated for reasonableness. Below is an overview of the asset categories, the underlying strategies and valuation inputs used to value the assets in the preceding tables:

(a) *Investment grade bonds* represent investments in fixed income securities as well as commingled bond funds comprised of U.S. Treasury securities, agencies, corporate bonds, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. Treasury securities are valued at the bid price reported in the active market in which the security is traded and are classified as Level 1. The valuation inputs of other investment grade bonds primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. The primary observable inputs include references to the new issue market for similar securities, the secondary trading markets and dealer quotes. Option adjusted spread models are utilized to evaluate securities such as asset backed securities that have early redemption features. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying fixed income securities using the same valuation inputs described above. The commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2.

(b) *High yield bonds* represent investments in below investment grade fixed income securities as well as commingled high yield bond funds. The valuation inputs for the securities primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying high yield instruments using the same valuation inputs described above. Commingled funds that can be redeemed at NAV within a year of the financial statement date are classified as Level 2. Commingled funds that cannot be redeemed at NAV or that cannot be redeemed at NAV within a year of the financial statement date are classified as Level 3.

(c) *Emerging market bonds* represent investments in securities issued by governments and other entities located in developing countries as well as registered mutual funds and commingled emerging market bond funds. The valuation inputs for the securities utilize observable market information and are primarily based on dealer quotes or a spread relative to the local government bonds. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying emerging market bonds using the same valuation inputs described above. The commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2. The registered mutual funds trade at the daily NAV, as determined by the market value of the underlying investments, and are classified as Level 1.

(d) *Convertible bonds* primarily represent investments in corporate debt securities that have features that allow the debt to be converted into equity securities under certain circumstances. The valuation inputs for the individual convertible bonds primarily utilize observable market information including a spread to U.S. Treasuries and the value and volatility of the underlying equity security. Convertible bonds are classified as Level 2.

(e) *Diversified strategies* represent an investment in a commingled fund that primarily has exposures to global government, corporate and inflation linked bonds, global stocks and commodities. The commingled fund is valued at NAV based on the market value of the underlying investments. The valuation inputs utilize observable market information including published prices for exchange traded securities, bid prices for government bonds, and spreads and yields available for comparable fixed income securities with similar credit ratings. This fund can be redeemed at NAV within a year of the financial statement date and is classified as Level 2.

(f) *U.S. stocks* represent investments in stocks of U.S. based companies as well as commingled U.S. stock funds. The valuation inputs for U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above. These commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2.

(g) *Non-U.S. stocks* represent investments in stocks of companies based in developed countries outside the U.S. as well as commingled funds. The valuation inputs for non-U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above. These commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2.

(h) *Emerging market stocks* represent investments in a registered mutual fund and commingled funds comprised of stocks of companies located in developing markets. Registered mutual funds trade at the daily NAV, as determined by the market value of the underlying investments, and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described previously for individual stocks. These commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2.

(i) *Private equity* represents non-public investments in domestic and foreign buy out and venture capital funds. Private equity funds are structured as limited partnerships and are valued according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The partnerships use valuation methodologies that give consideration to a range of factors, including but not limited to the price at which investments were acquired, the nature of the investments, market conditions, trading values on comparable public securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investments. These valuation methodologies involve a significant degree of judgment. Private equity investments are classified as Level 3.

(j) *Private debt* represents non-public investments in distressed or mezzanine debt funds. Mezzanine debt instruments are debt instruments that are subordinated to other debt issues and may include embedded equity instruments such as warrants. Private debt funds are structured as limited partnerships and are valued according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The valuation of underlying fund investments are based on factors including the issuer's current and projected credit worthiness, the security's terms, reference to the securities of comparable companies, and other market factors. These valuation methodologies involve a significant degree of judgment. Private debt investments are classified as Level 3.

(k) *Market neutral hedge funds* hold investments in a diversified mix of instruments that are intended in combination to exhibit low correlations to market fluctuations. These investments are typically combined with futures to achieve uncorrelated excess returns over various markets. *Directional hedge funds*—This asset category represents investments that may exhibit somewhat higher correlations to market fluctuations than the market neutral hedge funds. Investments in hedge funds include both direct investments and investments in diversified funds of funds. Hedge Funds are valued at NAV based on the market value of the underlying investments which include publicly traded equity and fixed income securities and privately negotiated debt securities. The hedge funds are valued by third party administrators using the same valuation inputs previously described. Hedge funds that can be redeemed at NAV within a year of the financial statement date are classified as Level 2. Hedge fund investments that cannot be redeemed at NAV or that cannot be redeemed at NAV within a year of the financial statement date are classified as Level 3.

(l) *Real estate* represents investments in commingled funds and limited partnerships that invest in a diversified portfolio of real estate properties. These investments are valued at NAV according to the valuation policy of each fund or partnership, subject to prevailing accounting and other regulatory guidelines. The valuation inputs of the underlying properties are generally based on third-party appraisals that use comparable sales or a projection of future cash flows to determine fair value. Real estate investments that can be redeemed at NAV within a year of the financial statement date are classified as Level 2. Real estate investments that cannot be redeemed at NAV or that cannot be redeemed at NAV within a year of the financial statement date are classified as Level 3.

(m) *Derivatives* include exchange traded futures contracts, as well as privately negotiated over-the-counter swaps and options that are valued based on the change in interest rates or a specific market index and are classified as Level 2. The market values represent gains or losses that occur due to fluctuations in interest rates, foreign currency exchange rates, security prices, or other factors.

(n) *Cash equivalents and short-term investments* represent investments that are used in conjunction with derivatives positions or are used to provide liquidity for the payment of benefits or other purposes. The valuation inputs of securities are based on a spread to U.S. Treasury Bills, the Federal Funds Rate, or London Interbank Offered Rate and consider yields available on comparable securities of issuers with similar credit ratings and are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above. These commingled funds can be redeemed at NAV within a year of the financial statement date and are classified as Level 2.

Concentrations of Risk: Investments, in general, are exposed to various risks, such as significant world events, interest rate, credit, foreign currency and overall market volatility risk. These risks are managed by broadly diversifying assets across numerous asset classes and strategies with differing expected returns, volatilities and correlations. Risk is also broadly diversified across numerous market sectors and individual companies. Financial instruments that potentially subject the plans to concentrations of counterparty risk consist principally of investment contracts with high quality financial institutions. These investment contracts are typically collateralized obligations and/or are actively managed, limiting the amount of counterparty exposure to any one financial institution. Although the investments are well diversified, the value of plan assets could change materially depending upon the overall market volatility, which could affect the funded status of the plans.

The table below presents a rollforward of the pension plan assets valued using Level 3 inputs:

	Pension Plan Assets Valued Using Level 3 Inputs						
	High Yield Bonds	Private Equity	Private Debt	Market Neutral Hedge Fund	Directional Hedge Funds	Real Estate	Total
	(Dollars in millions)						
Balance at December 31, 2012	\$ 59	711	465	—	194	337	1,766
Net transfers	—	—	—	—	(165)	—	(165)
Acquisitions	5	82	71	100	—	9	267
Dispositions	(43)	(179)	(144)	—	(1)	(97)	(464)
Actual return on plan assets:							
Gains relating to assets sold during the year	12	68	18	—	—	11	109
(Losses) gains relating to assets still held at year-end	(7)	39	26	(1)	4	5	66
Balance at December 31, 2013	26	721	436	99	32	265	1,579
Net transfers	6	4	—	—	—	(4)	6
Acquisitions	14	125	109	—	—	5	253
Dispositions	(16)	(246)	(111)	—	—	(61)	(434)
Actual return on plan assets:							
Gains relating to assets sold during the year	8	115	25	—	—	3	151
(Losses) gains relating to assets still held at year-end	(5)	(46)	(64)	1	(4)	8	(110)
Balance at December 31, 2014	<u>\$ 33</u>	<u>673</u>	<u>395</u>	<u>100</u>	<u>28</u>	<u>216</u>	<u>1,445</u>

The table below presents a rollforward of the post-retirement plan assets valued using Level 3 inputs:

	Post-Retirement Plan Assets Valued Using Level 3 Inputs			
	Private Equity	Private Debt	Real Estate	Total
	(Dollars in millions)			
Balance at December 31, 2012	\$ 45	6	28	79
Acquisitions	1	—	—	1
Dispositions	(11)	(1)	(18)	(30)
Actual return on plan assets:				
Gains (losses) relating to assets sold during the year	4	—	(1)	3
Gains relating to assets still held at year-end	1	—	3	4
Balance at December 31, 2013	40	5	12	57
Acquisitions	1	—	—	1
Dispositions	(15)	(2)	(8)	(25)
Actual return on plan assets:				
Gains relating to assets sold during the year	7	1	—	8
Losses relating to assets still held at year-end	(5)	(1)	—	(6)
Balance at December 31, 2014	<u>\$ 28</u>	<u>3</u>	<u>4</u>	<u>35</u>

Certain gains and losses are allocated between assets sold during the year and assets still held at year-end based on transactions and changes in valuations that occurred during the year. These allocations also impact our calculation of net acquisitions and dispositions.

For the year ended December 31, 2014, the investment program produced actual gains on qualified pension and post-retirement plan assets of \$1.410 billion as compared to the expected returns of \$924 million for a difference of \$486 million. For the year endedDecember 31, 2013, the investment program produced actual gains on pension and post-retirement plan assets of \$855 million as compared to the expected returns of \$935 million for a difference of \$80 million. The short-term annual returns on plan assets will almost always be different from the expected long-term returns and the plans could experience net gains or losses, due primarily to the volatility occurring in the financial markets during any given year.

Unfunded Status

The following table presents the unfunded status of the pensions and post-retirement benefit plans:

	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2014	2013	2014	2013
(Dollars in millions)				
Benefit obligation	\$ (15,042)	(13,401)	(3,830)	(3,688)
Fair value of plan assets	12,571	12,346	353	535
Unfunded status	<u>(2,471)</u>	<u>(1,055)</u>	<u>(3,477)</u>	<u>(3,153)</u>
Current portion of unfunded status	<u>\$ (6)</u>	<u>(5)</u>	<u>(134)</u>	<u>(154)</u>
Non-current portion of unfunded status	<u>\$ (2,465)</u>	<u>(1,050)</u>	<u>(3,343)</u>	<u>(2,999)</u>

The current portion of our post-retirement benefit obligations is recorded on our consolidated balance sheets in accrued expenses and other current liabilities-salaries and benefits.

Accumulated Other Comprehensive Loss-Recognition and Deferrals

The following tables present cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2013, items recognized as a component of net periodic benefits expense in 2014, additional items deferred during 2014 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2014. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

As of and for the Years Ended December 31,					
		Recognition of Net Periodic Benefits Expense	Deferrals	Net Change in AOCL	
	2013				2014
(Dollars in millions)					
Accumulated other comprehensive loss:					
Pension plans:					
Net actuarial (loss) gain	\$ (1,058)	85	(1,787)	(1,702)	(2,760)
Prior service (cost) benefit	(33)	5	(4)	1	(32)
Deferred income tax benefit (expense)	422	(34)	684	650	1,072
Total pension plans	(669)	56	(1,107)	(1,051)	(1,720)
Post-retirement benefit plans:					
Net actuarial (loss) gain	(37)	—	(240)	(240)	(277)
Prior service (cost) benefit	(163)	20	(23)	(3)	(166)
Deferred income tax benefit (expense)	78	(8)	101	93	171
Total post-retirement benefit plans	(122)	12	(162)	(150)	(272)
Total accumulated other comprehensive loss	\$ (791)	68	(1,269)	(1,201)	(1,992)

The following table presents estimated items to be recognized in 2015 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	Pension Plans	Post-Retirement Plans
(Dollars in millions)		
Estimated recognition of net periodic benefit expense in 2015:		
Net actuarial loss	\$ (148)	—
Prior service cost	(5)	(19)
Deferred income tax benefit	58	7
Estimated net periodic benefit expense to be recorded in 2015 as a component of other comprehensive income (loss)	\$ (95)	(12)

Medicare Prescription Drug, Improvement and Modernization Act of 2003

We sponsor post-retirement health care plans with several benefit options that provide prescription drug benefits that we deem actuarially equivalent to or exceeding Medicare Part D. We recognize the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of our 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 current employees was \$381 million, \$362 million and \$360 million for the years ended December 31, 2014, 2013 and 2012, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$136 million, \$117 million and \$113 million for the years ended December 31, 2014, 2013 and 2012, respectively. Our group basic life insurance plans are fully insured and the premiums are paid by us.

401(k) Plan

We sponsor qualified defined contribution benefit plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of employee contributions in cash. At December 31, 2014 and December 31, 2013, the assets of the plans included approximately 8 million and 9 million shares of our common stock, respectively, as a result of the combination of previous employer match and participant directed contributions. We recognized expenses related to these plans of \$81 million, \$89 million and \$76 million and for the years ended December 31, 2014, 2013 and 2012, respectively.

Deferred Compensation Plans

We sponsored non-qualified unfunded deferred compensation plans for various groups that included certain of our current and former highly compensated employees. The value of assets and liabilities related to these plans was not significant.

(8) Share-based Compensation

We maintain equity programs that allow our Board of Directors (through its Compensation Committee or our Chief Executive Officer as its delegate) to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units and market and performance shares. Stock options generally expire ten years from the date of grant. Until June 30, 2014, we offered an employee stock purchase plan, which allowed eligible employees to purchase our common stock at a 15% discount based on the lower of the beginning or ending stock price during recurring six month offering periods.

Stock Options

The following table summarizes activity involving stock option awards for the year ended December 31, 2014:

	<div>Number of Options</div>	<div>Weighted- Average Exercise Price</div>
	(in thousands)	
Outstanding and Exercisable at December 31, 2013	5,325	\$ 35.95
Exercised	(1,065)	28.57
Forfeited/Expired	(154)	32.68
Outstanding and Exercisable at December 31, 2014	4,106	37.99

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2014 was \$23 million. The weighted average remaining contractual term for such options was 2.7 years.

During 2014, we received net cash proceeds of \$30 million in connection with our option exercises. The tax benefit realized from these exercises was \$4 million. The total intrinsic value of options exercised for the years ended December 31, 2014, 2013 and 2012 was \$9 million, \$11 million and \$49 million, respectively.

Restricted Stock Awards

For equity based awards that contain only service conditions for vesting, we calculate the award fair value based on the closing stock price on the accounting grant date. For equity based restricted stock awards that contain market conditions, the award fair value is calculated through Monte-Carlo simulations.

During the first quarter of 2014, we granted approximately 440 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 250 thousand contained only service conditions and will vest on a straight-line basis on February 20, 2015, 2016 and 2017. The remaining awards contain market and service conditions and are scheduled to vest on February 20, 2017. These shares, with market and service conditions, represent only the target for the award, as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award depending on our total shareholder return versus that of selected peer companies for 2014, 2015 and 2016.

During the second quarter of 2014, we granted approximately 1.5 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 26, 2015, 2016 and 2017. During the third quarter of 2014 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 105 thousand, 325 thousand and 220 thousand vesting on August 4, 2017, 2019 and 2021, respectively.

The remaining awards granted throughout the year to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over athree year period.

During the second quarter of 2013, we granted approximately 335 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 223 thousand contained only service conditions and are scheduled to vest on a straight-line basis on May 23, 2014, 2015 and 2016. The remaining awards contain market and service conditions and will vest on May 23, 2016. These shares, with market and service conditions, represent only the target for the award as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award depending on, our total shareholder return versus that of selected peer companies for 2013, 2014 and 2015.

In addition, during the first and second quarter of 2013, we granted approximately 1.2 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions. The remaining awards granted throughout the year to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

During the first quarter of 2012, we granted approximately 402 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 201 thousand contained only service conditions and will vest on a straight-line basis on February 20, 2013, 2014 and 2015. The remaining awards contain market and service conditions and will vest on February 20, 2015. These shares, with market and service conditions, represent only the target for the award as each recipient has the opportunity to ultimately receive between 0% and 200% of the target restricted stock award depending on our total shareholder return for 2012, 2013 and 2014 in relation to that of the S&P 500 Index. As of December 31, 2014, none of the 2012 awards with market and service conditions are expected to vest.

In addition, during the first quarter of 2012, we granted restricted stock to certain key employees as part of our annual equity compensation program. These awards contained only service conditions. Approximately 519 thousand shares of awards will vest on a straight-line basis on January 9, 2013, 2014 and 2015. Approximately 873 thousand shares of awards will vest on a straight-line basis on March 15, 2013, 2014 and 2015. The remaining awards granted throughout the year to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest an equal portion annually over a three year period.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2014:

	Number of Shares	Weighted- Average Grant Date Fair Value
	(in thousands)	
Non-vested at December 31, 2013	3,625	\$ 37.33
Granted	2,851	35.87
Vested	(1,561)	36.48
Forfeited	(515)	38.10
Non-vested at December 31, 2014	4,400	36.59

During 2013, we granted 1.9 million shares of restricted stock and restricted stock unit awards at a weighted-average price of \$35.63. During 2012, we granted 2.1 million shares of restricted stock at a weighted-average price of \$39.13. The total fair value of restricted stock that vested during 2014, 2013 and 2012 was \$53 million, \$52 million and \$102 million, respectively.

Compensation Expense and Tax Benefit

We recognize compensation expense related to our market and performance share-based awards with graded vesting that only have a service condition on a straight-line basis over the requisite service period for the entire award. Total compensation expense for all share-based payment arrangements for the years ended December 31, 2014, 2013 and 2012 was \$75 million, \$63 million and \$78 million, respectively. Our tax benefit recognized in the consolidated statements of operations for our share-based payment arrangements for the years ended December 31, 2014, 2013 and 2012 was \$29 million, \$25 million and \$31 million, respectively. At December 31, 2014, there was\$112 million of total unrecognized compensation expense related to our share-based payment arrangements, which we expect to recognize over a weighted-average period of 2.2 years.

(9) Earnings (Loss) Per Common Share

Basic and diluted earnings (loss) per common share for the years ended December 31, 2014, 2013 and 2012 were calculated as follows:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions, except per share amounts, shares in thousands)		
Income (Loss) (Numerator):			
Net income (loss)	\$ 772	(239)	777
Earnings applicable to non-vested restricted stock	—	—	(1)
Net income (loss) applicable to common stock for computing basic earnings (loss) per common share	772	(239)	776
Net income (loss) as adjusted for purposes of computing diluted earnings (loss) per common share	\$ 772	(239)	776
Shares (Denominator):			
Weighted average number of shares:			
Outstanding during period	572,748	604,404	622,139
Non-vested restricted stock	(4,313)	(3,512)	(2,796)
Non-vested restricted stock units	—	—	862
Weighted average shares outstanding for computing basic earnings (loss) per common share	568,435	600,892	620,205
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	10	—	12
Shares issuable under incentive compensation plans	1,294	—	2,068
Number of shares as adjusted for purposes of computing diluted earnings (loss) per common share	569,739	600,892	622,285
Basic earnings (loss) per common share	\$ 1.36	(0.40)	1.25
Diluted earnings (loss) per common share	\$ 1.36	(0.40)	1.25

Our calculation of diluted earnings (loss) per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock during the periods reflected in the table above. Such potentially issuable shares averaged 2.5 million, 2.7 million and 2.2 million for 2014, 2013 and 2012, respectively. For the year endedDecember 31, 2013, due to the net loss position, we excluded from the calculation of diluted loss per share 1.3 million shares which were potentially issuable under incentive compensation plans or convertible securities, as their effect, if included, would have been anti-dilutive.

(10) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable 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 and accounts payable approximate their fair values.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

	Input Level	As of December 31, 2014		As of December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt excluding capital lease and other obligations	2	\$ 20,162	21,255	20,347	20,413

(11) Income Taxes

	Years Ended December 31,		
	2014	2013	2012
(Dollars in millions)			
Income tax expense was as follows:			
Federal			
Current	\$ 18	1	57
Deferred	305	403	361
State			
Current	26	62	15
Deferred	(14)	(8)	33
Foreign			
Current	3	9	7
Deferred	—	(4)	—
Total income tax expense	\$ 338	463	473

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Income tax expense was allocated as follows:			
Income tax expense in the consolidated statements of operations:			
Attributable to income	\$ 338	463	473
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(5)	(14)	(18)
Tax effect of the change in accumulated other comprehensive loss	(744)	554	(434)

The following is a reconciliation from the statutory federal income tax rate to our effective income tax rate:

	Years Ended December 31,		
	2014	2013	2012
	(Percentage of pre-tax income)		
Statutory federal income tax rate	35.0 %	35.0 %	35.0%
State income taxes, net of federal income tax benefit	2.7 %	2.8 %	2.5%
Impairment of goodwill	— %	188.5 %	—%
Reversal of liability for unrecognized tax position	0.4 %	(24.5)%	—%
Foreign income taxes	0.4 %	2.7 %	0.3%
Nondeductible accounting adjustment for life insurance	— %	3.1 %	—%
Release state valuation allowance	— %	(2.3)%	—%
Loss on worthless investment in foreign subsidiary	(5.4)%	— %	—%
Other, net	(2.6)%	1.4 %	—%
Effective income tax rate	30.5 %	206.7 %	37.8%

The 2014 effective tax rate is 30.5% compared to 206.7% for 2013. The 2014 rate reflects a \$60 million benefit for a worthless stock deduction for tax basis in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset and a \$13 million tax decrease due to changes in the state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of NOLs. The 2013 rate reflects the tax effect of a \$1.092 billion non-deductible goodwill impairment charge, a favorable settlement with the Internal Revenue Service of \$33 million, a \$22 million reduction due to the reversal of an uncertain tax position and the tax effect of a \$17 million unfavorable accounting adjustment for non-deductible life insurance costs. Also in 2013, the tax rate was decreased by a \$5 million reduction to the valuation allowance due to the estimated ability to utilize more state NOLs than previously expected. The 2012 rate reflects the \$16 million reversal of a valuation allowance related to the auction rate securities we sold in2012.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Deferred tax assets		
Post-retirement and pension benefit costs	\$ 2,276	1,618
Net operating loss carryforwards	1,091	1,532
Other employee benefits	214	182
Other	602	782
Gross deferred tax assets	4,183	4,114
Less valuation allowance	(409)	(435)
Net deferred tax assets	3,774	3,679
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(3,869)	(3,904)
Goodwill and other intangible assets	(2,908)	(3,226)
Other	(147)	(137)
Gross deferred tax liabilities	(6,924)	(7,267)
Net deferred tax liability	\$ (3,150)	(3,588)

Of the \$3.150 billion and \$3.588 billion net deferred tax liability at December 31, 2014 and 2013, respectively, \$4.030 billion and \$4.753 billion is reflected as a long-term liability and \$880 million and \$1.165 billion is reflected as a net current deferred tax asset at December 31, 2014 and 2013, respectively.

At December 31, 2014, we had federal NOLs of \$1.6 billion and state NOLs of \$12 billion. If unused, the NOLs will expire between 2015 and 2032; however, no significant amounts expire until 2020. At December 31, 2014, we had \$51 million (\$33 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2015 and 2024 if not utilized. In addition, at December 31, 2014 we had \$110 million of federal alternative minimum tax, or AMT, credits. Our acquisitions of Qwest and Savvis caused "ownership changes" within the meaning of Section 382 of the Internal Revenue Code ("Section 382"). As a result, our ability to use these NOLs and AMT credits are subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these tax attributes to reduce our future federal tax liabilities, although the timing of that use will depend upon our future earnings and future tax circumstances.

We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2014, a valuation allowance of \$409 million was established as it is more likely than not that this amount of net operating loss and tax credit carryforwards will not be utilized prior to expiration. Our valuation allowance at December 31, 2014 and 2013 is primarily related to state NOL carryforwards. This valuation allowance decreased by \$26 million during 2014.

A reconciliation of the change in our gross unrecognized tax benefits (excluding both interest and any related federal benefit) from January 1 to December 31 for 2014 and 2013 is as follows:

	2014	2013
	(Dollars in millions)	
Unrecognized tax benefits at beginning of year	\$ 14	78
Increase in tax positions taken in the prior year	9	—
Decrease due to the reversal of tax positions taken in a prior year	(2)	—
Decrease from the lapse of statute of limitations	(1)	(36)
Settlements	(3)	(28)
Unrecognized tax benefits at end of year	\$ 17	14

During 2012, we entered into negotiations with the IRS to resolve a claim that was filed by Qwest for 1999. Based on the status of the negotiations at year end 2012, we partially reversed an unrecognized tax benefit that was assumed as part of the Qwest acquisition. When the negotiations were settled in 2013, we fully reversed the amount of the unrecognized tax position and recorded a receivable for the anticipated refund, which was received in the second quarter of 2014.

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$32 million and \$29 million at December 31, 2014 and 2013, respectively.

Our policy is to reflect interest expense associated with unrecognized tax benefits in income tax expense. We had accrued interest (presented before related tax benefits) of approximately \$30 million at both December 31, 2014 and 2013.

We file income tax returns, including returns for our subsidiaries, with federal, state and local jurisdictions. Our uncertain income tax positions are related to tax years that are currently under or remain subject to examination by the relevant taxing authorities.

In 2012, Qwest filed an amended 2008 federal income tax return primarily to report the carryforward impact of prior year settlements. A refund was received for the amended 2008 federal income tax return in 2013. In 2013, Qwest filed an amended 2009 federal income tax return primarily to report the carryforward impact of prior year settlements. The refund for the 2009 amended return filed in 2013 was received in 2014. In 2014, Qwest filed an amended federal income tax return for 2010. The refund claim filed for 2010 was accepted by the IRS and the refund is expected to be received in 2015. The 2010 amended return released certain general business credits that were required to be carried back to 2009. As a result, a subsequent 2009 federal amended return was filed by Qwest in 2014 to reflect the carrybacks from 2010. The 2009 refund claim filed in 2014 was accepted by the IRS and the refund is expected to be received in 2015.

Beginning with the 2010 tax year, our federal consolidated returns are subject to annual examination by the IRS. Qwest's federal consolidated returns for the 2010 and pre-merger 2011 tax years are open to examination by the IRS. Federal consolidated returns for Savvis for tax years 2010 and pre-merger 2011 are under examination by the IRS.

In years prior to 2011, Qwest filed amended federal income tax returns for 2002-2007 to make protective claims with respect to items reserved in their 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.

Our open income tax years by major jurisdiction are as follows at December 31, 2014:

Jurisdiction	Open Tax Years
Federal	2010—current
State	
Florida	2010—current
Minnesota	2011—current
Other states	2010—current

Since the period for assessing additional liability typically begins upon the filing of a return, it is possible that certain jurisdictions could assess tax for years prior to the open tax years disclosed above. Additionally, it is possible that certain jurisdictions in which we do not believe we have an income tax filing responsibility, and accordingly did not file a return, may attempt to assess a liability, or that other jurisdictions to which we pay taxes may attempt to assert that we owe additional taxes.

Based on our current assessment of various factors, including (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, and (iv) the administrative practices of applicable taxing jurisdictions, it is reasonably possible that the related unrecognized tax benefits for uncertain tax positions previously taken may decrease by up to \$8 million within the next 12 months. The actual amount of such decrease, if any, will depend on several future developments and events, many of which are outside our control.

(12) Segment Information

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as four segments: consumer, business, wholesale and hosting. As a result of this reorganization, we now operate and report the following two segments in our consolidated financial statements:

- Business.* Consists generally of providing strategic, legacy and data integration products and services to enterprise, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our private line (including special access), broadband, Ethernet, MPLS, Voice over Internet Protocol ("VoIP"), network management services, colocation, managed hosting and cloud hosting services. Our legacy services offered to these customers primarily include switched access, long-distance, and local services, including 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; and
- Consumer.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance services.

We have restated previously reported segment results for the years ended December 31, 2013 and 2012 due to the above-described organizational restructure on November 1, 2014. The following table summarizes our segment results for 2014, 2013 and 2012 based on the segment categorization we were operating under at December 31, 2014.

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Total segment revenues	\$ 17,028	17,095	17,320
Total segment expenses	8,509	8,167	8,147
Total segment income	<u>\$ 8,519</u>	<u>8,928</u>	<u>9,173</u>
Total margin percentage	50%	52%	53%
Business:			
Revenues	\$ 11,034	11,091	11,156
Expenses	6,089	5,808	5,729
Income	<u>\$ 4,945</u>	<u>5,283</u>	<u>5,427</u>
Margin percentage	45%	48%	49%
Consumer:			
Revenues	\$ 5,994	6,004	6,164
Expenses	2,420	2,359	2,418
Income	<u>\$ 3,574</u>	<u>3,645</u>	<u>3,746</u>
Margin percentage	60%	61%	61%

Recent Changes in Segment Reporting

We have recast our previously reported segment results due to the reorganization of our business. The segment recast resulted in increases in consumer segment expenses and decreases in business segment expenses for the years ended December 31, 2013 and 2012. The nature of the most significant changes to segment expenses are as follows:

- Certain business segment expenses were reassigned to consumer segment expense; and
- Certain business segment expenses were reassigned to corporate overhead.

For the years ended December 31, 2013 and 2012, the segment recast resulted in an increase in consumer expenses of\$28 million and\$32 million, respectively, and a decrease in business expenses of\$45 million and \$59 million, respectively.

During 2014, we adopted several changes with respect to the assignment of certain expenses to our then segments. We have restated our previously reported segment results for the years ended December 31, 2013 and 2012 to conform to the current presentation. The nature of the most significant changes to segment expenses are as follows:

- The method for allocating certain shared costs of consumer sales and care, including bad debt expense and credit card fees, was revised, which resulted in an increase in consumer segment expenses with a corresponding decrease in business segment expenses; and
- The progress of our integration efforts and centralization of certain administrative functions enabled us to discontinue the inclusion of finance, information technology, legal and human resources expenses in our then hosting segment, which resulted in a decrease in business segment expenses.

For the years ended December 31, 2013 and 2012, the reassignments of expenses resulted in an increase in consumer expenses of \$100 million and \$95 million, respectively, and a decrease in business expenses of \$165 million for both years.

Product and Service Categories

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

- *Strategic services*, which include primarily broadband, private line (including special access), MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video), hosting (including cloud hosting and managed hosting), colocation, Ethernet, video (including resold satellite and our facilities-based video services), VoIP and Verizon Wireless services;
- *Legacy services*, which include primarily local, long-distance, switched access, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), and traditional wide area network ("WAN") services (which allow a local communications network to link to networks in remote locations);
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our governmental and business customers; and
- *Other revenues*, which consist primarily of Universal Service Fund ("USF") revenue and surcharges. Unlike the first three revenue categories, other revenues are not included in our segment revenues.

Our operating revenues for our products and services consisted of the following categories for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Strategic services	\$ 9,200	8,823	8,427
Legacy services	7,138	7,616	8,221
Data integration	690	656	672
Other	1,003	1,000	1,056
Total operating revenues	<u>\$ 18,031</u>	<u>18,095</u>	<u>18,376</u>

Other operating 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 also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, we do not allocate these revenues to any of our two segments presented above.

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 \$526 million, \$489 million and \$531 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.

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our strategic, legacy and data integration operations as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. Our segment expenses for our two segments include specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities; and allocated expenses which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses. We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a total company basis and have not allocated assets or debt to specific segments. Other income (expense) is not monitored as a part of our segment operations and is therefore excluded from our segment results.

The following table reconciles segment income to net income for the years ended December 31, 2014, 2013 and 2012:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Total segment income	\$ 8,519	8,928	9,173
Other operating revenues	1,003	1,000	1,056
Depreciation and amortization	(4,428)	(4,541)	(4,780)
Impairment of goodwill	—	(1,092)	—
Other unassigned operating expenses	(2,684)	(2,842)	(2,736)
Other expenses, net	(1,300)	(1,229)	(1,463)
Income tax expense	(338)	(463)	(473)
Net income (loss)	<u>\$ 772</u>	<u>(239)</u>	<u>777</u>

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

(13) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in millions, except per share amounts)					
2014					
Operating revenues	\$ 4,538	4,541	4,514	4,438	18,031
Operating income	653	655	619	483	2,410
Net income	203	193	188	188	772
Basic earnings per common share	0.35	0.34	0.33	0.33	1.36
Diluted earnings per common share	0.35	0.34	0.33	0.33	1.36
2013					
Operating revenues	\$ 4,513	4,525	4,515	4,542	18,095
Operating income (loss)	782	715	(685)	641	1,453
Net income (loss)	298	269	(1,045)	239	(239)
Basic earnings (loss) per common share	0.48	0.45	(1.76)	0.41	(0.40)
Diluted earnings (loss) per common share	0.48	0.44	(1.76)	0.41	(0.40)

During the fourth quarter of 2014, we recognized a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset that occurred in the first quarter of 2014. During the fourth quarter of 2014, we also recognized a pension settlement charge of \$63 million. The net loss of \$1.045 billion in the third quarter of 2013 is primarily due to a goodwill impairment charge of \$1.1 billion and a charge of \$233 million in connection with a then tentative settlement in a litigation matter.

(14) Commitments and Contingencies

We are vigorously defending against all of the matters described below. As a matter of course, we are prepared both to litigate the matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have established accrued liabilities for the matters described below where losses are deemed probable and reasonably estimable.

Pending Matters

In *William Douglas Fulghum, et al. v. Embarq Corporation, et al.*, filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, was expected to reduce estimated future expenses for the subject benefits by more than \$300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefits plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The Court certified a class on certain of plaintiffs' claims, but rejected class certification as to other claims. On October 14, 2011, the *Fulghum* lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* In *Abbott*, approximately 1,500 plaintiffs allege breach of fiduciary duty in connection with the changes in retiree benefits that also are at issue in the *Fulghum* case. The *Abbott* plaintiffs are all members of the class that was certified in *Fulghum* on claims for allegedly vested benefits (Counts I and III), and the *Abbott* claims are similar to the *Fulghum* breach of fiduciary duty claim (Count II), on which the *Fulghum* court denied class certification. The Court has stayed proceedings in *Abbott* indefinitely, except for limited discovery and motion practice as to approximately 80 of the plaintiffs. On February 14, 2013, the *Fulghum* court dismissed the majority of the plaintiffs' claims in that case. On July 16, 2013, the *Fulghum* court granted plaintiffs' request to seek interlocutory review by the United States Court of Appeals for the Tenth Circuit. Embarq and the other defendants are defending the appeal, continue to vigorously contest any remaining claims in *Fulghum* and seek to have the claims in the *Abbott* case dismissed on similar grounds. We have not accrued a liability for these matters because we believe it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

In December 2009, subsidiaries of CenturyLink filed two lawsuits against subsidiaries of Sprint Nextel to recover terminating access charges for VoIP traffic owed under various interconnection agreements and tariffs which originally approximated \$34 million in the aggregate. In connection with the first lawsuit, a federal court in Virginia issued a ruling in our favor, which resulted in Sprint paying us approximately \$24 million. The other lawsuit is pending in federal court in Louisiana. In that case, in early 2011 the Court dismissed certain of CenturyLink's claims, referred other claims to the Federal Communications Commission ("FCC"), and stayed the litigation. In April 2012, Sprint Nextel filed a petition with the FCC, seeking a declaratory ruling that CenturyLink's access charges do not apply to VoIP originated calls, and earlier this year, CenturyLink filed a complaint with the Missouri Public Service Commission to collect the portion of the remaining unpaid charges arising in that state. We have not deferred any revenue recognition related to these matters.

On July 16, 2013, Comcast MO Group, Inc. ("Comcast") filed a lawsuit in Colorado state court against Qwest Communications International Inc. ("Qwest"). Comcast alleges Qwest breached the parties' 1998 tax sharing agreement ("TSA") when it refused to partially indemnify Comcast for a tax liability settlement Comcast reached with the Commonwealth of Massachusetts in a dispute to which we were not a party. Comcast seeks approximately \$80 million in damages, excluding interest. Qwest and Comcast are parties to the TSA in their capacities as successors to the TSA's original parties, U S WEST, Inc., a telecommunications company, and MediaOne Group, Inc., a cable television company, respectively. In October 2014, the state court granted summary judgment in Qwest's favor. In November 2014, Comcast filed a Notice of Appeal. We have not accrued a liability for this matter because we do not believe that liability is probable.

On September 13, 2006, Cargill Financial Markets, Plc ("Cargill") and Citibank, N.A. ("Citibank") filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, Koninklijke KPN N.V., KPN Telecom B.V., and other former officers, employees or supervisory board members of KPNQwest N.V. ("KPNQwest"), some of whom were formerly affiliated with Qwest. The lawsuit alleges that defendants misrepresented KPNQwest's financial and business condition in connection with the origination of a credit facility and wrongfully allowed KPNQwest to borrow funds under that facility. Plaintiffs allege damages of approximately €219 million (or approximately \$266 million based on the exchange rate on December 31, 2014). The value of this claim will be reduced to the degree plaintiffs receive recovery from a distribution of assets from the bankruptcy estate of KPNQwest. The extent of such expected recovery is not yet known. On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank have appealed that decision. We do not believe that liability is probable in this matter.

The terms and conditions of applicable bylaws, certificates or articles of incorporation, agreements or applicable law may obligate Qwest to indemnify its former directors, officers or employees with respect to the Cargill matter described above, and Qwest has been advancing legal fees and costs to certain former directors, officers or employees in connection with that matter.

Several putative class actions relating to the installation of fiber optic cable in certain rights-of-way were filed against Qwest on behalf of landowners on various dates and in courts located in 34 states in which Qwest has such cable (Alabama, Arizona, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, and Wisconsin.) For the most part, the complaints challenge our right to install our fiber optic cable in railroad rights-of-way. The complaints allege that the railroads own the right-of-way as an easement that did not include the right to permit us to install our cable in the right-of-way without the plaintiffs' consent. In general, the complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. After previous attempts to enter into a single nationwide settlement in a single court proved unsuccessful, the parties proceeded to seek court approval of settlements on a state-by-state basis. To date, the parties have received final approval of such settlements in 31 states. The settlement administration process, including claim submission and evaluation, is continuing in relation to a number of these settlements. The parties have not yet received final approval in two states (Texas and New Mexico). There is one state where an action was at one time, but is not currently, pending (Arizona). We have accrued an amount that we believe is probable for resolving these matters; however, the amount is not material to our consolidated financial statements.

CenturyLink and certain of its affiliates are defendants in one consolidated securities and four shareholder derivative actions. The actions are pending in federal court in the Western District of Louisiana. Plaintiffs in these actions have variously alleged, among other things, that CenturyLink and certain of its current and former officers and directors violated federal securities laws and/or breached fiduciary duties owed to the Company and its shareholders. Plaintiffs' complaints focus on alleged material misstatements or omissions concerning CenturyLink's financial condition and changes in CenturyLink's capital allocation strategy in early 2013. These matters are in preliminary phases and the Company intends to defend against the filed actions vigorously. We have not accrued a liability for these matters as it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

The local exchange carrier subsidiaries of CenturyLink 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 our local exchange carriers 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 our affiliated carriers, have petitioned the Federal Communications Commission to address these issues on an industry-wide basis.

As both an interexchange carrier and a local exchange carrier, we both pay and assess significant amounts of the access charges in question. 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.

Other Proceedings and Disputes

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.

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:

	Years Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Assets acquired through capital leases	\$ 37	12	209
Depreciation expense	126	136	150
Cash payments towards capital leases	118	119	113

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Assets included in property, plant and equipment	\$ 850	877
Accumulated depreciation	393	338

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

	Future Minimum Payments	
	(Dollars in millions)	
Capital lease obligations:		
2015	\$	104
2016		76
2017		74
2018		72
2019		61
2020 and thereafter		284
Total minimum payments		671
Less: amount representing interest and executory costs		(182)
Present value of minimum payments		489
Less: current portion		(73)
Long-term portion	\$	416

Operating Leases

CenturyLink leases 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 \$446 million, \$455 million and \$445 million, respectively. We also received sublease rental income for the years ended December 31, 2014, 2013 and 2012 of \$14 million, \$16 million and \$18 million, respectively.

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

	Future Minimum Payments	
	(Dollars in millions)	
2015	\$	311
2016		280
2017		257
2018		233
2019		202
2020 and thereafter		974
Total future minimum payments ⁽¹⁾	\$	2,257

⁽¹⁾ Minimum payments have not been reduced by minimum sublease rentals of \$91 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 \$407 million at December 31, 2014. Of this amount, we expect to purchase \$141 million in 2015, \$154 million in 2016 through 2017, \$50 million in 2018 through 2019 and \$62 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.

(15) 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	\$ 260	266
Materials, supplies and inventory	132	167
Assets held for sale	14	26
Deferred activation and installation charges	103	94
Other	71	44
Total other current assets	\$ 580	597

Assets held for sale includes several assets that we expect to sell within the next twelve months. During 2014, we sold our remaining 700 MHz A-Block wireless spectrum licenses, which we purchased in 2008 but never placed into service. As a result of changes in market conditions and prevailing spectrum prices, we recorded an impairment charge of \$14 million, which is included in other income, net in our consolidated statements of operations for the for the year ended December 31, 2014. The sale closed on November 3, 2014, and we received\$39 million in cash in the aggregate.

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable and other current liabilities as follows:

	As of December 31	
	2014	2013
	(Dollars in millions)	
Accounts payable	\$ 1,226	1,111
Other current liabilities:		
Accrued rent	\$ 34	52
Legal reserves	27	273
Other	149	189
Total other current liabilities	\$ 210	514

Included in accounts payable at December 31, 2014 and 2013 were \$80 million and \$88 million, respectively, representing book overdrafts and \$185 million and \$140 million, respectively, associated with capital expenditures. Included in legal reserves at December 31, 2013, was \$235 million related to the then tentative settlement agreement with the trustees in the KPNQwest Dutch bankruptcy proceeding. In February 2014, we paid approximately €171 million (or approximately \$235 million) to settle this proceeding.

(16) Labor Union Contracts

Approximately 36% 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"). As of December 31, 2014, approximately two thousand or 4% of our employees are subject to additional collective bargaining agreements that expired in 2014. We believe that relations with our employees continue to be generally good. We are currently negotiating the terms of new agreements covering these employees. Additionally, approximately two thousand, or 4%, of our employees are subject to collective bargaining agreements that expire in 2015.

(17) Repurchase of CenturyLink Common Stock

In February 2013, our Board of Directors authorized us to repurchase up to \$2 billion of our outstanding common stock. On May 29, 2014, we completed the 2013 stock repurchase program, repurchasing over the course of the program a total of 59.5 million shares in the open market at an average purchase price of \$33.63 per share. Of those aggregate amounts, we repurchased 13.7 million shares in the open market during the first half of 2014 for an aggregate market price of \$433 million, or an average purchase price of \$31.54 per share. All shares of common stock repurchased under our 2013 stock repurchase program have been retired.

In February 2014, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This 2014 stock repurchase program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. During the year ended December 31, 2014, we repurchased 5.2 million shares of our outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$200 million, or an average purchase price of \$38.40 per share. The repurchased common stock has been retired. These repurchased shares exclude shares that, as of December 31, 2014, we had agreed to purchase under this program for an aggregate of \$6 million, or an average purchase price of \$40.22 per share, in transactions that settled early in the first quarter of 2015. The \$6 million in shares excluded from the repurchase is included in other current liabilities on our consolidated balance sheet as of December 31, 2014. As of December 31, 2014, we had approximately \$800 million in stock remaining available for repurchase under the Stock Repurchase Program. As of February 20, 2015, we had repurchased 7.7 million shares for \$298 million, or an average purchase price of \$38.57 per share.

(18) Accumulated Other Comprehensive Loss

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2014:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2013	\$ (669)	(122)	(11)	(802)
Other comprehensive income (loss) before reclassifications	(1,107)	(162)	(15)	(1,284)
Amounts reclassified from accumulated other comprehensive income	56	12	1	69
Net current-period other comprehensive income (loss)	(1,051)	(150)	(14)	(1,215)
Balance at December 31, 2014	<u>\$ (1,720)</u>	<u>(272)</u>	<u>(25)</u>	<u>(2,017)</u>

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2014:

Year Ended December 31, 2014	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ 85	See Note 7—Employee Benefits
Prior service cost	25	See Note 7—Employee Benefits
Total before tax	110	
Income tax expense (benefit)	(42)	Income tax expense
Insignificant items	1	
Net of tax	<u>\$ 69</u>	

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2013:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2012	\$ (1,399)	(289)	(13)	(1,701)
Other comprehensive income (loss) before reclassifications	675	164	1	840
Amounts reclassified from accumulated other comprehensive income	55	3	1	59
Net current-period other comprehensive income (loss)	730	167	2	899
Balance at December 31, 2013	<u>\$ (669)</u>	<u>(122)</u>	<u>(11)</u>	<u>(802)</u>

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2013:

Year Ended December 31, 2013	Decrease (Increase) in Net Loss	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
(Dollars in millions)		
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ (88)	See Note 7—Employee Benefits
Prior service cost	(5)	See Note 7—Employee Benefits
Total before tax	(93)	
Income tax expense (benefit)	35	Income tax expense
Insignificant items	(1)	
Net of tax	<u>\$ (59)</u>	

(19) Dividends

Our Board of Directors declared the following dividends payable in 2014 and 2013:

Date Declared	Record Date	Dividend Per Share	Total Amount (in millions)	Payment Date
November 11, 2014	11/24/2014	\$ 0.540	\$ 307	12/5/2014
August 19, 2014	8/29/2014	\$ 0.540	\$ 308	9/12/2014
May 28, 2014	6/9/2014	\$ 0.540	\$ 307	6/20/2014
February 24, 2014	3/10/2014	\$ 0.540	\$ 309	3/21/2014
November 12, 2013	11/25/2013	\$ 0.540	\$ 321	12/6/2013
August 27, 2013	9/6/2013	\$ 0.540	\$ 321	9/19/2013
May 22, 2013	6/3/2013	\$ 0.540	\$ 320	6/14/2013
February 27, 2013	3/11/2013	\$ 0.540	\$ 339	3/22/2013

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2013 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with General Accepted Accounting Principles.

Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") at December 31, 2014. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

Management’s Report on the Consolidated Financial Statements

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements for the year ended December 31, 2014. The consolidated financial statements included in this Annual Report have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

Audit Committee

The Audit Committee of the Board of Directors is composed of independent directors who are not officers or employees. The Committee meets periodically with the external auditors, internal auditors and management. The Committee considers the independence of the external auditors and the audit scope and discusses internal control, financial and reporting matters. Both the external and internal auditors have free access to the Committee.

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), a process designed 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. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective at December 31, 2014. The effectiveness of our internal control over financial reporting at December 31, 2014 has been audited by KPMG LLP, as stated in their report which is included herein.

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.

See the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during 2014 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

<div>/s/ Glen F. Post, III</div> <div>Glen F. Post, III</div> <div>Chief Executive Officer, President and Director</div>	<div>/s/ R. Stewart Ewing, Jr.</div> <div>R. Stewart Ewing, Jr.</div> <div>Executive Vice President, Chief Financial Officer and Assistant Secretary</div>
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February 24, 2015

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Proxy Statement.

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2014 about our equity compensation plans under which Common Shares are authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	926,744 ⁽¹⁾	\$ 44.13 ⁽²⁾	22,637,230
Equity compensation plans not approved by shareholders ⁽³⁾	3,179,284	36.20	—
Totals	4,106,028 ⁽¹⁾	\$ 37.99 ⁽²⁾	22,637,230

⁽¹⁾ These amounts include restricted stock units, which represent the difference between the number of shares of restricted stock subject to market conditions granted at target and the maximum possible payout for these awards. Depending on performance, the actual share payout of these awards may range between 0-200% of target.

⁽²⁾ The amounts in column (a) include restricted stock units, which do not have an exercise price. Consequently, those awards were excluded from the calculation of this exercise price.

⁽³⁾ These amounts represent common shares to be issued upon exercise of options that were assumed in connection with certain acquisitions.

The balance of the information required by Item 12 is incorporated by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the Proxy Statement.

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.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of October 26, 2008, by and among CenturyLink, Inc., Embarq Corporation and Cajun Acquisition Company (incorporated by reference to Exhibit 99.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on October 30, 2008).
2.2	Agreement and Plan of Merger, dated as of April 21, 2010, by and among CenturyLink, Inc., its subsidiary SB44 Acquisition Company, and Qwest Communications International Inc. (incorporated by reference to Exhibit 2.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 27, 2010).
2.3	Agreement and Plan of Merger, dated as of April 26, 2011, by and among CenturyLink, Inc., SAVVIS, Inc. and Mimi Acquisition Company (incorporated by reference to Exhibit 2.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 27, 2011).
3.1	Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 30, 2012).
3.2	Bylaws of CenturyLink, Inc., as amended and restated through November 4, 2010 (incorporated by reference to Exhibit 3.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.10 of CenturyLink, Inc.'s Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 2, 2012 (Registration No. 333-179888)).
4.2	Instruments relating to CenturyLink, Inc.'s Revolving Credit Facility. <div><div>a.</div><div>Amended and Restated Credit Agreement, dated as of April 6, 2012, by and among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012), as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.3 of CenturyLink, Inc.’s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).</div><div>b.</div><div>Guarantee Agreement, dated as of April 6, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the Amendment to Guarantee Agreement and Reaffirmation Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the affiliated guarantors named therein (incorporated by reference to Exhibit 4.4 of CenturyLink, Inc.’s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).</div></div>
4.3	Instruments relating to CenturyLink, Inc.'s Term Loan. <div><div>a.</div><div>Credit Agreement, dated as of April 18, 2012, by and among CenturyLink, Inc., the several banks and other financial institutions or entities from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012).</div><div>b.</div><div>Guarantee Agreement, dated as of April 18, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.3(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013).</div></div>

(1) Certain of the items in Sections 4.4, 4.5 and 4.6 (i) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

Exhibit Number	Description
4.4	Instruments relating to CenturyLink, Inc.'s public senior debt. ⁽¹⁾
a.	Indenture, dated as of March 31, 1994, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana), as Trustee.*
(i).	Form of 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996).
(ii).	Form of 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 1998).
b.	Third Supplemental Indenture, dated as of February 14, 2005, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5% Senior Notes, Series M, due 2015 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 000-50260) filed with the Securities and Exchange Commission on February 15, 2005).
(i).	Form of 5% Senior Notes, Series M, due 2015 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 000-50260) filed with the Securities and Exchange Commission on February 15, 2005).
c.	Fourth Supplemental Indenture, dated as of March 26, 2007, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007).
(i).	Form of 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007).
d.	Fifth Supplemental Indenture, dated as of September 21, 2009, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
(i).	Form of 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
e.	Sixth Supplemental Indenture, dated as of June 16, 2011, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
(i).	Form of 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
f.	Seventh Supplemental Indenture, dated as of March 12, 2012, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).
(i).	Form of 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).
g.	Eighth Supplemental Indenture, dated as of March 21, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).

Exhibit Number	Description
	<ul style="list-style-type: none"> (i). Form of 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).
	<ul style="list-style-type: none"> h. Ninth Supplemental Indenture, dated as of November 27, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).
	<ul style="list-style-type: none"> (i). Form of 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).
4.5	Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries. ⁽¹⁾
	<ul style="list-style-type: none"> a. 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).
	<ul style="list-style-type: none"> (i). 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).
	<ul style="list-style-type: none"> b. 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).
	<ul style="list-style-type: none"> (i). 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).
	<ul style="list-style-type: none"> c. Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and The First National Bank of Chicago, as trustee (incorporated by reference to Exhibit 4(a) of U S WEST, Inc.'s Current Report on Form 8-K (File No. 001-14087) filed with the Securities and Exchange Commission on November 18, 1998).
	<ul style="list-style-type: none"> (i). First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.10 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-15577) filed with the Securities and Exchange Commission on August 11, 2000).
	<ul style="list-style-type: none"> d. Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
	<ul style="list-style-type: none"> (i). 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).
	<ul style="list-style-type: none"> (ii). 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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on June 23, 2005).
	<ul style="list-style-type: none"> (iii). 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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on August 8, 2006).

Exhibit Number	Description
	<ul style="list-style-type: none"> (iv). 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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on May 18, 2007). (v). 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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on April 13, 2009). (vi). 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). (vii). 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). (viii). 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). (ix). 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). (x). Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012). (xi). Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013). (xii). 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).
	e. 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.*
4.6	Instruments relating to indebtedness of Embarq Corporation. ⁽¹⁾ <ul style="list-style-type: none"> a. Indenture, dated as of May 17, 2006, by and between Embarq Corporation and J.P. Morgan Trust Company, National Association, a national banking association, as trustee (incorporated by reference to Exhibit 4.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on May 18, 2006). b. 7.082% Global Note due 2016 of Embarq Corporation (incorporated by reference to Exhibit 4.3 to Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007). c. 7.995% Global Note due 2036 of Embarq Corporation (incorporated by reference to Exhibit 4.4 to Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).
4.7	Intercompany debt instruments. <ul style="list-style-type: none"> a. Revolving Promissory Note, dated as of April 2, 2012 pursuant to which Embarq Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$2.5 billion on a revolving basis (incorporated by reference to Exhibit 4.7(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012). b. 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 September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).

Exhibit Number	Description
10.1	<p>c. Revolving Promissory Note, dated as of September 27, 2012, pursuant to which Qwest Communications International, Inc. may borrow from an affiliate of CenturyLink, Inc. up to \$3.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(c) of CenturyLink Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-07844) filed with the Securities and Exchange Commission on March 1, 2013).</p>
	<p>Qualified Employee Benefit Plans of CenturyLink, Inc. (excluding several narrow-based qualified plans that cover union employees or other limited groups of employees).</p>
	<p>a. CenturyLink Dollars & Sense 401(k) Plan and Trust, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by the First Amendment and the Second Amendment thereto, each dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by the Third Amendment thereto dated as of November 20, 2008 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by the Fourth Amendment thereto dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by the Fifth Amendment thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Sixth Amendment thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Seventh Amendment thereto, effective May 20, 2010 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by the Eighth Amendment thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</p> <p>b. CenturyLink Union 401(k) Plan and Trust, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by the First Amendment thereto dated as of May 29, 2007 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008), as amended by the Second Amendment thereto dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by the Third Amendment thereto dated as of November 20, 2008 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by the Fourth Amendment thereto dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by the Fifth Amendment thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Sixth Amendment thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Seventh Amendment thereto, effective May 20, 2010 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by the Eighth Amendment thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</p>

Exhibit Number	Description
c.	CenturyLink Retirement Plan, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by Amendment No. 1 thereto dated as of April 2, 2007 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008), as amended by Amendment No. 2 thereto dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by Amendment No. 3 thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.1(c) CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by Amendment No. 4 dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by Amendment No. 5 thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by Amendment No. 6 thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by Amendment No. 7 thereto, effective at various dates during 2010 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by Amendment No. 8 thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.2	Stock-based Incentive Plans and Agreements of CenturyLink
a.	Amended and Restated 1983 Restricted Stock Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).
b.	Amended and Restated 2000 Incentive Compensation Plan, as amended through May 23, 2000 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-07784) filed with the Securities and Exchange Commission on August 11, 2000) and amendment thereto dated as of May 29, 2003 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2003 (File No. 001-7784) filed with the Securities and Exchange Commission on August 14, 2003). <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of May 21, 2001, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002). (ii) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of February 25, 2002, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(d) (ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2003).
c.	Amended and Restated 2002 Directors Stock Option Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.2(d) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009). <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 10, 2002 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on November 14, 2002).

Exhibit Number	Description
	<ul style="list-style-type: none"> (ii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 9, 2003 (incorporated by reference to Exhibit 10.2(e)(ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004). (iii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 7, 2004 (incorporated by reference to Exhibit 10.2(d)(iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006).
d.	<p>Amended and Restated 2002 Management Incentive Compensation Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).</p> <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain of its officers and key employees at various dates during 2002 following May 9, 2002 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on November 14, 2002). (ii) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 24, 2003, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(f)(ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2003). (iii) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 25, 2004, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(f)(iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004). (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 24, 2003, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on May 14, 2003). (v) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 25, 2004, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(f)(v) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on May 7, 2004). (vi) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 17, 2005, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(e)(v) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on March 16, 2005). (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(e)(vi) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on March 16, 2005).
e.	<p>Amended and Restated 2005 Directors Stock Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).</p> <ul style="list-style-type: none"> (i) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 13, 2005 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 000-50260) filed with the Securities and Exchange Commission on May 13, 2005).

Exhibit Number	Description
	<ul style="list-style-type: none"> (ii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 12, 2006 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on August 3, 2006). (iii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 11, 2007 (incorporated by reference to Exhibit 10.2(f) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009). (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 9, 2008 (incorporated by reference to Exhibit 10.2 (f) (iv) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009). (v) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors on such date who remained on the Board following July 1, 2009 (incorporated by reference to Exhibit 10.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). (vi) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors who retired on July 1, 2009 (incorporated by reference to Exhibit 10.2(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and each of its outside directors named to the Board on July 1, 2009 (incorporated by reference to Exhibit 10.1(d) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). (viii) Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and William A. Owens in payment of Mr. Owens' 2009 supplemental chairman's fees (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). (ix) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and seven of its outside directors on such date (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010).
f.	<p>Amended and Restated 2005 Management Incentive Compensation Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(g) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).</p> <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on November 9, 2005). (ii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.3 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on November 9, 2005). (iii) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(g) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006).

Exhibit Number	Description
	<ul style="list-style-type: none"> (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(g) (iv) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006). (v) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on May 9, 2007). (vi) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on May 9, 2007). (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2008, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008). (viii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 26, 2009 (incorporated by reference to Exhibit 10.2(g) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on May 1, 2009). (ix) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of March 8, 2010 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2010).
g.	Amended and Restated CenturyLink Legacy Embarq 2008 Equity Incentive Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(h) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).
	<ul style="list-style-type: none"> (i) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and four of its outside directors as of such date (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010). (ii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and William A. Owens in payment of Mr. Owens' 2010 supplemental chairman's fees (incorporated by reference to Exhibit 10.3 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010). (iii) Form of Restricted Stock Agreement, dated as of September 7, 2010, entered into between CenturyLink, Inc. and Dennis G. Huber (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
h.	Form of Retention Award Agreement, pursuant to the equity incentive plans of CenturyLink or Embarq and dated as of August 23, 2010, entered into between CenturyLink, Inc. and certain officers and key employees as of such date (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
i.	CenturyLink 2011 Equity Incentive Plan (incorporated by reference to Appendix B of CenturyLink, Inc.'s Proxy Statement for its 2011 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2011).
	<ul style="list-style-type: none"> (i) Form of Restricted Stock Agreement for executive officers used in 2011 and 2012 (incorporated by reference to Exhibit 10.2(a) (i) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).

Exhibit Number	Description
	(ii) Form of Restricted Stock Agreement for non-management directors used since 2011 (incorporated by reference to Exhibit 10.2(a) (ii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).
	(iii) Form of Restricted Stock Agreement for executive officers used since May 2013.
10.3	Key Employee Incentive Compensation Plan, dated as of January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996) and amendment thereto dated as of November 21, 1996 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 001-07784) filed with the Securities and Exchange Commission on March 17, 1997), amendment thereto dated as of February 25, 1997 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on May 8, 1997), amendment thereto dated as of April 25, 2001 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on May 15, 2001), amendment thereto dated as of April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002) and amendment thereto dated as of February 27, 2007 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2007).
10.4	Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2009) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2009) and amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.5	Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.6	Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1991).
10.7	2010 Executive Officer Short-Term Incentive Program (incorporated by reference to Appendix B of CenturyLink, Inc.'s 2010 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 7, 2010).
10.9	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of July 1, 2009 (incorporated by reference to Exhibit 99.3 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) with the Securities and Exchange Commission on July 1, 2009).
10.10	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of July 1, 2009 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
10.11	Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated by reference to Exhibit 10.11 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.12	Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive officers (incorporated by reference to Exhibit 10.12 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.13*	CenturyLink Executive Severance Plan

Exhibit Number	Description
10.14	Amended and Restated CenturyLink, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008) and First Amendment thereto (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
10.15	<p>Certain Material Agreements and Plans of Embarq Corporation.</p> <ul style="list-style-type: none"> a. Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) with the Securities and Exchange Commission on July 1, 2009). b. Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on February 27, 2007). c. Form of 2008 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008). d. Form of 2009 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on March 5, 2009). e. Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008). f. Amendment to Outstanding RSUs granted in 2007 and 2008 under the Embarq Corporation 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.16 of Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009). g. Form of 2006 Award Agreement, entered into between Embarq Corporation and Richard A. Gephardt (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on August 1, 2006), as amended by the amendment thereto dated as of June 26, 2009 (incorporated by reference to Exhibit 10.6 (m) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). h. Amended and Restated Executive Severance Plan, including Form of Participation Agreement entered into between Embarq Corporation and William E. Cheek (incorporated by reference to Exhibit 10.4 of Embarq Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on October 30, 2008). i. Embarq Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.27 of Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009), amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.14(o) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011) and second amendment thereto as of dated as of November 15, 2011 (incorporated by reference to Exhibit 10.14(k) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.16	<p>Certain Material Agreements and Plans of Qwest Communications International Inc. or Savvis, Inc.</p> <ul style="list-style-type: none"> a. Equity Incentive Plan, as amended and restated (incorporated by reference to Annex A of Qwest Communications International Inc.'s Proxy Statement for the 2007 Annual Meeting of Stockholders (File No. 001-15577) filed with the Securities and Exchange Commission on March 29, 2007).

Exhibit Number	Description
b.	Forms of restricted stock, performance share and option agreements used under Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on October 24, 2005; Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on May 3, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on February 8, 2007; Exhibit 10.3 of Qwest Communication International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on September 15, 2008; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on April 30, 2009; and Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-15577) filed with the Securities and Exchange Commission on February 15, 2011).
c.	Deferred Compensation Plan for Nonemployee Directors, as amended and restated, Amendment to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on December 16, 2005 and Exhibit 10.8 to Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-15577) filed with the Securities and Exchange Commission on October 29, 2008) and Amendment No. 2011-1 to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.15(c) of CenturyLink, Inc.'s Annual Report for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
d.	Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2010).
e.	SAVVIS, Inc. Amended and Restated 2003 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on May 5, 2006), as amended by Amendment No. 1 (incorporated by reference to Exhibit 10.6 of SAVVIS, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on February 26, 2007); Amendment No. 2 (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 15, 2007); Amendment No. 3 (incorporated by reference to Exhibit 10.3 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-29375) filed with the Securities and Exchange Commission on July 31, 2007); Amendment No. 4 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009); and Amendment No. 5 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009).
12*	Ratio of Earnings to Fixed Charges
21*	Subsidiaries of CenturyLink, Inc.
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 CenturyLink, Inc. for the period ended December 31, 2014, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive (Loss) Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to our Consolidated Financial Statements.

*

Exhibit filed herewith.

Note:

Our Corporate Governance Guidelines and Charters of our Board of Director Committees are located on our website at www.centurylink.com.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 24, 2015

By:

CenturyLink, Inc.

/s/ David D. Cole

David D. Cole

Executive Vice President, Controller and Operations Support

(Chief Accounting Officer)

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

<div>/s/ Glen F. Post, III</div> <div>Glen F. Post, III</div>	Chief Executive Officer, President and Director	February 24, 2015
<div>/s/ William A. Owens</div> <div>William A. Owens</div>	Chairman of the Board	February 24, 2015
<div>/s/ R. Stewart Ewing, Jr.</div> <div>R. Stewart Ewing, Jr.</div>	Executive Vice President, Chief Financial Officer and Assistant Secretary	February 24, 2015
<div>/s/ David D. Cole</div> <div>David D. Cole</div>	Executive Vice President, Controller and Operations Support	February 24, 2015
<div>/s/ Virginia Boulet</div> <div>Virginia Boulet</div>	Director	February 24, 2015
<div>/s/ Peter C. Brown</div> <div>Peter C. Brown</div>	Director	February 24, 2015
<div>/s/ Richard A. Gephardt</div> <div>Richard A. Gephardt</div>	Director	February 24, 2015
<div>/s/ W. Bruce Hanks</div> <div>W. Bruce Hanks</div>	Director	February 24, 2015
<div>/s/ Gregory J. McCray</div> <div>Gregory J. McCray</div>	Director	February 24, 2015
<div>/s/ C. G. Melville, Jr.</div> <div>C. G. Melville, Jr.</div>	Director	February 24, 2015

<div>/s/ Fred R. Nichols</div> <div>Fred R. Nichols</div>	Director	February 24, 2015
<div>/s/ Harvey P. Perry</div> <div>Harvey P. Perry</div>	Director	February 24, 2015
<div>/s/ Michael J. Roberts</div> <div>Michael J. Roberts</div>	Director	February 24, 2015
<div>/s/ Laurie A. Siegel</div> <div>Laurie A. Siegel</div>	Director	February 24, 2015
<div>/s/ Joseph R. Zimmer</div> <div>Joseph R. Zimmer</div>	Director	February 24, 2015

Section 2: EX-4.5E (EXHIBIT 4.5E)

Exhibit 4.5e

\$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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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

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, oilier 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, unmatured, 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 Slates” 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.

2.1Commitments.

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.

2.2Procedure 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.

2.3Repayment 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.

2.4Conversion 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.

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.

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:

3.1Purpose 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.

3.2Corporate 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.

3.6Litigation.

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.

3.7Taxes.

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.

3.8Environmental 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.

3.9Employee 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.

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.

- (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.

5.5Taxes.

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.

5.6Payment 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.

5.7Expenses.

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.

5.8Maintenance 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.

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.

5.16Compliance 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:

6.1Employee 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.

6.2Liens.

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.

6.3Restricted 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.

6.4Mergers 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.

6.5Loans, 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;

- (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.

6.6Transactions 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.

6.7Sale 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.

(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.

6.15Priority 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):

7.1Payment 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.

7.2Covenants.

(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.

7.3Debtor 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).

7.4Attachment.

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.

7.5Payment 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.

7.6Default 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.

7.7Misrepresentation.

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

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.

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.

8.6Waivers 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.

8.7Cumulative 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.

8.8Application 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.

8.9Certain 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.

8.10Setoff.

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

(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.

9.5Notice 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 Indemnatee”) (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 Indemnatee 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 Indemnatee 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 Indemnatee’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.

9.8Administrative 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.

9.9Successor 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.

10.1Reserved.

10.2Money 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.

10.3Number 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.

10.4Headings.

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.

10.5Exhibits.

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.

10.6Notices.

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

Atlanta, Georgia 30339-5946
Attn: Communications Banking Group
Telecopy: (770) 618-3202
Telephone: (770) 618-3200
with a copy to: CoBank, ACB
5500 S. Quebec Street
Greenwood Village, Colorado 80111
Attn: Syndication Loan Accounting
Telecopy: (303) 740-4021
Telephone: (303) 740-6447

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.

10.7Exceptions 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.

10.8Survival.

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.

10.9Governing 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.

10.10Submission 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.

10.11WAIVERS 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.

10.12Severability.

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.

10.13Integration.

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.

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.

10.15Waivers.

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.

10.16Governmental 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.

10.17Multiple 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.

10.18Successors 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.

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.

10.20Patriot 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.

10.21Conflicts 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.

10.22GENERAL 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

Schedule 3.3 – Guarantor Significant Subsidiaries

NONE

Schedule 3.12 – Transactions with Affiliates

NONE.

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.

Schedule 10.18- Voting Participants

Voting Participant	Commitment
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

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Section 3: EX-4.4A (EXHIBIT 4.4A)

Exhibit 4.4a

CENTURY TELEPHONE ENTERPRISES, INC.

AND

FIRST AMERICAN BANK & TRUST OF LOUISIANA

AS TRUSTEE

INDENTURE

Dated as of March 31, 1994

Securities

CROSS-REFERENCE TABLE

Section of Trust Indenture Act of 1939, as amended	Section of Indenture
310(a)	7.09
310(b)	7.08
	7.10
310(c)	Inapplicable
311(a)	7.13(a)
311(b)	7.13(b)
311(c)	Inapplicable
312(a)	5.01
	5.02(a)
312(b)	5.02(b)
312(c)	5.02(c)
313(a)	5.04(a)
313(b)	5.04(b)
313(c)	5.04(a)
	5.04(b)
313(d)	5.04(c)
314(a)	5.03
314(b)	Inapplicable
314(c)	13.06
314(d)	Inapplicable
314(e)	13.06
314(f)	Inapplicable
315(a)	7.01(a)
	7.02
315(b)	6.07
315(c)	7.01
315(d)	7.01(b)
	7.01(c)
315(e)	6.08
316(a)	6.06
	8.04
316(b)	6.04
316(c)	8.01
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317(b)	4.04
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THIS INDENTURE, dated as of the 31st day of March, 1994, between CENTURY TELEPHONE ENTERPRISES, INC., a corporation duly organized and existing under the laws of the State of Louisiana (hereinafter sometimes referred to as the "Company"), and FIRST AMERICAN BANK & TRUST OF LOUISIANA, a Louisiana banking corporation, as trustee (hereinafter sometimes referred to as the "Trustee"):

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the execution and delivery of this Indenture to provide for the issuance of unsecured securities, debentures, notes or other evidences of indebtedness (hereinafter referred to as the "Securities"), in an unlimited aggregate principal amount to be issued from time to time in one or more series as in this Indenture provided as registered Securities without coupons, to be authenticated by the certificate of the Trustee;

WHEREAS, to provide the terms and conditions upon which the Securities are to be authenticated, issued and delivered, the Company has duly authorized the execution of this Indenture;

WHEREAS, the Securities and the certificate of authentication to be borne by the Securities (the "Certificate of Authentication") are to be substantially in such forms as may be approved by the Board of Directors (as defined below) or set forth in any indenture supplemental to this Indenture;

AND WHEREAS, all acts and things necessary to make the Securities issued pursuant hereto, when executed by the Company and authenticated and delivered by the Trustee as in this Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid indenture and agreement according to its terms, have been done and performed or will be done and performed prior to the issuance of such Securities, and the execution of this Indenture and the issuance hereunder of the Securities have been or will be prior to issuance in all respects duly authorized, and the Company, in the exercise of the legal right and power in it vested, executes this Indenture and proposes to make, execute, issue and deliver the Securities;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Securities are and are to be authenticated, issued and delivered, and in consideration of the premises, of the purchase and acceptance of the Securities by the holders thereof and of the sum of one dollar (\$1.00) to it duly paid by the Trustee at the execution of these presents, the receipt whereof is hereby acknowledged, the Company covenants and agrees with the Trustee, for the equal and proportionate benefit (subject to the provisions of this Indenture) of the respective holders from time to time of the Securities, without any discrimination, preference or priority of any one Security over any other by reason of priority in the time of issue, sale or negotiation thereof, or otherwise, except as provided herein, as follows:

ARTICLE I.

DEFINITIONS

SECTION 1.01. The terms defined in this Section (except as in this Indenture otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture, any resolution of the Board of Directors of the Company and of any indenture supplemental hereto shall have the respective meanings specified in this Section. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended, or which are by reference in such Act defined in the Securities Act of 1933, as amended (except as herein otherwise expressly provided or unless the context otherwise requires), shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of the execution of this instrument.

"Affiliate" means any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means an authenticating agent with respect to all or any of the series of Securities, as the case may be, appointed with respect to all or any series of the Securities, as the case may be, by the Trustee pursuant to Section 2.10.

"Board of Directors" shall mean the Board of Directors of the Company, or a properly empowered Executive or Special Committee of such Board.

"Board Resolution"

shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

"Business Day"

with respect to any series of securities, shall mean any day other than a day on which banking institutions in the City of Monroe, State of Louisiana or the Borough of Manhattan, the City and State of New York, as the case may be (depending on whether an office or agency of the Company is being maintained in either such city with respect to any such series), are authorized or obligated by law or executive order to close.

"Certificate"

shall mean a certificate signed by the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the Company. The Certificate need not comply with the provisions of Section 13.06(a) unless the context shall so require.

"Corporate Trust Office"

shall mean the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of the execution of this Indenture is located at First American Bank & Trust of Louisiana, 1500 North 18th Street, Monroe, Louisiana 71201.

"Company"

shall mean Century Telephone Enterprises, Inc., a corporation duly organized and existing under the laws of the State of Louisiana, and, subject to the provisions of Article Ten, shall also include its successors and assigns.

"Default"

shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Event of Default"

with respect to Securities of a particular series shall mean any event specified in Section 6.01, continued for the period of time, if any, therein designated.

"Governmental Obligations"

shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by and acting as an agency or instrumentality of the United States of America, the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act of 1933, as amended) as custodian with respect to any such Governmental Obligation or a specific payment of principal of or interest on any such Governmental Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Governmental Obligation or the specific payment of principal of or interest on the Governmental Obligation evidenced by such depository receipt.

"Indenture"

shall mean this instrument as originally executed, or, if amended or supplemented as herein provided, as so amended or supplemented.

"Interest Payment Date"

when used with respect to any installment of interest on a Security of a particular series shall mean the date specified in such Security or in a Board Resolution or in an indenture supplemental hereto with respect to such series as the fixed date on which an installment of interest with respect to Securities of that series is due and payable.

"Officers' Certificate"

shall mean a certificate signed by the President or the Chief Financial Officer and by the Treasurer or an Assistant Treasurer or the Controller or an Assistant Controller or the Secretary or an Assistant Secretary of the Company. Each such certificate shall include the statements provided for in Section 13.06, if and to the extent required by the provisions thereof.

"Opinion of Counsel"

shall mean an opinion in writing signed by legal counsel, who shall be satisfactory to the Trustee and who may be an employee of or counsel for the Company. Each such opinion shall include the statements provided for in Section 13.06, if and to the extent required by the provisions thereof.

"Outstanding"

when used with reference to Securities of any series, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Securities of that series theretofore authenticated and delivered by the Trustee under this Indenture, except (a) Securities theretofore canceled by the Trustee or any paying agent, or delivered to the Trustee or any paying agent for cancellation or which have previously been canceled; (b) Securities or portions thereof for the payment or redemption of which moneys or Governmental Obligations in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided, however, that if such Securities or portions of such Securities are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article Three provided, or provision satisfactory to the Trustee shall have been made for giving such notice; and (c) Securities in lieu of or in substitution for which other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.07.

"Paying Agent"

means any Person, including the Company or the Trustee, authorized by the Company to pay the principal of, and premium, if any, or interest, if any, on any Securities on behalf of the Company.

"Person"

means any individual, corporation, partnership, joint venture, trust, limited liability company, limited liability partnership or unincorporated organization or any government or any political subdivision, instrumentality or agency thereof.

"Predecessor Security"

of any particular Security shall mean every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.07 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

"Responsible Officer"

when used with respect to the Trustee shall mean any corporate trust officer or any assistant corporate trust officer or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Security" or "Securities"

shall mean any Security or Securities, as the case may be, authenticated and delivered under this Indenture.

"Securityholder"

"holder of Securities", "registered holder", or other similar term, shall mean the person or persons in whose name or names a particular Security shall be registered on the books of the Company kept for that purpose in accordance with the terms of this Indenture.

"Subsidiary"

shall mean (a) any corporation at least a majority of whose outstanding voting stock shall at the time be owned by the Company or by one or more Subsidiaries or by the Company and one or more Subsidiaries and (b) the partnerships, joint ventures and any other entities of which the Company is the managing general partner or otherwise effectively controls such entity. For the purposes only of the definition of the term "Subsidiary", the term "voting stock", as applied to the stock of any corporation, shall mean stock of any class or classes having ordinary voting power for the election of a majority of the directors of such corporation, other than stock having such power only by reason of the occurrence of a contingency.

"Trustee"

shall mean First American Bank & Trust of Louisiana, and, subject to the provisions of Article Seven, shall also include its successors and assigns, and, if at any time there is more than one person acting in such capacity hereunder, "Trustee" shall mean each such person. The term "Trustee" as used with respect to a particular series of the Securities shall mean the trustee with respect to that series.

"Trust Indenture Act of 1939, as amended." subject to the provisions of Sections 9.01, 9.02, and 10.01, shall mean the Trust Indenture Act of 1939, as amended and in effect at the date of execution of this Indenture.

ARTICLE II.

ISSUE, DESCRIPTION, TERMS, EXECUTION, REGISTRATION AND EXCHANGE OF SECURITIES

SECTION 2.01. The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series up to the aggregate principal amount of Securities of that series from time to time authorized by or pursuant to a Board Resolution, or pursuant to one or more indentures supplemental hereto, prior to the initial issuance of Securities of a particular series. Prior to the initial issuance of Securities of any series, there shall be established in or pursuant to a Board Resolution or established in one or more indentures supplemental hereto:

- (1) the title of the Securities of the series (which shall distinguish the Securities of the series from all other Securities);
- (2) any limit upon the aggregate principal amount of the Securities of that series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of that series as provided in Section 2.07 and Section 2.08);
- (3) the date or dates on which the principal of the Securities of the series is payable;
- (4) the rate or rates at which the Securities of the series shall bear interest or the manner of calculation of such rate or rates, if any, the date or dates from which such interest shall accrue, the interest payment dates on which such interest shall be payable or the manner of determination of such interest payment dates;
- (5) the period or periods within which, the price or prices at which and the terms and conditions upon which, Securities of the series may be redeemed, in whole or in part, at the option of the Company;
- (6) the obligation, if any, of the Company to redeem or purchase Securities of the series pursuant to any sinking fund or analogous provisions (including payments made in cash in anticipation of future sinking fund obligations) or at the option of a holder thereof and the period or periods within which, the price or prices at which, and the terms and conditions upon which, Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;
- (7) the form of the Securities of the series including the form of the Certificate of Authentication for such series;

- (8)

if other than denominations of \$1,000 or any integral multiple thereof, the denominations in which the Securities of the series shall be issuable; and
- (9)

any and all other terms with respect to such series (which terms shall not be inconsistent with the terms of this Indenture).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to any such Board Resolution or in any indentures supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy thereof shall be delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

SECTION 2.02. The Securities of any series and the Trustee's Certificate of Authentication to be borne by such Securities shall be substantially of the tenor and purport as set forth in one or more indentures supplemental hereto or as provided in a Board Resolution, and may have such letters, numbers, CUSIP numbers or other marks of identification or designation and such legends or endorsements printed, lithographed or engraved thereon as the Company may deem appropriate and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange on which Securities of that series may be listed, or to conform to usage.

SECTION 2.03. The Securities shall be issuable as registered Securities and in the denominations of \$1,000 or any multiple thereof, subject to Section 2.01(8). The Securities of a particular series shall bear interest payable on the dates and at the rate specified with respect to that series. The principal of and the interest on the Securities of any series, as well as any premium thereon in case of redemption thereof prior to maturity, shall be payable in the coin or currency of the United States of America which at the time is legal tender for public and private debt, at the office or agency of the Company maintained for that purpose in either the City of Monroe, State of Louisiana or the Borough of Manhattan, the City and State of New York, or, at the option of the Company, by check in United States of America dollars mailed or delivered to the person in whose name such Security is registered. Each Security shall be dated the date of its authentication. Interest on the Securities shall be computed on the basis of a 360-day year composed of twelve 30-day months; provided that interest on Securities bearing interest at a floating rate shall be computed on the basis of a year of 365 or 366 days, as appropriate, for the actual number of days elapsed.

The interest installment on any Security which is payable, and is punctually paid or duly provided for, on any interest payment date for Securities of that series shall be paid to the person in whose name said Security (or one or more predecessor Securities) is registered at the close of business on the regular record date for such interest installment. In the event that any Security of a particular series or portion thereof is called for redemption and the redemption date is subsequent to a regular record date with respect to any interest payment date and prior to such interest payment date, interest on such Security will be paid upon presentation and surrender of such Security as provided in Section 3.03.

Any interest on any Security which is payable, but is not punctually paid or duly provided for, on any interest payment date for Securities of the same series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its election, as provided in clause (1) or clause (2) below:

(1) The Company may make payment of any Defaulted Interest on Securities to the persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register (as hereinafter defined), not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the persons in whose names such Securities (or their respective Predecessor Securities) are registered on the close of business on such special record date and shall be no longer payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

The term "regular record date" as used in this Section with respect to a series of Securities with respect to any interest payment date for such series shall mean either the fifteenth day of the month immediately preceding the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the first day of a month, or the last day of the month immediately preceding the month in which an interest payment date established for such series pursuant to Section 2.01 hereof shall occur, if such interest payment date is the fifteenth day of a month, whether or not such date is a Business Day.

Subject to the foregoing provisions of this Section, each Security of a series delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Security of such series shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 2.04. The Securities shall, subject to the provisions of Section 2.06, be printed on steel engraved borders or fully or partially engraved, or legibly typed, as the proper officers of the Company may determine, and shall be signed on behalf of the Company by its President or one of its Vice Presidents, under its corporate seal attested by its Secretary or one of its Assistant Secretaries. The signature of the President or a Vice President and/or the signature of the Secretary or an Assistant Secretary in attestation of the corporate seal, upon the Securities, may be in the form of a facsimile signature of a present or any future President or Vice President and of a present or any future Secretary or Assistant Secretary and may be imprinted or otherwise reproduced on the Securities and for that purpose the Company may use the facsimile signature of any person who shall have been a President or Vice President, or of any person who shall have been a Secretary or Assistant Secretary, notwithstanding the fact that at the time the Securities shall be authenticated and delivered or disposed of such person shall have ceased to be the President or a Vice President, or the Secretary or an Assistant Secretary, of the Company, as the case may be. The seal of the Company may be in the form of a facsimile of the seal of the Company and may be impressed, affixed, imprinted or otherwise reproduced on the Securities.

Only such Securities of a series as shall bear thereon a certificate of authentication substantially in the form established for such series, executed manually by an authorized signatory of the Trustee, or by any Authenticating Agent appointed by the Trustee with respect to such series, shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate executed by the Trustee, or by any Authenticating Agent appointed by the Trustee with respect to such series, upon any Security of such series executed by the Company shall be conclusive evidence that the Security so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a written order of the Company for the authentication and delivery of such Securities, signed by its President or any Vice President and its Treasurer or any Assistant Treasurer, and the Trustee in accordance with such written order shall authenticate and deliver such Securities.

In authenticating Securities of any series and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 7.01) shall be fully protected in relying upon, an Opinion of Counsel stating that the form and terms thereof have been established in conformity with the provisions of this Indenture and that such Securities, when authenticated and delivered by the Trustee, will be duly authorized, executed and delivered and will constitute the legal, valid and binding obligations of the Company, enforceable against it in accordance with their terms.

The Trustee shall not be required to authenticate any Securities of a series if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

SECTION 2.05. (a) Securities of any series may be exchanged upon presentation thereof at the office or agency of the Company designated for such purpose in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, for other Securities of such series of authorized denominations, and for a like aggregate principal amount, upon payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, all as provided in this Section. In respect of any Securities so surrendered for exchange, the Company shall execute, the Trustee shall authenticate and such office or agency shall deliver in exchange therefor the Security or Securities of the same series which the Securityholder making the exchange shall be entitled to receive, bearing numbers not contemporaneously outstanding.

(b) The Trustee is hereby appointed as the registrar (the "Security Registrar") for the purpose of registering securities and the transfer of securities as herein provided. The Company shall cause to be kept at the office or agency designated for such purpose in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, or such other location designated by the Company a register or registers (herein referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall register the Securities and the transfers of Securities as in this Article provided.

Upon surrender for transfer of any Security at the office or agency of the Company designated for such purpose in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, the Company shall execute, the Trustee shall authenticate and such office or agency shall deliver in the name of the transferee or transferees a new Security or Securities of the same series as the Security presented for a like aggregate principal amount.

All Securities presented or surrendered for exchange or registration of transfer, as provided in this Section, shall be accompanied (if so required by the Company or the Security Registrar) by a written instrument or instruments of transfer, in form satisfactory to the Company or the Security Registrar, duly executed by the registered holder or by his duly authorized attorney in writing.

(a) No service charge shall be made for any exchange or registration of transfer of Securities, or issue of new Securities in case of partial redemption of any series, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge in relation thereto, other than exchanges pursuant to Section 2.06, the second paragraph of Section 3.03 and Section 9.04 not involving any transfer.

(b) The Company shall not be required (a) to issue, exchange or register the transfer of the Securities of any series during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of less than all the Outstanding Securities of such series and ending at the close of business on the day of such mailing, nor (b) to register the transfer of or exchange any Securities of any series or portions thereof called for redemption.

SECTION 2.06. Pending the preparation of definitive Securities of any series, the Company may execute, and the Trustee shall authenticate and deliver, temporary Securities (printed, lithographed or typewritten) of any authorized denomination, and substantially in the form of the definitive Securities in lieu of which they are issued, but with such omissions, insertions and variations as may be appropriate for temporary Securities, all as may be determined by the Company. Every temporary Security of any series shall be executed by the Company and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive Securities of such series. Without unnecessary delay the Company will execute and will furnish definitive Securities of such series and thereupon any or all temporary Securities of such series may be surrendered in exchange therefor (without charge to the holders), at the office or agency of the Company designated for the purpose in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, and the Trustee shall authenticate and such office or agency shall deliver in exchange for such temporary Securities an equal aggregate principal amount of definitive Securities of such series. Until so exchanged, the temporary Securities of such series shall be entitled to the same benefits under this Indenture as definitive Securities of such series authenticated and delivered hereunder.

SECTION 2.07. In case any temporary or definitive Security shall become mutilated or be destroyed, lost or stolen, the Company (subject to the next succeeding sentence) shall execute, and upon its request the Trustee (subject as aforesaid) shall authenticate and deliver, a new Security of the same series bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated Security, or in lieu of and in substitution for the Security so destroyed, lost or stolen. In every case the applicant for a substituted Security shall furnish to the Company and to the Trustee such security or indemnity as may be required by them to save each of them harmless, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company and to the Trustee evidence to their satisfaction of the destruction, loss or theft of the applicant's Security and of the ownership thereof. The Trustee may authenticate any such substituted Security and deliver the same upon the written request or authorization of any officer of the Company. Upon the issue of any substituted Security, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith. In case any Security which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Security, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Security) if the applicant for such payment shall furnish to the Company and to the Trustee such security or indemnity as they may require to save them harmless, and, in case of destruction, loss or theft, evidence to the satisfaction of the Company and the Trustee of the destruction, loss or theft of such Security and of the ownership thereof.

Every Security issued pursuant to the provisions of this Section in substitution for any Security which is mutilated, destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the mutilated, destroyed, lost or stolen Security shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of the same series duly issued hereunder. All Securities shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities, and shall preclude (to the extent lawful) any and all other rights or remedies, notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment of negotiable instruments or other securities without their surrender.

SECTION 2.08. All Securities surrendered for the purpose of payment, redemption, exchange or registration of transfer shall, if surrendered to the Company or any paying agent, be delivered to the Trustee for cancellation, or, if surrendered to the Trustee, shall be canceled by it, and no Securities shall be issued in lieu thereof except as expressly required or permitted by any of the provisions of this Indenture. On request of the Company, the Trustee shall deliver to the Company canceled Securities held by the Trustee. In the absence of such request the Trustee may destroy canceled Securities in accordance with its standard procedures and deliver a certificate of destruction to the Company. If the Company shall otherwise acquire any of the Securities, however, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Securities unless and until the same are delivered to the Trustee for cancellation.

SECTION 2.09. Nothing in this Indenture or in the Securities, express or implied, shall give or be construed to give to any person, firm or corporation, other than the parties hereto and the holders of the Securities, any legal or equitable right, remedy or claim under or in respect of this Indenture, or under any covenant, condition or provision herein contained; all such covenants, conditions and provisions being for the sole benefit of the parties hereto and of the holders of the Securities.

SECTION 2.10. So long as any of the Securities of any series remain Outstanding there may be an Authenticating Agent for any or all such series of Securities which the Trustee shall have the right to appoint. Said Authenticating Agent shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, transfer or partial redemption thereof, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. All references in this Indenture to the authentication of Securities by the Trustee shall be deemed to include authentication by an Authenticating Agent for such series except for authentication upon original issuance or pursuant to Section 2.07 hereof. Each Authenticating Agent shall be acceptable to the Company and shall be a corporation which has a combined capital and surplus, as most recently reported or determined by it, sufficient under the laws of any jurisdiction under which it is organized or in which it is doing business to conduct a trust business, and which is otherwise authorized under such laws to conduct such business and is subject to supervision or examination by Federal or State authorities. If at any time any Authenticating Agent shall cease to be eligible in accordance with these provisions, it shall resign immediately. All fees and expenses of the Authenticating Agent shall be paid by the Company.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time (and upon request by the Company shall) terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon resignation, termination or cessation of eligibility of any Authenticating Agent, the Trustee may appoint an eligible successor Authenticating Agent acceptable to the Company. Any successor Authenticating Agent, upon acceptance of its appointment hereunder, shall become vested with all the rights, powers and duties of its predecessor, hereunder as if originally named as an Authenticating Agent pursuant hereto.

SECTION 2.11. The Company in issuing Securities of any series shall use a "CUSIP" number and the Trustee shall use the CUSIP number in notices of redemption or exchange as a convenience to the holders of the Securities of such series; provided, that any such notice may state that no representation is made as to the correctness or accuracy of the CUSIP number printed in the notice or on the Securities of such series, and that reliance may be placed only on the other identification numbers printed on the Securities of such series.

SECTION 2.12. Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payments of principal of (and premium, if any), and (subject to Section 2.03) interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee, shall be affected by notice to the contrary.

ARTICLE III.

REDEMPTION OF SECURITIES AND SINKING FUND PROVISIONS

SECTION 3.01. The Company may redeem the Securities of any series issued hereunder on and after the dates and in accordance with the terms established for such series pursuant to Section 2.01 hereof.

SECTION 3.02. (a) In case the Company shall desire to exercise such right to redeem all or, as the case may be, a portion of the Securities of any series in accordance with the right reserved so to do, the Company shall give notice of such redemption to holders of the Securities of such series to be redeemed and to the Trustee by mailing, first class postage prepaid, a notice of such redemption not less than 30 days and not more than 60 days before the date fixed for redemption of that series to such holders at their last addresses as they shall appear upon the Security Register. Any notice which is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the registered holder receives the notice. In any case, failure duly to give such notice to the holder of any Security of any series designated for redemption in whole or in part, or any defect in the notice, shall not affect the validity of the proceedings for the redemption of any other Securities of such series or any other series. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with any such restriction.

Each such notice of redemption shall specify the date fixed for redemption and the redemption price at which Securities of that series are to be redeemed, and shall state that payment of the redemption price of such Securities to be redeemed will be made at the office or agency of the Company in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, or, at the option of the Company, by check in United States of America dollars mailed or delivered to the person in whose name such Security is registered, or upon presentation and surrender of such Securities, that interest accrued to the date fixed for redemption will be paid as specified in said notice, that from and after said date interest will cease to accrue and that the redemption is for a sinking fund, if such is the case. If less than all the Securities of a series are to be redeemed, the notice to the holders of Securities of that series to be redeemed in whole or in part shall specify the particular Securities to be so redeemed. In case any Security is to be redeemed in part only, the notice which relates to such Security shall state the portion of the principal amount thereof to be redeemed, and shall state that on and after the redemption date, upon surrender of such Security, a new Security or Securities of such series in principal amount equal to the unredeemed portion thereof will be issued.

(b) If less than all the Securities of a series are to be redeemed, the Company shall give the Trustee at least 45 days' notice in advance of the date fixed for redemption as to the aggregate principal amount of Securities of the series to be redeemed, and thereupon the Trustee shall select, by lot or in such other manner as it shall deem appropriate and fair in its discretion and which may provide for the selection of a portion or portions (equal to \$1,000 or any multiple thereof) of the principal amount of such Securities of a denomination larger than \$1,000, the Securities to be redeemed- and shall thereafter promptly notify the Company in writing of the numbers of the Securities to be redeemed, in whole or in part.

The Company may, if and whenever it shall so elect, by delivery of instructions signed on its behalf by its President or any Vice President, instruct the Trustee or any paying agent to call all or any part of the Securities of a particular series for redemption and to give notice of redemption in the manner set forth in this Section, such notice to be in the name of the Company or its own name as the Trustee or such paying agent may deem advisable. In any case in which notice of redemption is to be given by any such paying agent, the Company shall deliver or cause to be delivered to, or permit to remain with, such paying agent, as the case may be, such Security Registrar, transfer books or other records, or suitable copies or extracts therefrom, sufficient to enable the paying agent to give any notice by mail that may be required under the provisions of this Section.

SECTION 3.03. (a) If the giving of notice of redemption shall have been completed as above provided, the Securities or portions of Securities of the series to be redeemed specified in such notice shall become due and payable on the date and at the place stated in such notice at the applicable redemption price, together with interest accrued to the date fixed for redemption and interest on such Securities or portions of Securities shall cease to accrue on and after the date fixed for redemption, unless the Company shall default in the payment of such redemption price and accrued interest with respect to any such Security or portion thereof. On presentation and surrender of such Securities on or after the date fixed for redemption at the place of payment specified in the notice, said Securities shall be paid and redeemed at the applicable redemption price for such series, together with interest accrued thereon to the date fixed for redemption (but if the date fixed for redemption is an interest payment date, the interest installment payable on such date shall be payable to the registered holder at the close of business on the applicable record date pursuant to Section 2.03).

(b) Upon presentation of any Security of such series which is to be redeemed in part only, the Company shall execute and the Trustee shall authenticate and the office or agency where the Security is presented shall deliver to the holder thereof, at the expense of the Company, a new Security or Securities of the same series, of authorized denominations in principal amount equal to the unredeemed portion of the Security so presented.

SECTION 3.04. The provisions of Sections 3.04, 3.05 and 3.06 shall be applicable to any sinking fund for the retirement of Securities of a series, except as otherwise specified as contemplated by Section 2.01 for Securities of such series.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series is herein referred to as an "optional sinking fund payment". If a sinking fund is provided for by the terms of Securities of any series, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 3.05. Each sinking fund payment shall be applied to the redemption of Securities of any series as provided for by the terms of Securities of such series.

SECTION 3.05. The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company or the holders pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of the Securities of such series, in each case in satisfaction of all or any part of any sinking fund payment with respect to the Securities of such series required to be made pursuant to the terms of such Securities as provided for by the terms of such series; provided that such Securities have not been previously so credited. Such Securities shall be received and credited for such purpose by the Trustee at the redemption price specified in such Securities for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 3.06. Not less than 45 days prior to each sinking fund payment date for any series of Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for that series pursuant to the terms of that series, the portion thereof, if any, which is to be satisfied by delivering and crediting Securities of that series pursuant to Section 3.05 and the basis for such credit and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days before each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 3.02 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 3.02. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Section 3.03.

ARTICLE IV.

PARTICULAR COVENANTS OF THE COMPANY

The Company covenants and agrees for each series of the Securities as follows:

SECTION 4.01. The Company will duly and punctually pay or cause to be paid the principal of (and premium, if any) and interest on the Securities of that series at the time and place and in the manner provided herein and established with respect to such Securities.

SECTION 4.02. So long as any series of the Securities remain Outstanding, the Company agrees to maintain an office or agency in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, with respect to each such series and at such other location or locations as may be designated as provided in this Section 4.02, where (i) Securities of that series may be presented for payment, (ii) Securities of that series may be presented as hereinabove authorized for registration of transfer and exchange, and (iii) notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be given or served. As to such office or agency in either the City of Monroe, State of Louisiana, or the Borough of Manhattan, the City and State of New York, the Company shall designate the required office or agency to be located in either the City of Monroe, State of Louisiana or the Borough of Manhattan, the City and State of New York, for each series of Securities, such designation to continue with respect to such office or agency until the Company shall, by written notice signed by its President or a Vice President and delivered to the Trustee, designate some other office or agency for such purposes or any of them. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, notices and demands.

SECTION 4.03. (a) If the Company shall appoint one or more paying agents for all or any series of the Securities, other than the Trustee, the Company will cause each such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section,

(1) that it will hold all sums held by it as such agent for the payment of the principal of (and premium, if any) or interest on the Securities of that series (whether such sums have been paid to it by the Company or by any other obligor on such Securities) in trust for the benefit of the persons entitled thereto;

(2) that it will give the Trustee notice of any failure by the Company (or by any other obligor on such Securities) to make any payment of the principal of (and premium, if any) or interest on the Securities of that series when the same shall be due and payable;

(3) that it will, at any time during the continuance of any failure referred to in the preceding paragraph (a)(2) above, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such paying agent; and

(4) that it will perform all other duties of paying agent as set forth in this Indenture.

(b) If the Company shall act as its own paying agent with respect to any series of the Securities, it will on or before each due date of the principal of (and premium, if any) or interest on Securities of that series, set aside, segregate and hold in trust for the benefit of the persons entitled thereto a sum sufficient to pay such principal (and premium, if any or interest so becoming due on Securities of that series until such sums shall be paid to such persons or otherwise disposed of as herein provided and will promptly notify the Trustee of such action, or any failure (by it or any other obligor on such Securities) to take such action. Whenever the Company shall have one or more paying agents for any series of Securities, it will, prior to each due date of the principal of (and premium, if any) or interest on any Securities of that series, deposit with a paying agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the persons entitled to such principal, premium or interest, and (unless such paying agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

(c) Anything in this Section to the contrary notwithstanding, (i) the agreement to hold sums in trust as provided in this Section is subject to the provisions of Section 11.05, and (ii) the Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or direct any paying agent to pay, to the Trustee all sums held in trust by the Company or such paying agent, such sums to be held by the Trustee upon the same terms as those upon which sums were held by the Company or such paying agent; and, upon such payment by any paying agent to the Trustee, such paying agent shall be released from all further liability with respect to such money.

SECTION 4.04. The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 4.05. The Company will not, while any of the Securities remain Outstanding, create, or suffer to be created or to exist, any mortgage, lien, pledge, security interest or other encumbrance of any kind upon any property of any character of the Company whether now owned or hereafter acquired or upon any of the income or profits therefrom unless it shall make effective provision whereby the Securities then Outstanding shall be secured by such mortgage, lien, pledge, security interest or other encumbrance equally and ratably with any and all obligations and indebtedness thereby secured so long as any such obligations and indebtedness shall be so secured; provided, however, that nothing in this Section shall be construed to prevent the Company from creating, or from suffering to be created or to exist, any mortgages, liens, pledges, security interests or other encumbrances, or any agreements, with respect to:

- (1) Purchase money mortgages, or other purchase money liens, pledges or encumbrances of any kind upon property hereafter acquired by the Company, or mortgages, liens, pledges, security interests or other encumbrances of any kind existing on such property at the time of the acquisition thereof, or conditional sales agreements or other title retention agreements with respect to any property hereafter acquired; provided, however, that no such mortgage, lien, pledge, security interest or other encumbrance, and no such agreement, shall extend to or cover any other property of the Company;
- (2) Liens, pledges, security interests, mortgages or other encumbrances of any kind on the shares of stock of a corporation which, when such liens, pledges, security interests, mortgages or other encumbrances arise, concurrently becomes a Subsidiary or liens, pledges, security interests, mortgages or other encumbrances on all or substantially all of the assets of a corporation arising in connection with the purchase or acquisition thereof by the Company, provided that such lien or other security interest shall not attach to any other assets of the Company;

(3) Liens for taxes, assessments, governmental charges or levies; pledges or deposits to secure obligations under worker's compensation or unemployment insurance laws or similar legislation; pledges or deposits to secure performance in connection with bids, tenders, contracts, performance bonds and other similar arrangements (other than contracts for the payment of money) or leases to which the Company is a party; deposits to secure public or statutory obligations of the Company; materialmen's, mechanics', carriers', workers', repairmen's or other like liens in the ordinary course of business, or deposits to obtain the release of such liens; deposits to secure surety and appeal bonds to which the Company is a party, other pledges or deposits for similar purposes in the ordinary course of business; liens created by or resulting from any litigation or legal proceeding which at the time is currently being contested in good faith by appropriate proceedings; leases made, or existing on property acquired, in the ordinary course of business; landlord's liens under leases to which the Company is a party; zoning restrictions, easements, licenses, restrictions on the use of real property or minor irregularities in title thereto, which do not materially impair the use of such property in the operation of the business of the Company or the value of such property for the purpose of such business; the lien of the trustee under any indenture (including this Indenture), liens encumbering property or assets under construction arising from progress or partial payments; liens arising from the filing of UCC financing statements regarding leases or consignments; any interest or title of a lessor in the property subject to any capitalized lease or operating lease; liens arising out of consignment or similar arrangements entered into in the ordinary course of business; and liens existing on the date of this Indenture;

(4) Indebtedness assumed by the Company of the character specified in the first proviso of Section 4.06 hereof; or

(5) The replacement, extension or renewal of any mortgage, lien, pledge, security interest or other encumbrance, or of any agreement, permitted by the foregoing clauses (1), (2), (3), (4), or the replacement, extension or renewal (without increase) of the indebtedness secured thereby.

SECTION 4.06. The Company will not, while any of the Securities remain Outstanding, consolidate with, or merge into, or merge into itself, or sell or convey all or substantially all of its property to, any other Company unless the provisions of Article Ten hereof are complied with.

If upon any such consolidation or merger, or sale or conveyance, any of the property of the Company owned by the Company prior thereto would thereupon become subject to any mortgage, security interest, pledge or lien, the Company prior to such consolidation, merger, sale or conveyance will secure the Outstanding Securities, or cause the same to be secured, equally and ratably with the other indebtedness or obligations secured by such mortgage, security interest, pledge or lien so long as such other indebtedness or obligations shall be so secured; provided, however, that the subjection of the property of the Company to any mortgage, security interest, pledge or lien securing indebtedness of an Affiliate which is required to be assumed by the Company in connection with any merger or consolidation of such Affiliate shall be deemed excluded from the operation of this Section and shall not require that any of the Securities be secured; and provided, further, that the subjection of property of the Company to any mortgage, security interest, pledge or lien of the character referred to in clauses (1), (2), (3), (4) and (5) of Section 4.05 shall be deemed excluded from the operation of this Section and shall not require that any of the Securities be secured.

ARTICLE V.

SECURITYHOLDERS' LISTS AND REPORTS BY THE COMPANY
AND THE TRUSTEE

SECTION 5.01. The Company will furnish or cause to be furnished to the Trustee (a) semi-annually, not more than 15 days after each regular record date (as defined in Section 2.03) a list, in such form as the Trustee may reasonably require, of the names and addresses of the holders of each series of Securities as of such regular record date and (b) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished; provided, however, no such list need be furnished for any series for which the Trustee shall be the Security Registrar.

SECTION 5.02.

(a) The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the holders of Securities contained in the most recent list furnished to it as provided in Section 5.01 and as to the names and addresses of holders of Securities received by the Trustee in its capacity as Security Registrar (if acting in such capacity).

(b) The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

(c) In case three or more holders of Securities of a series (hereinafter referred to as "applicants") apply in writing to the Trustee, and furnish to the Trustee reasonable proof that each such applicant has owned a Security for a period of at least six months preceding the date of such application, and such application states that the applicant's desire to communicate with other holders of Securities of such series or holders of all Securities with respect to their rights under this Indenture or under such Securities, and is accompanied by a copy of the form of proxy or other communication which such applicants propose to transmit, then the Trustee shall, within five business days after the receipt of such application, at its election, either

(1) afford to such applicants access to the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section, or

(2) inform such applicants as to the approximate number of holders of Securities of such series or of all Securities, as the case may be, whose names and addresses appear in the information preserved at the time by the Trustee, in accordance with the provisions of subsection (a) of this Section, and as to the approximate cost of mailing to such Securityholders the form of proxy or other communication, if any, specified in such application.

(d) If the Trustee shall elect not to afford such applicants access to such information, the Trustee shall, upon the written request of such applicants, mail to each holder of such series or of all Securities, as the case may be, whose name and address appears in the information preserved at the time by the Trustee in accordance with the provisions of subsection (a) of this Section, a copy of the form of proxy or other communication which is specified in such request, with reasonable promptness after a tender to the Trustee of the material to be mailed and of payment, or provision for the payment, of the reasonable expenses of mailing, unless within five days after such tender, the Trustee shall mail to such applicants and file with the Securities and Exchange Commission, together with a copy of the material to be mailed, a written statement to the effect that, in the opinion of the Trustee, such mailing would be contrary to the best interests of the holders of Securities of such series or of all Securities, as the case may be, or would be in violation of applicable law. Such written statement shall specify the basis of such opinion. If said Commission, after opportunity for a hearing upon the objections specified in the written statement so filed, shall enter an order refusing to sustain any of such objections or if, after the entry of an order sustaining one or more of such objections, said Commission shall find, after notice and opportunity for hearing, that all the objections so sustained have been met and shall enter an order so declaring, the Trustee shall mail copies of such material to all such Securityholders with reasonable promptness after the entry of such order and the renewal of such tender; otherwise the Trustee shall be relieved of any obligation or duty to such applicants respecting their application.

(e) Each and every holder of the Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any paying agent nor any Security Registrar shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the holders of Securities in accordance with the provisions of subsection (b) of this Section, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under said subsection (b).

SECTION 5.03.

(a) The Company covenants and agrees to file with the Trustee, within 15 days after the Company is required to file the same with the Securities and Exchange Commission, copies of the annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as said Commission may from time to time by rules and regulations prescribe) which the Company may be required to file with said Commission pursuant to Section 13, Section 14 or Section 15(d) of the Securities Exchange Act of 1934, as amended; or, if the Company is not required to file information, documents or reports pursuant to any of such sections, then to file with the Trustee and said Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such of the supplementary and periodic information, documents and reports which may be required pursuant to Section 13 of the Securities Exchange Act of 1934, as amended, in respect of a security listed and registered on a national securities exchange as may be prescribed from time to time in such rules and regulations.

(b) The Company covenants and agrees to file with Trustee and the Securities and Exchange Commission, in accordance with the rules and regulations prescribed from time to time by said Commission, such additional information, documents and reports with respect to compliance by the Company with the conditions and covenants provided for in this Indenture as may be required from time to time by such rules and regulations.

(c) The Company covenants and agrees to, or cause the Trustee to, transmit by mail, first class postage prepaid, or reputable over-night delivery service which provides for evidence of receipt, to the Securityholders, as their names and addresses appear upon the Security Register, within 30 days after the filing thereof with the Trustee, such summaries of any information, documents and reports required to be filed by the Company pursuant to subsections (a) and (b) of this Section as may be required by rules and regulations prescribed from time to time by the Securities and Exchange Commission.

(d) The Company covenants and agrees to furnish to the Trustee within 135 days of each fiscal year in which any of the Securities are Outstanding, or on or before such other day in each calendar year as the Company and the Trustee may from time to time agree upon, a certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her knowledge of the Company's compliance with all conditions and covenants under this Indenture. For purposes of this subsection (d), such compliance shall be determined without regard to any period of grace or requirement of notice provided under this Indenture.

SECTION 5.04.

(a) On or before July 15 in each year in which any Securities are Outstanding hereunder, the Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report dated as of the preceding May 15, with respect to any of the following events which may have occurred within the previous twelve months (but if no such event has occurred within such period no report need be transmitted):

- (1) any change to its eligibility under Section 7.09, and its qualifications under Section 7.08;
- (2) the creation of or any material change to a relationship specified in paragraphs (1) through (10) of subsection (c) of Section 310(b) of the Trust Indenture Act;
- (3) the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee (as such) which remain unpaid on the date of such report, and for the reimbursement of which it claims or may claim a lien or charge, prior to that of the Securities, on any property or funds held or collected by it as Trustee if such advances so remaining unpaid aggregate more than 1/2 of 1% of the principal amount of the Securities outstanding on the date of such report;
- (4) any change to the amount, interest rate, and maturity date of all other indebtedness owing by the Company, or by any other obligor on the Securities, to the Trustee in its individual capacity, on the date of such report, with a brief description of any property held as collateral security therefor, except any indebtedness based upon a creditor relationship arising in any manner described in paragraphs (2), (3), (4), or (6) of subsection (b) of Section 7.13;
- (5) any change to the property and funds, if any, physically in the possession of the Trustee as such on the date of such report;
- (6) any release, or release and substitution, of property subject to the lien of this Indenture (and the consideration thereof, if any) which it has not previously reported;
- (7) any additional issue of Securities which the Trustee has not previously reported; and
- (8) any action taken by the Trustee in the performance of its duties under this Indenture which it has not previously reported and which in its opinion materially affects the Securities or the Securities of any series, except any action in respect of a default, notice of which has been or is to be withheld by it in accordance with the provisions of Section 6.07.

- (b) The Trustee shall transmit by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register, a brief report with respect to the character and amount of any advances (and if the Trustee elects so to state, the circumstances surrounding the making thereof) made by the Trustee as such since the date of the last report transmitted pursuant to the provisions of subsection (a) of this Section (or if no such report has yet been so transmitted, since the date of execution of this Indenture), for the reimbursement of which it claims or may claim a lien or charge prior to that of the Securities of any series on property or funds held or collected by it as Trustee, and which it has not previously reported pursuant to this subsection if such advances remaining unpaid at any time aggregate more than 10% of the principal amount of Securities of such series Outstanding at such time, such report to be transmitted within 90 days after such time.
- (c) A copy of each such report shall, at the time of such transmission to Securityholders, be filed by the Trustee with the Company, with each stock exchange upon which any Securities are listed (if so listed) and also with the Securities and Exchange Commission. The Company agrees to notify the Trustee when any Securities become listed on any stock exchange.

ARTICLE VI.

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS
ON EVENT OF DEFAULT

SECTION 6.01.

- (a) Whenever used herein with respect to Securities of a particular series, "Event of Default" means any one or more of the following events which has occurred and is continuing:
- (1) default in the payment of any installment of interest upon any of the Securities of such series, as and when the same shall become due and payable, and continuance of such default for a period of 30 Business Days;
- (2) default in the payment of the principal of (or premium, if any, on) any of the Securities of such series as and when the same shall become due and payable, whether at maturity, upon redemption, by declaration or otherwise, or in any payment required by any sinking or analogous fund established with respect to that series; provided, however, that notwithstanding the foregoing, the Company's failure to pay, if caused solely by a wire transfer malfunction or similar problem outside the Company's control, shall not be deemed an Event of Default;

(3) failure on the part of the Company duly to observe or perform any other of the covenants or agreements on the part of the Company with respect to that series contained in such Securities or otherwise established with respect to that series of Securities pursuant to section 2.01 hereof or contained in this Indenture (other than a covenant or agreement which has been expressly included in this Indenture solely for the benefit of one or more series of Securities other than such series) for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied and stating that such notice is a "Notice of Default" hereunder, shall have been given to the Company by the Trustee, by registered or certified mail, or to the Company and the Trustee by the holders of at least 25% in principal amount of the Securities of that series at the time outstanding;

(4) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking liquidation or reorganization of the Company under the Federal Bankruptcy Code or any other similar applicable Federal or State law, and such decree or order shall have continued unvacated and unstayed for a period of 90 days; or an involuntary case shall be commenced under such Code in respect of the Company and shall continue undismissed for a period of 90 days or an order for relief in such case shall have been entered; or a decree or order of a court having jurisdiction in the premises shall have been entered for the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of the Company of its property, or for the winding up or liquidation of its affairs and such decree or order shall have remained in force unvacated and unstayed for a period of 90 days;

(5) the Company shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking liquidation or reorganization under the Federal Bankruptcy Code or any other similar applicable Federal or State law, or shall consent to the filing of any such petition, or shall consent to the appointment on the ground of insolvency or bankruptcy of a receiver or custodian or liquidator or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make an assignment for the benefit of creditors; or

(6) any other Event of Default provided in the supplemental indenture or Board Resolution under which such series of Securities is issued or in the form of Security for such series.

(b) In each and every such case, unless the principal of all the Securities of that series shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities of that series then Outstanding hereunder, by notice in writing to the Company (and to the Trustee if given by such Securityholders), may declare the principal of all the Securities of that series to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything contained in this Indenture or in the Securities of that series or established with respect to that series pursuant to Section 2.01 hereof to the contrary notwithstanding.

(c) The provisions of Section 6.01(b), however, are subject to the condition that if, at any time after the principal of the Securities of that series shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all the Securities of that series and the principal of (and premium, if any, on) any and all Securities of that series which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that such payment is enforceable under applicable law, upon overdue installments of interest, at the rate per annum expressed in the Securities of that series to the date of such payment or deposit) and the amount payable to the Trustee under Section 7.06, and any and all Defaults under the Indenture, other than the nonpayment of principal on Securities of that series which shall not have become due by their terms, shall have been remedied or waived as provided in Section 6.06 then and in every such case the holders of a majority in aggregate principal amount of the Securities of that series then Outstanding, determined in accordance with Section 8.04, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair any right consequent thereon.

(d) In case the Trustee shall have proceeded to enforce any right with respect to Securities of that series under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company and the Trustee shall be restored respectively to their former positions and rights hereunder, and all rights, remedies and powers of the Company and the Trustee shall continue as though no such proceedings had been taken.

SECTION 6.02. (a) The Company covenants that (1) in case default shall be made in the payment of any installment of interest on any of the Securities of a series, or any payment required by any sinking or analogous fund established with respect to that series as and when the same shall become due and payable, and such default shall have continued for a period of 30 Business Days, or (2) in case default shall be made in the payment of the principal of (or premium, if any, on) any of the Securities of a series when the same shall have become due and payable, whether upon maturity of the Securities of a series or upon redemption or upon declaration or otherwise -- then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of the Securities of that series, the whole amount that then shall have become due and payable on all Securities of such series for principal (and premium, if any) or interest, or both, as the case may be, with interest upon the overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law) upon overdue installments of interest at the rate per annum expressed in the Securities of that series; and, in addition, thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, and the amount payable to the Trustee under Section 7.06.

(b) In the case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any action or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or other obligor upon the Securities of that series and collect in the manner provided by law out of the property of the Company or other obligor upon the Securities of that series wherever situated the moneys adjudged or decreed to be payable.

(c) In case of any receivership, insolvency, liquidation, bankruptcy, reorganization, readjustment, arrangement, composition or other judicial proceedings affecting the Company, any other obligor on such Securities, or the creditors or property of either, the Trustee shall have power to intervene in such proceedings and take any action therein that may be permitted by the court and shall (except as may be otherwise provided by law) be entitled to file such proofs of claim and other papers and documents as may be necessary or advisable in order to have the claims of the Trustee and of the holders of Securities of such series allowed for the entire amount due and payable by the Company or such other obligor under the Indenture at the date of institution of such proceedings and for any additional amount which may become due and payable by the Company or such other obligor after such date, and to collect and receive any moneys or other property payable or deliverable on any such claim, and to distribute the same after the deduction of the amount payable to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the holders of Securities of such series to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to such Securityholders, to pay to the Trustee any amount due it under Section 7.06.

(d) All rights of action and of asserting claims under this Indenture, or under any of the terms established with respect to Securities of that series, may be enforced by the Trustee without the possession of any such Securities, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for payment to the Trustee of any amounts due under Section 7.06, be for the ratable benefit of the holders of the Securities of such series.

In case of an Event of Default hereunder the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in the Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities of that series or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

SECTION 6.03. Any moneys collected by the Trustee pursuant to Section 6.02 with respect to a particular series of Securities shall be applied in the order following, at the date or dates fixed by the Trustee and, in case of the distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the several Securities of that series, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

FIRST: To the payment of costs and expenses of collection and of all amounts payable to the Trustee under Section 7.06;

SECOND: To the payment of the amounts then due and unpaid upon Securities of such series for principal (and premium, if any) and interest, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal (and premium, if any) and interest, respectively; and

THIRD: To the payment of any surplus then remaining to the Company, or its successors and assigns, or to whomsoever may be lawfully entitled thereto.

SECTION 6.04. No holder of any Security of any series shall have any right by virtue or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to Securities of such series specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Securities of such series then Outstanding, determined in accordance with Section 8.04, shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have failed to institute any such action, suit or proceeding and the Trustee shall not have received any direction inconsistent with such written notice during such 60-day period by the holders of not less than a majority in aggregate principal amount of the Securities of such series then Outstanding; it being understood and intended, and being expressly covenanted by the taker and holder of every Security of such series with every other such taker and holder and the Trustee, that no one or more holders of Securities of such series shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other of such Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities of such series. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provisions of this Indenture, however, the right of any holder of any Security to receive payment of the principal of (and premium, if any) and interest on such Security, as therein provided, on or after the respective due dates expressed in such Security (or in the case of redemption, on the redemption date), or to institute suit for the enforcement of any such payment on or after such respective dates or redemption date, shall not be impaired or affected without the consent of such holder.

SECTION 6.05. (a) All powers and remedies given by this Article to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any others thereof or of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to such Securities.

(b) No delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 6.04, every power and remedy given by this Article or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 6.06 The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding, determined in accordance with Section 8.04, shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to such series; provided, however, that such direction shall not be in conflict with any rule of law or with this Indenture, as determined by the Trustee, or unduly prejudicial to the rights of holders of Securities of any other series at the time Outstanding, determined in accordance with Section 8.04, not parties thereto. Subject to the provisions of Section 7.01, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a responsible officer or officers of the Trustee, determine that the proceeding so directed would involve the Trustee in personal liability. The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding, determined in accordance with Section 8.04, may on behalf of the holders of all of the Securities of that series waive any past default in the performance of any of the covenants contained herein or established pursuant to Section 2.01 with respect to such series and its consequences, except a default in the payment of the principal of, or premium, if any, or interest on, any of the Securities of that series as and when the same shall become due by the terms of such Securities or a call for redemption of Securities of that series. Upon any such waiver, the default covered thereby shall be deemed to be cured and to cease to exist for all purposes of this Indenture and the Company, the Trustee and the holders of the Securities of that series shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 6.07. The Trustee shall, within 90 days after the occurrence of a default with respect to a particular series, transmit by mail, first class postage prepaid, to the holders of Securities of that series, as their names and addresses appear upon the Security Register, notice of all defaults with respect to that series known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purposes of this Section being hereby defined to be the events specified in subsections (1), (2), (3), (4), (5) and (6) of Section 6.01(a), not including any periods of grace provided for therein and irrespective of the giving of notice provided for by subsection (3) of Section 6.01(a)); provided, that, except in the case of default in the payment of the principal of (or premium, if any) or interest on any of the Securities of that series or in the payment of any sinking fund installment established with respect to that series, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or responsible officers, of the Trustee in good faith determine that the withholding of such notice is in the interests of the Securityholders of Securities of that series; provided further, that in the case of any default of the character specified in Section 6.01(a)(3) with respect to Securities of such series no such notice to the holders of the Securities of that series shall be given until at least 30 days after the occurrence thereof.

The Trustee shall not be deemed to have knowledge of any default, except (i) a default under subsections (a)(1) or (a)(2) of Section 6.01 as long as the Trustee is acting as paying agent for such series of Securities or (ii) any default as to which the Trustee shall have received written notice or a Responsible Officer charged with the administration of this Indenture shall have obtained actual knowledge.

SECTION 6.08. All parties to this Indenture agree, and each holder of any Securities by his or her acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys’ fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding more than 10% in aggregate principal amount of the Outstanding Securities of any series, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security of such series, on or after the respective due dates expressed in such Security or established pursuant to this Indenture.

ARTICLE VII.

CONCERNING THE TRUSTEE

SECTION 7.01. (a) The Trustee, prior to the occurrence of an Event of Default with respect to Securities of a series and after the curing of all Events of Default with respect to Securities of that series which may have occurred, shall undertake to perform with respect to Securities of such series such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants shall be read into this Indenture against the Trustee. In case an Event of Default with respect to Securities of a series has occurred (which has not been cured or waived), the Trustee shall exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that

(1) prior to the occurrence of an Event of Default with respect to Securities of a series and after the curing or waiving of all such Events of Default with respect to that series which may have occurred:

(i) the duties and obligations of the Trustee shall with respect to Securities of such series be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable with respect to Securities of such series except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against that Trustee; and

(ii) in the absence of bad faith on the part of the

Trustee, the Trustee may with respect to Securities of such series conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any

certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or responsible officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of not less than a majority in principal amount of the Securities of any series at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the- Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture with respect to the Securities of that series; and

(4) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 7.02. Except as otherwise provided in Section 7.01:

- (a) The Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;
- (b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by a Board Resolution or an instrument signed in the name of the Company by the President or the Chief Financial Officer and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer (unless other evidence in respect thereof is specifically prescribed herein);
- (c) The Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered or omitted hereunder in good faith and in reliance thereon;
- (d) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred herein or thereby; nothing herein contained shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default with respect to a series of the Securities (which has not been cured or waived) to exercise with respect to Securities of that series such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;
- (e) The Trustee shall not be liable for any action taken or omitted to be taken by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture;
- (f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, security, or other papers or documents, unless requested in writing so to do by the holders of not less than a majority in principal amount of the Outstanding Securities of the particular series affected thereby (determined as provided in Section 8.04); provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such costs, expenses or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the Company or, if paid by the Trustee, shall be repaid by the Company upon demand; and
- (g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 7.03.

- (a) The recitals contained herein and in the Securities (other than the Certificate of Authentication on the Securities) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same.
- (b) The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities.
- (c) The Trustee shall not be accountable for the use by the Company of any of the Securities or the use or application by the Company of the proceeds of such Securities, or for the use or application of any moneys paid over by the Trustee in accordance with any provision of this Indenture or established pursuant to Section 2.01, or for the use or application of any moneys received by any paying agent other than the Trustee.

SECTION 7.04. The Trustee or any paying agent or Security Registrar, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Trustee, paying agent or Security Registrar.

SECTION 7.05. Subject to the provisions of Section 11.05, all moneys received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder except such as it may agree with the Company to pay thereon.

SECTION 7.06.

(a) The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel (including in-house counsel) and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify the Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises.

(b) The obligations of the Company under this Section to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

SECTION 7.07. Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering or omitting to take any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted to be taken by it under the provisions of this Indenture upon the faith thereof.

SECTION 7.08. The Trustee shall be disqualified only where such disqualification is required by Section 310(b) of the Trust Indenture Act.

SECTION 7.09. There shall at all times be a Trustee with respect to the Securities issued hereunder which shall at all times be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or other person permitted to act as trustee by the Securities and Exchange Commission, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$10 million, and subject to supervision or examination by Federal, State, Territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, the Trustee shall resign immediately in the manner and with the effect specified in Section 7.10.

SECTION 7.10. (a) The Trustee or any successor hereafter appointed, may at any time resign with respect to the Securities of one or more series by giving written notice thereof to the Company and by transmitting notice of resignation by mail, first class postage prepaid, to the Securityholders of such series, as their names and addresses appear upon the Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee with respect to Securities of such series by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the mailing of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee with respect to Securities of such series, or any Securityholder of that series who has been a bona fide holder of a Security or Securities for at least six months may, subject to the provisions of Section 6.08, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur-

the Trustee shall fail to comply with the provisions of subsection (a) of Section 310 of the Trust Indenture Act after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months, or

the Trustee shall cease to be eligible in accordance with the provisions of Section 7.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder of Securities, or

the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee with respect to all Securities and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 7.08, unless the Trustee's duty to resign is stayed as provided herein, any Securityholder who has been a bona fide holder of a Security or Securities for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities of any series at the time Outstanding may at any time remove the Trustee with respect to such series and appoint a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee with respect to the Securities of a series pursuant to any of the provisions of this Section shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.11.

(e) Any successor trustee appointed pursuant to this Section may be appointed with respect to the Securities of one or more series or all of such series, and at any time there shall be only one Trustee with respect to the Securities of any particular series.

SECTION 7.11.

(a) In case of the appointment hereunder of a successor trustee with respect to all Securities, every such successor trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor trustee all the rights, powers, and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring Trustee hereunder.

(b) In case of the appointment hereunder of a successor trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates, (2) shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust, that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee and that no Trustee shall be responsible for any act or failure to act on the part of any other Trustee hereunder; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein, such retiring Trustee shall with respect to the Securities of that or those series to which the appointment of such successor trustee relates have no further responsibility for the exercise of rights and powers or for the performance of the duties and obligations vested in the Trustee under this Indenture, and each such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor trustee relates; but, on request of the Company or any successor trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor trustee, to the extent contemplated by such supplemental indenture, the property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor trustee relates.

(c) Upon request of any such successor trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and trusts referred to in paragraph (a) or (b) of this Section, as the case may be.

(d) No successor trustee shall accept its appointment unless at the time of such acceptance such successor trustee shall be qualified and eligible under this Article.

(e) Upon acceptance of appointment by a successor trustee as provided in this Section, the Company shall transmit notice of the succession of such trustee hereunder by mail, first class postage prepaid, to the Securityholders, as their names and addresses appear upon the Security Register. If the Company fails to transmit such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be transmitted at the expense of the Company.

SECTION 7.12. Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.08 and eligible under the provisions of Section 7.09, without the execution or filing of any paper or any further act on the part of any of the parties hereto, anything herein to the contrary notwithstanding. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the- same effect as if such successor Trustee had itself authenticated such securities.

SECTION 7.13. (a) Subject to the provisions of subsection (b) of this Section, if the Trustee shall be or shall become a creditor, directly or indirectly, secured or unsecured, of the company within three months prior to a default, as defined in subsection (c) of this Section, or subsequent to such a default, then, unless and until such default shall be cured, the Trustee shall set apart and hold in a special account for the benefit of the Trustee individually, the holders of the Securities and the holders of other indenture securities (as defined in subsection (c) of this Section)

- (1) an amount equal to any and all reductions in the amount due and owing upon any claim as such creditor in respect of principal or interest, effected after the beginning of such three months’ period and valid as against the Company and its other creditors, except any such reduction resulting from the receipt or disposition of any property described in paragraph (2) of this subsection, or from the exercise of any right of set-off which the Trustee could have exercised if a petition in bankruptcy had been filed by or against the Company upon the date of such default; and
- (2) all property received by the Trustee in respect of any claim as such creditor, either as security therefor, or in satisfaction or composition thereof, or otherwise, after the beginning of such three months’ period, or an amount equal to the proceeds of any such property, if disposed of, subject, however, to the rights, if any, of the Company and its other creditors in such property or such proceeds

Nothing herein contained, however, shall affect the right of the Trustee

- (A) to retain for its own account (i) payments made on account of any such claim by any person (other than the Company) who is liable thereon, and (ii) the proceeds of the bona fide sale of any such claim by the Trustee to a third person, and (iii) distributions made in cash, securities, or other property in respect of claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law;
- (B) to realize, for its own account, upon any property held by it as security for any such claim, if such property was so held prior to the beginning of such three months’ period;

(C) to realize, for its own account, but only to the extent of the claim hereinafter mentioned, upon any property held by it as security for any such claim, if such claim was created after the beginning of such three months' period and such property was received as security therefor simultaneously with the creation thereof, and if the Trustee shall sustain the burden of proving that at the time such property was so received the Trustee had no reasonable cause to believe that a default, as defined in subsection (c) of this Section, would occur within three months; or

(D) to receive payment on any claim referred to in paragraph (B) or (C), against the release of any property held as security for such claim as provided in such paragraph (B) or (C), as the case may be, to the extent of the fair value of such property.

For the purposes of paragraphs (B), (C) and (D), property substituted after the beginning of such three months' period for property held as security at the time of such substitution shall, to the extent of the fair value of the property released, have the same status as the property released, and, to the extent that any claim referred to in any of such paragraphs is created in renewal of or in substitution for or for the purpose of repaying or refunding any pre-existing claim of the Trustee as such creditor, such claim shall have the same status as such pre-existing claim.

If the Trustee shall be required to account, the funds and property held in such special account and the proceeds thereof shall be apportioned between the Trustee, the Securityholders and the holders of other indenture securities in such manner that the Trustee, the Securityholders and the holders of other indenture securities realize, as a result of payments from such special account and payments of dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, the same percentage of their respective claims, figured before crediting to the claim of the Trustee anything on account of the receipt by it from the Company of the funds and property in such special account and before crediting to the respective claims of the Trustee, the Securityholders and the holders of other indenture securities dividends on claims filed against the Company in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, but after crediting thereon receipts on account of the indebtedness represented by their respective claims from all sources other than from such dividends and from the funds and property so held in such special account. As used in this paragraph, with respect to any claim, the term "dividends" shall include any distribution with respect to such claim in bankruptcy or receivership or in a case for reorganization pursuant to the Federal Bankruptcy Code or applicable State law, whether such distribution is made in cash, securities, or other property, but shall not include any such distribution with respect to the secured portion, if any, of such claim. The court in which such bankruptcy, receivership or case for reorganization is pending shall have jurisdiction (i) to apportion between the Trustee, the Securityholders and the holders of other indenture securities, in accordance with the provisions of this paragraph, the funds and property held in such special account and the proceeds thereof, or (ii) in lieu of such apportionment, in whole or in part, to give to the provisions of this paragraph due consideration in determining the fairness of the distributions to be made to the Trustee, the Securityholders and the holders of other indenture securities with respect to their respective claims, in which event it shall not be necessary to liquidate or to appraise the value of any securities or other property held in such special account or as security for any such claim, or to make a specific allocation of such distributions as between the secured and unsecured portions of such claims, or otherwise to apply the provisions of this paragraph as a mathematical formula.

Any Trustee who has resigned or been removed after the beginning of such three months' period shall be subject to the provisions of this subsection (a) as though such resignation or removal had not occurred. If any Trustee has resigned or been removed prior to the beginning of such three months' period, it shall be subject to the provisions of this subsection (a) if and only if the following conditions exist:

- (i) the receipt of property or reduction of claim which would have given rise to the obligation to account, if such Trustee had continued as trustee, occurred after the beginning of such three months' period; and
 - (ii) such receipt of property or reduction of claim occurred within three months after such resignation or removal.
 - (iii) There shall be excluded from the operation of subsection (a) of this Section a creditor relationship arising from
 - (1) the ownership or acquisition of securities issued under any indenture, or any security or securities having a maturity of one year or more at the time of acquisition by the Trustee;
 - (2) advances authorized by a receivership or bankruptcy court of competent jurisdiction, or by this Indenture, for the purpose of preserving any property other than cash which shall at any time be subject to the lien, if any, of this Indenture or of discharging tax liens or other prior liens or encumbrances thereon, if notice of such advance and of the circumstances surrounding the making thereof is given to the Securityholders at the time and in the manner provided in this Indenture;
 - (3) disbursements made in the ordinary course of business in the capacity of trustee under an indenture, transfer agent, registrar, custodian, paying agent, subscription agent, fiscal agent or depositary, or other similar capacity;
 - (4) an indebtedness created as a result of services rendered or premises rented; or an indebtedness created as a result of goods or securities sold in a cash transaction as defined in subsection (c) of this Section;
 - (5) the ownership of stock or of other securities of a Company organized under the provisions of Section 25(a) of the Federal Reserve Act, as amended, which is directly or indirectly a creditor of the Company; or
 - (6) the acquisition, ownership, acceptance or negotiation of any drafts, bills of exchange, acceptances or obligations which fall within the classification of self-liquidating paper as defined in subsection (c) of this Section.
- (c) As used in this Section:
- (1) The term "default" shall mean any failure to make payment in full of the principal of (or premium, if any) or interest upon any of the Securities or upon the other indenture securities when and as such principal (or premium, if any) or interest becomes due and payable.

(2) The term "other indenture securities" shall mean securities upon which the Company is an obligor (as defined in the Trust Indenture Act of 1939, as amended) outstanding under any other indenture (A) under which the Trustee is also trustee, (B) which contains provisions substantially similar to the provisions of subsection (a) of this Section, and (C) under which a default exists at the time of the apportionment of the funds and property held in said special account.

(3) The term "cash transaction" shall mean any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand.

(4) The term "self-liquidating paper" shall mean any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacture, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

(5) The term "Company" shall mean any obligor upon any of the Securities.

ARTICLE VIII.

CONCERNING THE SECURITYHOLDERS

SECTION 8.01. Whenever in this Indenture it is provided that the holders of a majority or specified percentage in aggregate principal amount of the Securities of a particular series may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action the holders of such majority or specified percentage of that series have joined therein may be evidenced by any instrument or any number of instruments of similar tenor executed by such holders of Securities of that series in person or by agent or proxy appointed in writing.

If the Company shall solicit from the Securityholders of any series any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers’ Certificate, fix in advance a record date for such series for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of Outstanding Securities of that series have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the Outstanding Securities of that series shall be computed as of the record date. Any such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective upon receipt.

SECTION 8.02. Subject to the provisions of Section 7.01, proof of the execution of any instrument by a Securityholder (such proof will not require notarization) or his agent or proxy and proof of the holding by any person of any of the Securities shall be sufficient if made in the following manner:

- (a) The fact and date of the execution by any such person of any instrument may be proved in any reasonable manner acceptable to the Trustee.
- (b) The ownership of Securities shall be proved by the Security Registrar of such Securities or by a certificate of the Security Registrar thereof.
- (c) The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

SECTION 8.03. Prior to the due presentment for registration of transfer of any Security, the Company, the Trustee, any paying agent and any Security Registrar may deem and treat the person in whose name such Security shall be registered upon the books of the Company as the absolute owner of such Security (whether or not such Security shall be overdue and notwithstanding any notice of ownership or writing thereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal of, premium, if any, and (subject to Section 2.03) interest on such Security and for all other purposes; and neither the Company nor the Trustee nor any paying agent nor any Security Registrar shall be affected by any notice to the contrary.

SECTION 8.04. In determining whether the holders of the requisite aggregate principal amount of Securities of a particular series have concurred in any direction, consent or waiver under this Indenture, Securities of that series which are owned by the Company or any other obligor on the Securities of that series or by any Affiliate of the Company or any other obligor on the Securities of that series shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, except that for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver only Securities of such series which the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this Section, if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 8.05. At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the holders of the majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action, any holder of a Security of that series which is shown by the evidence to be included in the Securities the holders of which have consented to such action may, by filing written notice with the Trustee, and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Security. Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange therefor, on registration of transfer thereof or in place thereof, irrespective of whether or not any notation in regard thereto is made upon such Security. Any action taken by the holders of a majority or percentage in aggregate principal amount of the Securities of a particular series specified in this Indenture in connection with such action shall be conclusively binding upon the Company, the Trustee and the holders of all the Securities of that series.

ARTICLE IX.

SUPPLEMENTAL INDENTURES

SECTION 9.01. In addition to any supplemental indenture otherwise authorized by this Indenture, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect), without the consent of the Securityholders, for one or more of the following purposes;

- (a) to evidence the succession of another corporation to the Company, and the assumption by any such successor of the covenants of the Company contained herein or otherwise established with respect to the Securities; or
- (b) to add to the covenants of the Company such further covenants, restrictions, conditions or provisions for the protection of the holders of the Securities of all or any series as the Board of Directors and the Trustee shall consider to be for the protection of the holders of Securities of all or any series, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions, conditions or provisions a default or an Event of Default with respect to such series permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction, condition or provision such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the holders of a majority in aggregate principal amount of the Securities of such series to waive such default; or
- (c) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this indenture as shall not be inconsistent with the provisions of this Indenture and shall not adversely affect the interests of the holders of the Securities of any series; or
- (d) to change or eliminate any of the provisions of this Indenture, provided that any such change or elimination shall become effective only when there is no Security Outstanding of any series created prior to the execution of such supplemental indenture which is entitled to the benefit of such provision.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time Outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. With the consent (evidenced as provided in Section 8.01) of the holders of not less than a majority in aggregate principal amount of the Securities of each series affected by such supplemental indenture or indentures at the time Outstanding, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of any supplemental indenture or of modifying in any manner the rights of the holders of the Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall (i) extend the fixed maturity of any Securities of any series, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Security so affected, or (ii) reduce the aforesaid percentage of Securities, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of each Security then Outstanding and affected thereby.

Upon the request of the Company, accompanied by a Board Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Securityholders required to consent thereto as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion but shall not be obligated to enter into such supplemental indenture.

It shall not be necessary for the consent of the Securityholders of any series affected thereby under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, setting forth in general terms the substance of such supplemental indenture, to the Securityholders of all series affected thereby as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

SECTION 9.03. Upon the execution of any supplemental indenture pursuant to the provisions of this Article or of Section 10.01, this Indenture shall, with respect to such series, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities of the series affected thereby shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Securities of any series, affected by a supplemental indenture, authenticated and delivered after the execution of such supplemental indenture pursuant to the provisions of this Article or of Section 10.01, may bear a notation in form approved by the Trustee, provided such form meets the requirements of any exchange upon which such series may be listed, as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Securities of that series so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared by the Company, authenticated by the Trustee and delivered in exchange for the Securities of that series then Outstanding.

SECTION 9.05. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

ARTICLE X.

CONSOLIDATION, MERGER AND SALE

SECTION 10.01. Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, (a) the due and punctual payment of the principal of (premium, if any) and interest on all of the Securities of all series in accordance with the terms of each series, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series pursuant to Section 2.01 to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act of 1939 as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the Company formed by such consolidation, or into which the Company shall have been merged, or by the corporation which shall have acquired such property and (b) the corporation or corporations formed by such consolidation or into which the Company is merged or the Person or Persons which acquire by conveyance or transfer, or which lease, the properties and assets of the Company substantially as an entirety shall be a Person or Persons organized and existing under the laws of the United States of America, any State thereof or the District of Columbia.

SECTION 10.02.

(a) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities of all series Outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Securities pursuant to Section 2.01 to be performed by the Company with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company or any other predecessor obligor on the Securities, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor company, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any securities which previously shall have been signed and delivered by the officers of the predecessor Company to the Trustee for authentication, and any Securities which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

(b) In case of any such consolidation, merger, sale, conveyance, transfer or other disposition such changes in phraseology and form (but not in substance) may be made in the Securities thereafter to be issued as may be appropriate.

(c) Nothing contained in this Indenture or in any of the Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

SECTION 10.03. The Trustee, subject to the provisions of Section 7.01, may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, complies with the provisions of this Article.

ARTICLE XI.

SATISFACTION AND DISCHARGE OF INDENTURE;

UNCLAIMED MONEYS

SECTION 11.01. If at any time: (a) the Company shall have delivered to the Trustee for cancellation all Securities of a series theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.07) and Securities for whose payment money or Governmental Obligations has theretofore been deposited in trust or segregated and held in trust by the Company (and thereupon repaid to the Company or discharged from such trust, as provided in Section 11.05) or (b) all such Securities of a particular series not theretofore delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit or cause to be deposited with the Trustee as trust funds the entire amount in moneys or Governmental Obligations sufficient or a combination thereof, sufficient, without reinvestment, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay at maturity or upon redemption all Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder with respect to such series by the Company, then this Indenture shall thereupon cease to be of further effect with respect to such series except for the provisions of Sections 2.05, 2.07, 4.02 and 7.10, which shall survive until the date of maturity or redemption date, as the case may be, and Sections 7.06 and 11.05 which shall survive to such date and thereafter, and the Trustee, on demand of the Company and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture with respect to such series.

SECTION 11.02. If at any time all such Securities of a particular series not heretofore delivered to the Trustee for cancellation or which have not become due and payable as described in Section 11.01 shall have been paid by the Company by depositing irrevocably with the Trustee as trust funds moneys or an amount of Governmental Obligations sufficient to pay at maturity or upon redemption all such Securities of that series not theretofore delivered to the Trustee for cancellation, including principal (and premium, if any) and interest due or to become due to such date of maturity or date fixed for redemption, as the case may be, and if the Company shall also pay or cause to be paid all other sums payable hereunder by the Company with respect to such series, then after the date such moneys or Governmental Obligations, as the case may be, are deposited with the Trustee the obligations of the Company under this Indenture with respect to such series shall cease to be of further effect except for the provisions of Sections 2.05, 2.07, 4.02, 7.06, 7.10 and 11.05 hereof which shall survive until such Securities shall mature and be paid. Thereafter, Sections 7.06 and 11.05 shall survive.

SECTION 11.03. All moneys or Governmental Obligations deposited with the Trustee pursuant to Sections 11.01 or 11.02 shall be held in trust and shall be available for payment as due, either directly or through any paying agent (including the Company acting as its own paying agent), to the holders of the particular series of Securities for the payment or redemption of which such moneys or Governmental Obligations have been deposited with the Trustee.

SECTION 11.04. In connection with the satisfaction and discharge of this Indenture all moneys or Governmental Obligations then held by any paying agent under the provisions of this Indenture shall, upon demand of the Company, be paid to the Trustee and thereupon such paying agent shall be released from all further liability with respect to such moneys or Governmental Obligations.

SECTION 11.05. Any moneys or Governmental Obligations deposited with any paying agent or the Trustee, or then held by the Company, in trust for payment of principal of or premium or interest on the Securities of a particular series that are not applied but remain unclaimed by the holders of such Securities for two years after the date upon which the principal of (and premium, if any) or interest on such Securities shall have respectively become due and payable, shall be repaid to the Company on May 31 of each year or (if then held by the Company) shall be discharged from such trust; and thereupon the paying agent and the Trustee shall be released from all further liability with respect to such moneys or Governmental Obligations, and the holder of any of the Securities entitled to receive such payment shall thereafter, as an unsecured general creditor, look only to the Company for the payment thereof.

ARTICLE XII.

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS
AND DIRECTORS

SECTION 12.01. No recourse under or upon any obligation, covenant or agreement of this Indenture, or of any Security, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, stockholder, officer or director, past, present or future as such, of the Company or of any predecessor or successor corporation, either directly or through the Company or any such predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture and the obligations issued hereunder are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, stockholders, officers or directors as such, of the Company or of any predecessor or successor corporation, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, stockholder, officer or director as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Securities.

ARTICLE XIII.

SUNDRY PROVISIONS

SECTION 13.01. All the covenants, stipulations, promises and agreements in this Indenture contained by or on behalf of the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 13.02. Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the corresponding board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. The Company by instrument in writing executed by authority of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company and thereupon such power so surrendered shall terminate both as to the Company and as to any successor corporation.

SECTION 13.04. Except as otherwise expressly provided herein any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities to or on the Company may be given or served by being deposited first class postage prepaid in a post office letterbox addressed (until another address is filed in writing by the Company with the Trustee), as follows: Century Telephone Enterprises, Inc., 100 Century Park Drive, Monroe, Louisiana 71203, Attention: R. Stewart Ewing, Jr. Such notice shall be deemed effective upon dispatch. Any notice, election, request or demand by the Company or any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the Corporate Trust Office of the Trustee, Attention: Corporate Trust Administration.

SECTION 13.05. This Indenture and each Security shall be deemed to be a contract made under the laws of the State of Louisiana, and for all purposes shall be construed in accordance with the laws of said State.

SECTION 13.06.

(a) Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent have been complied with, except that in the case of any such application or demand as to which the furnishing of no such documents is specifically required by any provision of this Indenture relating to such particular application or demand, no additional certificate or opinion need be furnished.

(b) Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant in this Indenture shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, such person has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.07. In any case where the date of maturity, of interest payment or principal payment of any Security or the date of redemption of any Security shall not be a Business Day, then payment of interest or principal (and premium, if any) may be made on the next succeeding business day with the same force and effect as if made on the nominal date of maturity or redemption, and no interest shall accrue for the period after such nominal date.

SECTION 13.08. If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act of 1939, as amended, such imposed duties shall control.

SECTION 13.09. This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

SECTION 13.10. In case any one or more of the provisions contained in this Indenture or in the Securities of any series shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of such Securities, but this Indenture and such Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

First American Bank & Trust of Louisiana hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

* * * * *

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

CENTURY TELEPHONE ENTERPRISES, INC.

By: /s/ Glen F. Post, III

Glen F. Post, III
Vice Chairman, President and
Chief Executive Officer

Attest:

By: /s/ R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.
Assistant Secretary

FIRST AMERICAN BANK & TRUST OF LOUISIANA
as Trustee

By: /s/ William W. Keith
Executive Vice President

William W. Keith

and Trust Officer

Attest:

By: /s/ A. J. McGinn, Jr.

A. J. McGinn, Jr.
Assistant Secretary

STATE OF LOUISIANA)

) ss.:

PARISH OF OUACHITA)

On the 14th day of April 1994, before me personally came Glen F. Post, III, to me known, who, being by me duly sworn, did depose and say that he is the Vice Chairman, President and Chief Executive Officer of Century Telephone Enterprises, Inc., one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Kathy E. Tettleton

Notary Public

[Notarial Seal]

STATE OF LOUISIANA)

) ss.:

PARISH OF OUACHITA)

On the 14th day of April 1994, before me personally came William W. Keith, to me known, who, being by me duly sworn, did depose and say that he is the Executive Vice President and Trust Officer of First American Bank & Trust of Louisiana, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation, and that he signed his name thereto by like authority.

/s/ Charles H. Ryan

Notary Public

[Notarial Seal]

Section 4: EX-10.13 (EXHIBIT 10.13)

CENTURYLINK
EXECUTIVE SEVERANCE PLAN
AS AMENDED AND RESTATED
EFFECTIVE JULY 1, 2014

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ARTICLE I

PURPOSE OF PLAN

Section 1.01 Purpose of the Plan. The Plan is not intended to be an “employee pension benefit plan” or “pension plan” within the meaning of section 3(2) of ERISA. Rather, the Plan is intended to be a “welfare benefit plan” within the meaning of section 3(1) of ERISA and to meet the descriptive requirements of a plan constituting a “severance pay plan” within the meaning of regulations published by the Secretary of Labor at 29 CFR § 2510.3-2(b). No employee contributions are required or permitted. Accordingly, no employee has or shall have a vested right to such benefits.

Section 1.02 Application of the Plan. The Plan shall generally be applicable to an Involuntary Termination or Good Reason Resignation, as defined herein. This Plan supersedes any other plan, policy, program, or arrangement providing an Eligible Employee with severance or related benefits, with the exception of (i) any vested benefits under another severance or change of control plan, policy, or arrangement which became effective prior to the Effective Date, and (ii) any contract between CenturyLink (including its predecessors) and an Eligible Employee concerning the provision of severance benefits following a termination of employment. Accordingly, the Plan applies to all Eligible Employees terminated due to an Involuntary Termination with a Termination Date on or after July 1, 2014. Notwithstanding any other provision hereof, there is intended to be no duplication of severance benefits to an Eligible Employee. As such, if an Eligible Employee has any vested rights under another severance or change of control plan, policy, arrangement or contract for severance benefits following termination of employment, this Plan shall not apply to such Eligible Employee with respect to such termination.

Section 1.03 Gender and Number. Whenever used herein, the masculine pronoun shall include the feminine and the singular shall encompass the plural.

ARTICLE II

DEFINITIONS

“**Base Salary**” means the Eligible Employee’s annual rate of base pay, as reflected in the Company’s payroll or personnel files, in effect on a specified date.

“**Board**” means the Board of Directors of CenturyLink, Inc., or any successor thereto, or its delegate, including but not limited to, a committee thereof specifically designated for purposes of making determinations hereunder.

“**Cause**” means an Eligible Employee’s (i) failure to substantially perform his duties, (ii) failure to substantially achieve the objectives of his position, (iii) failure to substantially comply with supervisor directives, (iv) conduct that violates the Company’s ethics and compliance program, including its Code of Conduct, (v) conduct that is injurious to the Company’s reputation, customer relationships, employees or finances, (vi) act(s) that, if proven in a court of law, would constitute a felony crime, (vii) act(s) of dishonesty, fraud or moral turpitude, or (viii) violation of any of the restrictive covenants found in Article VI. The Plan Administrator, in its sole discretion, shall determine whether the elements of Cause have been met, including whether the facts and circumstances indicate that the Employee’s actions constitute a violation of the Company’s ethics and compliance program and/or are injurious to the Company.

“**CEO**” means the Executive Officer who is designated by the Board as the Chief Executive Officer of the Company.

“**Change in Control**” means any of the following events:

- (a) the acquisition, directly or indirectly, by any “person” or “group” (as those terms are defined in sections 3(a)(9), 13(d), and 14(d) of the Exchange Act and the rules thereunder, including Rule 13d-5(b)) of “beneficial ownership” (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors (“voting securities”) of the Company that represent 30% or more of the combined voting power of the Company’s then outstanding voting securities, other than:
 - (i) an acquisition by a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by the Company or any person controlled by the Company or by any employee benefit plan (or related trust) sponsored or maintained by the Company or any person controlled by the Company, or
 - (ii) an acquisition of voting securities by the Company or a corporation owned, directly or indirectly, by the stockholders of the Company of at least 50% of the voting power of the Company’s then outstanding securities in substantially the same proportions as their ownership of stock of the Company, or
 - (iii) an acquisition of voting securities pursuant to a transaction described in subsection (c) below that would not be a Change in Control under subsection (c) below;
- (b) a change in the composition of the Board that causes less than a majority of the directors of the Company to be directors that meet one or more of the following descriptions:
 - (i) a director who has been a director of the Company for a continuous period of at last 24 months (or, if less, since the date the shares of Company common stock were listed on the New York Stock Exchange) or,
 - (ii) a director whose election or nomination as a director was approved by a vote of at least two-thirds of the then directors described in subsections 2.04(b)(i), (ii) or (iii) by prior nomination or election, but excluding, for the purpose of this subsection (ii), any director whose initial assumption to office occurred as a result of an actual or threatened (y) election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person or group other than the Board or (z) tender offer, merger, sale of substantially all of the Company’s assets, consolidation, reorganization or business combination that would be a Change in Control under subsection (c) below on consummation thereof, or
 - (iii) who were serving on the Board as result of the consummation of a transaction described in subsection (c) below that would not be a Change in Control under subsection (c) below;
- (c) the consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of
 - (i) a consolidation, merger, reorganization or business combination or
 - (ii) a sale or disposition of all or substantially all of the Company’s assets or
 - (iii) the acquisition of assets or stock of another entity,

in each case, other than in a transaction, (x) that results in the Company’s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls,

directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company’s assets or otherwise succeeds to the business of the Company (the Company or such person, the “Successor Entity”)) directly or indirectly, at least 50% of the combined voting power of the Successor Entity’s outstanding voting securities immediately after the transaction and (y) after which more than 50% of the members of the Board of the Successor Entity were members of the Board at the time of the Board’s approval of the transaction or other action of the Board approving the transaction (or whose election or nomination was approved by a vote of at least two-thirds of the members who were members of the Board at that time), and (z) after which no person or group beneficially owns voting securities representing 30% or more of the combined voting power of the Successor Entity; provided, however, no person or group shall be treated for purposes of this subsection (z) as beneficially owning 30% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company before the consummation of the transaction; or

(d) a liquidation or dissolution of the Company other than in connection with a transaction described in subsection (c) above that would not be a Change in Control thereunder.

“**CIC Termination**” means an Eligible Employee’s Involuntary Termination within one year after the date of a Change in Control or Good Reason Resignation.

“**COBRA**” means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, as codified in section 4980B of the Code, and Part 6 of Title I of ERISA and as amended by subsequent legislation.

“**Code**” means the Internal Revenue Code of 1986, as amended, and regulations thereunder.

“**Company**” means CenturyLink, Inc. and, solely CenturyLink, Inc.’s U.S.-based affiliates and subsidiaries, as well as any predecessor (specifically including but not limited to U.S.-based affiliates and subsidiaries of EMBARQ Corporation, Qwest Communications International, Inc. and Savvis, Inc.) that are Participating Companies as defined in the Plan and on Exhibit C.

“**Comparable Position**” means a position offered in connection with a reduction in headcount, an outsourcing to a vendor, a merger of distinct business groups or companies or a change in company ownership as a result of a merger or acquisition that (i) is within a driving distance of 50 miles of the Participant’s current work location and (ii) has a Total Targeted Compensation (Base Salary plus target short term incentive or sales incentive opportunity) of at least 90% of the Participant’s current Total Targeted Compensation. A job at job grades M5 and below (or their equivalent) is not a “Comparable Position.”

“**Competitive Employment**” means the direct or indirect performance of duties or responsibilities (whether paid or unpaid and whether as a consultant, employee or otherwise) for a Competitor, including, without limitation, the ownership of any interest in, the provision of any financing, management or advisory services to, any connection with or being a principal, partner or agent of, any Competitor; provided that the Eligible Employee may passively own less than 1% of the outstanding shares of any Competitor.

“**Competitor**” means any person, firm, company, corporation or other entity, that markets, sells, resells or otherwise engages in the business of selling to any business or government customer any product or service that is competitive, in any territory or location where the Company does business, with any of the following services, which may be changed from time to time and over time: local exchange telephone service (including services provided by wireless and cable providers), E-911 service, long distance services, dial-up and high-speed Internet access, security monitoring and related services, video delivery, web development, web hosting, high speed data services, wireless communications, IPTV and other video services (including satellite or cable television services), data hosting, cloud computing, any other product or service provided to

customers of the Company which the Employee sold or supported, and any other products and services ancillary or related thereto. The burden is on the Eligible Employee to demonstrate that such person is not a Competitor.

“**Effective Date**” means July 1, 2014. Accordingly, the Plan applies to all Eligible Employees of a Participating Company who are terminated due to an Involuntary Termination with a Termination Date on or after July 1, 2014.

“**Eligible Employee**” means an Employee who holds, as of his Termination Date, a job in grades M6 or above or E1 or above, or equivalent grades if a different job grading system is used, as reflected in the Company’s personnel records. An otherwise “Eligible Employee” is not eligible for: (a) benefits under this Plan relating to a Non-CiC Termination, including Sections 4.01 and 4.03 (“Non-CiC Severance Benefits”), if he has signed and not revoked a binding contract with CenturyLink (including its predecessors) concerning the provision of benefits similar to Non-CiC Severance Benefits to that Employee following a termination of employment and (b) benefits under this Plan relating to a CiC Termination, including Sections 4.02 and 4.03 (“CiC Severance Benefits”), if he has signed and not revoked a binding contract with CenturyLink (including its predecessors) concerning the provision of benefits similar to CiC Severance Benefits to that Employee following a termination of employment. If there is any question as to whether an Employee is an Eligible Employee for purposes of the Plan, the Administrator shall make the determination. “Eligible Employee” also excludes an Employee who signed a waiver of his rights under this Plan subsequent to the Effective Date. Additionally, an Employee is not an “Eligible Employee” if:

- (1) he is covered by the provisions of a collective bargaining agreement which address the same issues as this Plan, in which case the collective bargaining agreement will prevail and this Plan shall not apply;
- (2) he is covered by the provisions of the CenturyLink Reduction In Force Policy or an individual employee agreement which address the same issues as this Plan, in which case the CenturyLink Reduction In Force Plan or such individual agreement will prevail and this Plan shall not apply;
- (3) the provisions of any other reduction in force or severance plan or policy apply to any group of employees of the Company (such as employees who join the Company via merger or acquisition who are covered by a reduction in force or severance plan or policy that remains in effect after the acquisition; employees of a particular subsidiary or division; or employees at a particular location), in which case the terms of such plan or policy shall apply and this Plan shall not apply;
- (4) he is a Temporary Employee, which term is defined to mean all employees of a Participating Company who are hired to perform an assignment which is not intended to be ongoing and which is intended to have a specified end date (by reference to a calendar end date or a project end date) and/or who are classified on the payroll and/or HR systems as “temporary;”
- (5) his employment with the Company is Terminated voluntarily, such as by resignation (whether or not the employee claims a constructive discharge or forced resignation) or retirement (whether or not such voluntary Termination may have been influenced by pending or threatened layoffs), or Terminated involuntarily due to attendance (other than absences that are protected by applicable law), job performance or misconduct, including but not limited to violation of the Code of Conduct or other CenturyLink policies;
- (6) he is offered a Comparable Position or he is offered and accepts a position with CenturyLink, a vendor to which CenturyLink outsourced the employee’s work, or any successor to CenturyLink and such position is not a Comparable Position;

- (7) he is not classified in CenturyLink’s payroll and/or HR systems as an “employee,” regardless of whether such person is determined by any court, governmental agency or other entity to be an employee under any federal, state or local law, regulation or rule;
- (8) he is employed by a non-U.S. subsidiary or affiliate, or he/she has been transferred from a non-U.S. subsidiary or affiliate to U.S. subsidiary or affiliate for a finite period of time pursuant to a letter of assignment; or
- (9) he is not employed by a Participating Company, or the participation of the Participating Company is limited by the Plan such that the employee is not eligible; or
- (10) he is considered classified on the payroll and/or HR systems as a CenturyLink Government Services Modified Benefits employee.

“**Employee**” means an individual employed by a Participating Company within the United States as an employee, and excludes any person working for the Company through a temporary service or on a leased basis or who is hired by the Company as an independent contractor, consultant, or otherwise, and excludes a person who is not an employee, or not treated as such, for purposes of withholding federal employment taxes, as evidenced by payroll records or a written agreement with the individual, regardless of any contrary governmental or judicial determination or holding relating to such status or tax withholding.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, as amended, and regulations thereunder.

“**Executive Officer**” means an Eligible Employee who is (i) a Vice-President, including Senior Vice-President and Executive Vice-President, reporting directly to the CEO, (ii) an Officer, other than the CEO, designated on an annual or other periodic basis as a Section 16 Officer of the Company, or (iii) an Officer, other than the CEO, designated by the Compensation Committee of the Board as a Senior Officer (as such term is defined in the Compensation Committee's charter).

“**Good Reason Resignation**” means an Eligible Employee’s written resignation within 30 days of the notification to the Employee of any of the following events (each a “Trigger Event”) related to a Change in Control:

- (a) a reduction of more than 10% in the Eligible Employee’s Base Salary in effect immediately prior to the Change in Control.
- (b) a demotion that results in both (i) the movement of an Eligible Employee from one job level to a lower job level (that is, Senior Vice-President to Vice-President or below, Vice-President to Director or below, or Director to Manager or below) and (ii) a material reduction or diminution of authority, duties, responsibilities, and/or budget or fiscal authority. “Demotion” excludes any move from one job to another initiated by the Employee.
- (c) relocation of the Eligible Employee’s principal work location to a location more than 50 miles from the work location immediately prior to the Change in Control.

In order to constitute a Good Reason Resignation, one of the above three Trigger Events must occur within one year following a Change in Control.

Notwithstanding the foregoing, the written resignation shall not constitute a “Good Reason Resignation” if the Company fully corrects the circumstances giving rise to the Good Reason Resignation

within 30 days following receipt of written notice from the Eligible Employee (the “30-day Cure Period”). If the Company does not fully correct the circumstances that gave rise to the Good Reason Resignation within the 30-day Cure Period, the Eligible Employee’s employment shall be deemed to be a Good Reason Resignation and to have Terminated no later than two years following the expiration of the 30-day Cure Period or the Company’s notice that it does not intend to cure, whichever is earlier.

“**Involuntary Termination**” means a Termination of the Eligible Employee’s employment, initiated by the Company for any reason other than Cause, Permanent Disability or death.

“**Non-CIC Termination**” means an Eligible Employee’s Involuntary Termination of employment prior to a Change in Control.

“**Non-Compete Period**” means the one year (12 consecutive months, not necessarily a calendar year) time period immediately following Termination Date. If the Participant does not receive some or all of his severance pay due to the provisions of Section 3.01(b) (Conditions), or Section 4.04 (Voluntary Resignation, Termination for Death or Permanent Disability) or Section 4.05 (Termination for Cause), then the Non-Compete Period shall be reduced in direct proportion to the reduction of the Severance Period.

“**Participant**” means an Eligible Employee entitled to Severance Benefits.

“**Participating Company**” means any divisions, subsidiaries or affiliates of the Company that participate in the Plan on or after the Effective Date of this restatement of the Plan and as listed, or as may be restricted, on Exhibit C. The CenturyLink Plan Design Committee or the Vice President of Human Resources with responsibility for benefits, or their respective designee, have the authority to amend Exhibit C at any time and from time to time, including but not limited to, adding or restricting participation of an entity as a Participating Company as such participation is approved by the CenturyLink Plan Design Committee.

“**Permanent Disability**” means that an Eligible Employee has a permanent and total incapacity from engaging in any employment for the Company for physical or mental reasons. A “Permanent Disability” shall be deemed to exist if the Eligible Employee is judged to satisfy the requirements for disability benefits under the Company’s long-term disability plan.

“**Plan**” means the CenturyLink Executive Severance Plan, as set forth herein and as it may be amended from time to time.

“**Plan Administrator**” is the CenturyLink Employee Benefits Committee as delegated by the Board of Directors to administer the terms of the Plan. In the event any member of the Employee Benefits Committee is entitled to Severance Benefits under the Plan or makes a claim for benefits under the Plan, the remaining members of the Employee Benefits Committee shall act as the Plan Administrator for purposes of administering the terms of the Plan with respect to such employee. The Plan Administrator may delegate all or any portion of its authority under the Plan to any other person(s).

“**Release**” means the Confidential Separation Agreement and Release in Full of All Claims, substantially in the form attached hereto as Exhibit A, as the same may be amended from time to time in the sole discretion of the Company.

“**Service**” means the total number of completed years the Eligible Employee was an Employee of the Company, as reflected in the Company’s payroll and human resources records pursuant to the provisions of the CenturyLink Service Bridging Policy. Any period of employment with the Company, a Subsidiary, or a predecessor Company for which an Eligible Employee previously received Severance Benefits from the Company, shall be excluded from Service and, thus, not included in calculating any Severance Benefit, except

to the extent the Eligible Employee repaid CenturyLink the Severance Benefits relating to such Service pursuant to Section 4.07.

“**Severance Benefit**” means the severance pay amounts and benefits that a Participant is eligible to receive pursuant to Article IV of the Plan based on the Eligible Employee’s Service.

“**Severance Period**” means the number of weeks for which an Eligible Employee is entitled to receive Severance Benefits pursuant to Article IV of the Plan based on the Eligible Employee’s Service.

“**Specified Employee**” means, subject to section 409A(2)(B)(i) of the Code and Treasury Regulations issued thereunder, (i) an Employee who is an officer of the Company or its Subsidiaries and having annual compensation (within the meaning of section 414(q)(4) of the Code) greater than \$165,000 (for 2012, as it may be adjusted for inflation as described in section 416(i) of the Code), provided the number of such officers who are considered Specified Employees shall be limited to 50 employees as described in section 416(i) of the Code, (ii) a five-percent owner of the Company and its Subsidiaries, or (iii) a one-percent owner of the Company and its Subsidiaries who has annual compensation from the Company and its Subsidiaries greater than \$150,000. For purposes of determining who are Specified Employees, all Employees of the Company and its Subsidiaries, including employees who are nonresident aliens, shall be considered. The Plan Administrator, or its duly-appointed designee, shall determine the Specified Employees each year in accordance with section 416(i) of the Code, the “specified employee” requirements of section 409A of the Code, and applicable regulations. Specified Employees shall be identified as of December 31 of each year with respect to the 12-month period beginning on the next following April 1.

“**Subsidiary**” means (a) a U.S.-based subsidiary of the Company (wherever incorporated, including but not limited to any subsidiary of EMBARQ Corporation, Qwest Communications International, Inc. and Savvis), (b) any separately organized business unit, whether or not incorporated, of the Company, (c) any U.S.-based Company that is required to be aggregated with the Company pursuant to section 414 of the Code and regulations issued thereunder, and (iv) notwithstanding anything to the contrary herein, , in order for employees a Subsidiary to be considered as eligible for benefits under the Plan, such Subsidiary must be listed as a Participating Company on Exhibit C..

“**Termination**” or “**Terminated**” means a separation from service with the Company as defined in Treasury Regulation § 1.409A-1(h).

“**Termination Date**” means the date on which the active employment of the Eligible Employee by the Participating Company is severed, whether by reason of an Involuntary Termination, Voluntary Resignation, Good Reason Resignation or Termination for Cause.

“**Total Targeted Cash Compensation**” means the Eligible Employee’s annual rate of Base Salary in effect on a specified date plus the targeted annual incentive opportunity under either the short-term incentive compensation program or the sales incentive compensation program, as applicable, on that same date.

“**Voluntary Resignation**” means any retirement or Termination that is not initiated by the Company other than a Good Reason Resignation.

“**Year of Service**” means each completed full year of Service.

ARTICLE III

ELIGIBILITY FOR BENEFITS

Section 3.01 Conditions.

(a) Eligibility for and receipt of any Severance Benefits under the Plan are expressly conditioned on the Eligible Employee’s (i) execution of a Release in connection with his termination of employment with the Company; (ii) compliance with all the terms and conditions of such Release; (iii) compliance with all the terms and conditions of the restrictive covenants set forth in Article VI; (iv) execution of a written agreement that authorizes the deduction of amounts owed to the Company prior to the payment of any Severance Benefit (or in accordance with any other schedule as the Plan Administrator may determine to be appropriate); provided that, to the extent applicable, any such deduction shall be made in compliance with section 409A of the Code; and (v) acknowledgement that all decisions and determinations of the Plan Administrator shall be final and binding on the Eligible Employee, his beneficiaries and any other person having or claiming an interest under the Plan on his behalf.

(b) If the Plan Administrator determines that the Eligible Employee has not fully complied with any of the terms of the Plan or the Release, the Plan Administrator, acting on behalf of the Company, may deny Severance Benefits not yet paid or discontinue the payment of the Eligible Employee’s Severance Benefits and may require the Eligible Employee to repay any portion of any Severance Benefits already received under the Plan, by providing written notice of such repayment obligation to the Eligible Employee. If the Plan Administrator notifies a Participant that repayment of all or any portion of the Severance Benefits received under the Plan is required, such amounts shall be repaid within 30 calendar days of the date the written notice is sent. Any remedy under this subsection (b) shall be in addition to, and not in place of, any other remedy, including injunctive relief, that the Company may have.

ARTICLE IV

DETERMINATION OF SEVERANCE BENEFITS

Section 4.01 Severance Benefits - Non-CIC Termination. Each Participant who incurs an Involuntary Termination, other than a CIC Termination, shall, subject to the conditions of the Plan, receive the Severance Benefits as provided in this Section. The Severance Benefits described in this Section shall be paid in accordance with Article V.

Tier Title	Severance Period
Director at M6 or M7	6 weeks of Total Targeted Cash Compensation plus an additional 2 weeks of same for each Year of Service up to a maximum of 52 weeks, but in no event less than 26 weeks.
Vice-President at E1 or above, other than Executive Officers	6 weeks of Total Targeted Cash Compensation plus an additional 2 weeks of same for each Year of Service up to a maximum of 52 weeks, but in no event less than 39 weeks.
Executive Officers	52 weeks of Total Targeted Cash Compensation
CEO	104 weeks of Total Targeted Cash Compensation

Section 4.02 Severance Benefits - CIC Termination. Each Participant who incurs a CIC Termination shall, subject to the conditions of the Plan, receive the Severance Benefits subject to the conditions of the Plan, as provided in this Section, which benefits shall be paid in accordance with Article V:

Tier Title	Severance Period
Director at M6 or M7	6 weeks of Total Targeted Cash Compensation plus an additional 2 weeks of same for each Year of Service up to a maximum of 52 weeks, but in no event less than 26 weeks.
Vice-President at E1 or above, other than Executive Officers	52 weeks of Total Targeted Cash Compensation

Section 4.03 Severance Benefits - Non-CiC Terminations or CiC Terminations. The following additional provisions apply to Participants who incur either a CIC Termination or a Non-CIC Termination:

(a) Employee Benefits. Medical (including prescription drug), vision, dental and life insurance coverage for the Participant and his/her dependents, if enrolled at the time of Termination, will continue through the last day of the month in which the Termination occurs. Participating Participants, and if applicable, their dependents may elect under COBRA to continue coverage for a monthly charge under the Company’s medical (including prescription drug), vision and dental plans for a maximum of 18 months beyond the date coverage would otherwise terminate, subject to the provisions of the applicable plans and COBRA. The Company will provide COBRA enrollment information to employees within 45 days following the Termination Date. Employees who wish to continue coverage must return the COBRA enrollment forms within 60 days from receipt of the COBRA notification.

Participants who elect COBRA coverage will be eligible to receive a subsidy to their COBRA payments according to the schedule in the following chart. The subsidy means that the Participant will pay the same premium contribution rate for medical/prescription, vision and dental coverage during the period of the subsidy as active employees pay. Following the expiration of the subsidy, the employee will pay the COBRA rate, which is 102% of the cost of coverage, as long as coverage remains in place.

The COBRA subsidy will terminate upon the earlier of (i) the date the Participant discontinues COBRA coverage or otherwise becomes ineligible for COBRA coverage, or (ii) the date the Participant is eligible to enroll (regardless of whether he actually enrolls) in medical coverage sponsored by a subsequent employer of the Participant.

Employee Level	Weeks of Severance	Maximum Months of COBRA Subsidy
Director at M6 or M7	26-38	6
Director at M6 at M6 or above or Vice-President at E1 or above	39-51	9
Director at M6 at M6 or above or Vice-President at E1 or above	52	12

(b) Short Term Incentive or Sales Incentive Payment for Period Prior to Termination Date. Short-term incentive or sales incentive compensation for the period prior to the Termination Date shall be calculated and paid in accordance with the terms of the applicable short-term incentive compensation plan.

(c) Retirement Plans. The provisions of any applicable qualified and/or nonqualified defined contribution or defined benefit plan maintained by the Company pursuant to which an Eligible Employee is eligible to participate, shall control with respect to any recognition of service during the Severance Period and the eligibility for benefits before, during and after the Severance Period.

(d) Equity. The provisions of any applicable equity incentive plan or equity compensation plan maintained by the Company pursuant to which an Eligible Employee has received an equity grant and the Eligible Employee’s relevant grant agreement shall control with respect to the treatment of the Eligible Employee’s equity grants upon the Eligible Employee’s Termination.

(e) Outplacement Assistance. The Company at its cost shall provide to the Participant outplacement assistance by a reputable firm specializing in such services. Such assistance shall comply with the requirements of the duration of Treasury Regulation § 1.409A-1(b)(9)(v)(A).

(f) Any failure to execute a Release within the time period set forth in Section 5.01 will result in the forfeiture of the compensation (if any) contingent upon execution of such Release.

Section 4.04 Voluntary Resignation; Termination for Death or Permanent Disability. If the Eligible Employee’s employment terminates on account of the Eligible Employee’s (a) Voluntary Resignation, (b) death, or (c) Permanent Disability, then the Eligible Employee shall not be entitled to receive Severance Benefits under this Plan and shall be entitled only to those benefits (if any) as may be available under the Company’s applicable equity incentive plans, equity compensation plans, or equity grant agreements; other separation or severance plans, policies, or arrangements; or any other employee health, welfare, retirement or benefit plan.

Section 4.05 Termination for Cause. If the Company terminates the Eligible Employee’s employment for Cause, the Eligible Employee shall not be entitled to receive Severance Benefits under this Plan. Notwithstanding any other provision of the Plan to the contrary, if the Plan Administrator determines that an Eligible Employee engaged in conduct that constitutes Cause at any time prior to the Eligible Employee’s Termination Date, any Severance Benefits payable to the Eligible Employee under Article IV shall immediately cease, and the Eligible Employee shall be required to return any Severance Benefits paid to the Eligible Employee prior to such determination. The Company may withhold paying Severance Benefits under the Plan pending resolution of an inquiry that could lead to a determination that Cause exists.

Section 4.06 Deductions from Severance Benefits. The Plan Administrator reserves the right to make deductions in accordance with applicable law for any monies owed to the Company by the Eligible Employee or the value of Company property that the Eligible Employee has retained in his possession, *e.g.*, if an employee (a) was overpaid commissions/sales incentive, (b) had a negative PTO balance, (c) retained a company laptop or other property, or (d) used his corporate card for unauthorized personal purchases. To the extent applicable, any such deduction from Severance Benefits shall be made in compliance with section 409A of the Code.

Section 4.07 Repayment of Severance Benefits upon subsequent rehire. Employees rehired by CenturyLink before the expiration of the period covered by their Severance Benefit will be required to repay all or part of the Severance Benefit upon rehire. The repayment percentage is obtained by dividing the number of days remaining in the layoff period (*i.e.*, the total number of days included in the Severance Benefit calculation minus the number of prior days in layoff status) by the total number of days included in the Severance Benefit calculation. The amount to be repaid is equal to the total Severance Benefit multiplied by the repayment percentage.

ARTICLE V

TIMING AND METHOD OF PAYMENT

AND LIMITATION ON BENEFITS

Section 5.01 Timing and Method of Payment.

(a) Non-CiC Severance Benefits. Subject to Section 5.02 below, Non-CiC Severance Benefits shall be paid periodically, in prorated installments on a bi-weekly basis in accordance with the Company's normal payroll cycle, less withholding for all applicable federal, state and local taxes and other applicable withholdings and deductions, over the Participant's Severance Period. The first installment (including any retroactive installments) shall begin no later than 60 days after the Eligible Employee's Termination Date, subject to the Eligible Employee's execution of a Release and, if applicable, the expiration of any revocation period for such Release within such 60-day period.

(b) CiC Severance Benefits. Subject to Section 5.02 below, CiC Severance Benefits shall be paid in a single lump sum cash payment, less withholding for all applicable federal, state and local taxes and other applicable withholdings and deductions, no later than 60 days after the Eligible Employee's Termination Date, subject to the Eligible Employee's execution of a Release and, if applicable, the expiration of any revocation period for such Release within such 60-day period.

(c) General Rules. In the event of the Participant's death after he becomes entitled for Severance Benefits under the Plan, but prior to full payment of all Severance Benefits due to such Participant, any remaining Severance Benefits due to the Participant under Section 4.01 or 4.02 above shall be paid to the Participant's estate in a lump sum payment within 60 days following written notification of the Participant's death. Interest will not be credited on any unpaid Severance Benefit due to a Participant. Payment(s) shall be made by direct deposit or by mailing to the last address provided by the Participant to the Company or such other reasonable method as determined by the Plan Administrator.

(d) Timing of Payment Rules Applicable to Specified Employees.

(i) If the Participant is a Specified Employee on the date of the Participant's Termination and there are benefits provided to the Employee hereunder that are taxable to the Participant, then the value of the aggregate amount of such taxable benefits provided to the Participant during the six month period following the Termination Date shall be limited to (A) the amount specified by section 402(g)(1)(B) of the Code for the year in which the Termination occurred, (B) medical benefits that are allowed to be provided during such time pursuant to Treasury Regulation § 1.409A-1(b)(9)(v)(B), (C) any amounts subject to the short-term deferral exception to section 409A of the Code, (D) any amount payable under the involuntary separation from service exception to section 409A of the Code, and (E) other payments to the extent they are covered by an exception to such 6-month delay applicable to Specified Employees, under section 409A of the Code, applicable Treasury Regulations and IRS guidance.

(ii) To the extent there has been delayed commencement of any portion of the Severance Benefits to which the Participant is entitled under this Plan in order to avoid a prohibited distribution under section 409A(a)(2)(B)(i) of the Code (any such delayed commencement, a "Payment Delay"), such portion of the Participant's Severance Benefit payments shall not be provided to Participant prior to the earlier of (A) the expiration of the six-month period measured from the date of Participant's Termination or (2) the date of the Participant's death. Upon the earlier of such dates, all payments deferred pursuant to the Payment

Delay shall be paid in a cash lump sum payment to the Participant, and any remaining payments due under the Plan shall be paid as otherwise provided herein.

(e) Application of Section 409A of the Code. To the extent that the Company determines that any compensation or benefit payable under the Plan constitutes nonqualified deferred compensation within the meaning of section 409A of the Code, the Plan, with respect to such compensation or benefit, will be construed and interpreted to comply with the requirements of section 409A of the Code or one or more applicable exceptions thereto, in accordance with the statutory provisions of section 409A of the Code and any Treasury Regulations and other interpretive guidance issued thereunder. Notwithstanding any provision of the Plan to the contrary:

(i) No Guaranty of Tax Liability. In no event does the Company guarantee any particular tax consequences, outcome or tax liability to Eligible Employees. No provision of the Plan shall be interpreted or construed to transfer any liability for failure to comply with the requirements of section 409A of the Code from an Eligible Employee or any other individual to the Company.

(ii) Additional Actions Permitted. In the event the Company determines that any compensation or benefit payable hereunder may be subject to section 409A of the Code, the Company (without any obligation to do so or obligation to indemnify any Eligible Employee for any failure to do so) may adopt, without the consent of any Eligible Employee, such amendments to the Plan or take any other actions that the Company in its sole discretion determines are necessary or appropriate for such compensation or benefit to either (a) be exempt from section 409A of the Code or (b) comply with the requirements of section 409A of the Code.

(iii) Actual Payment Date. Whenever a payment under the Plan specifies a payment period, the actual date of payment within such specified period shall be within the sole discretion of the Company, and no Participant shall have any right (directly or indirectly) to determine the year in which such payment is made.

(iv) Installments. Each installment payment payable hereunder shall be deemed to be a separate payment for purposes of section 409A of the Code.

(v) Reimbursements. To the extent that any amounts payable hereunder are deemed to be reimbursements and other separation payments under Treasury Regulation §1.409A-1(b)(9)(v), they shall not be deemed to provide for the deferral of compensation governed by section 409A of the Code. If they do constitute deferral of compensation governed by Code Section 409A, they shall be deemed to be reimbursements or in-kind benefits governed by Treasury Regulation § 1.409A-3(i)(1)(iv). If the previous sentence applies, (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during the Employee’s taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits in any other taxable year, provided that the foregoing shall not be violated by any lifetime or annual limits contained in the Company’s group health plans; (ii) the reimbursement of an eligible expense must be made on or before the last day of the Eligible Employee’s taxable year following the taxable year in which the expense was incurred and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit.

(vi) Application of the exceptions to section 409A of the Code are additive, that is, the exceptions may be “stacked” and used in combination with other exceptions, including but not limited to the short-term deferral exception and the separation pay exception.

Section 5.03 Limitation on Benefits.

(a) Notwithstanding anything set forth in the Plan to the contrary, if any payment or benefit, including the Severance Benefits, an Eligible Employee would receive from the Company (“Payment”) would (i) constitute a “parachute payment” within the meaning of section 280G of the Code and (ii) but for this sentence, be subject to the excise tax imposed by section 4999 of the Code (the “Excise Tax”), then such Payment shall be reduced to the Reduced Amount. The “Reduced Amount” shall be either (x) the largest portion of the Payment that would result in no portion of the Payment being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount, after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Eligible Employee’s receipt, on an after-tax basis, of the greater amount of the Payment notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in payments or benefits (or a cancellation of the acceleration of vesting of stock options or equity awards) constituting “parachute payments” is necessary so that the Payment equals the Reduced Amount, such reduction and/or cancellation of acceleration shall occur in the order that provides the maximum economic benefit to the Eligible Employee. In the event that acceleration of vesting of a stock option or equity award is to be reduced, such acceleration of vesting also shall be canceled in the order that provides the maximum economic benefit to the Eligible Employee.

(b) The Company shall appoint a nationally-recognized accounting firm with appropriate subject matter expertise to make the determinations required under this Section 5.03.

(c) The Company shall bear all expenses with respect to the making of the determinations by such accounting firm required to be made under this Section 5.03. The accounting firm engaged to make the determinations under this Section 5.03 shall provide its calculations, together with detailed supporting documentation, to the Company and the Eligible Employee as soon as practicable after the date on which the Eligible Employee’s right to a Payment is triggered (if requested at that time by the Company or the Eligible Employee) or such other time as requested by the Company or the Eligible Employee. If the accounting firm determines that no Excise Tax is payable with respect to a Payment, either before or after the application of the Reduced Amount, it shall furnish the Company with an opinion reasonably acceptable to the Eligible Employee that no Excise Tax will be imposed with respect to such Payment. Any good faith determinations of the accounting firm made under this Section 5.03 shall be final, binding, and conclusive upon the Company and the Eligible Employee.

ARTICLE VI

RESTRICTIVE COVENANTS

Section 6.01 Code of Conduct. Each Eligible Employee shall adhere in all respects to the Company’s ethics and compliance program, Code of Conduct, Employee Handbook and/or other applicable policies, as they may from time to time be established, interpreted, amended or terminated.

Section 6.02 Proprietary Information.

(a) Each Eligible Employee shall acknowledge that, during the course of his employment, the Eligible Employee has learned or will learn or develop Proprietary Information. Each Eligible Employee shall further acknowledge that unauthorized disclosure or use of such Proprietary Information, other than in discharge of the Eligible Employee’s duties, will cause the Company irreparable harm. Except in the course

of his employment with the Company, in pursuit of the business of the Company, or as otherwise required in employment with the Company or by applicable law, each Eligible Employee shall not, during the course of his employment or at any time following termination of his employment, directly or indirectly, disclose, publish, communicate, or use on his behalf or another’s behalf, any Proprietary Information. If during or after his employment, the Eligible Employee has any questions about whether particular information is Proprietary Information, the Eligible Employee shall consult with the Company’s General Counsel or other representative designated by the Company.

(b) Each Eligible Employee shall also agree to promptly disclose to the Company any information, ideas, or inventions made or conceived by him or her that results from or are suggested by services performed by the Eligible Employee for the Company, and to assign to the Company all rights pertaining to such information, ideas, or inventions. Knowledge or information of any kind disclosed by the Eligible Employee to the Company shall be deemed to have been disclosed without obligation on the part of the Company to hold the same in confidence, and the Company shall have the full right to use and disclose such knowledge and information without compensation to the Eligible Employee.

Section 6.03 Non-Competition.

(a) During the Eligible Employee’s employment with the Company and during the Non-Compete Period, each Eligible Employee shall agree that he shall not engage in Competitive Employment.

(b) If an Eligible Employee ceases to be employed by the Company because of the sale, spin-off, divestiture, or other disposition by the Company of a Subsidiary, division, or other divested unit employing the Eligible Employee, this provision shall continue to apply during the Non-Compete Period, except that the Eligible Employee’s continued employment for the Subsidiary, division, or other divested unit disposed of by the Company shall not be deemed a violation of this provision.

Section 6.04 Inducement of Employees, Customers and Others. During an Eligible Employee’s employment with the Company and during the Non-Compete Period, each Eligible Employee shall agree that he will not, directly or indirectly, solicit, induce, or encourage any employee, consultant, agent or customer of the Company or its Subsidiaries or vendors or other parties doing business with the Company or its Subsidiaries, to terminate their employment, agency, or other relationship with the Company or its Subsidiaries or to render services for or transfer business to any Competitor, and each Eligible Employee shall not initiate discussion with any such person for any such purpose or authorize or knowingly cooperate with the taking of any such actions by any other individual or entity on behalf of the Competitor.

Section 6.05 No Adverse Actions. During the Non-Compete Period, each Eligible Employee shall not, without the prior written consent of the Company, in any manner, solicit, request, advise, or assist any other person to (a) undertake any action that would be reasonably likely, or is intended, to result in a reorganization, merger, share exchange, transfer of ownership of 50% or more of the outstanding voting securities of the Company, consolidation, or sale or disposition of all or substantially all of the assets of the Company, or (b) seek to control or change the composition of the Board in any material manner.

Section 6.06 Return of Property. Each Eligible Employee shall, upon the Eligible Employee’s Termination Date, return to the Company all property of the Company in the Eligible Employee’s possession, including all notes, reports, sketches, plans, published memoranda, or other documents, whether in hard copy or in electronic form, created, developed, generated, received, or held by the Eligible Employee during the Eligible Employee’s employment, concerning or related to the Company’s business, whether or not containing or relating to Proprietary Information. Each Eligible Employee shall not remove, by e-mail, by removal of computer discs or hard drives, or by other means, any of the above property containing Proprietary

Information, or reproductions or copies thereof, or any apparatus from the Company’s premises without the Company’s written consent.

Section 6.07 Non-Disparagement. Each Eligible Employee shall agree to refrain from making any statements about the Company, its Subsidiaries or their officers or directors that would disparage, or reflect unfavorably upon the image or reputation of the Company, its Subsidiaries or any such officer or director.

Section 6.08 Assistance with Claims.

- (a) Each Eligible Employee shall agree, that, during and after the Eligible Employee’s employment by the Company, the Eligible Employee shall assist the Company, on a reasonable basis, in the defense of any claims or potential claims that may be made or threatened to be made against it in any action, suit, or proceeding, whether civil, criminal, administrative, or investigative (“Proceeding”) and shall assist the Company in the prosecution of any claims that may be made by the Company in any Proceeding, to the extent that such claims may relate to the Eligible Employee’s services.
- (b) Each Eligible Employee shall agree, unless precluded by law, to promptly inform the Company if the Eligible Employee is asked to participate (or otherwise become involved) in any Proceeding involving such claims or potential claims.
- (c) Each Eligible Employee shall also agree, unless precluded by law, to promptly inform the Company if the Eligible Employee is asked to assist in any investigation (whether governmental or private) of the Company or its Subsidiaries (or its actions), regardless of whether a lawsuit has then been filed against the Company or its Subsidiaries with respect to such investigation.

Section 6.09 Reasonableness. In the event that any of the provisions of this Article VI should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, service, or other limitations permitted by applicable law.

Section 6.10 Equitable Relief.

- (a) Each Eligible Employee shall acknowledge that the restrictions contained in this Article VI are reasonable and necessary to protect the legitimate interests of the Company, its Subsidiaries and its affiliates, that the Company would not have established this Plan in the absence of such restrictions, and that any violation of any provision of this Article VI will result in irreparable injury to the Company. Each Eligible Employee shall represent that his experience and capabilities are such that the restrictions contained in this Article VI will not prevent the Eligible Employee from obtaining employment or otherwise earning a living at the same general level of economic benefit as is currently the case. Each Eligible Employee shall further represent and acknowledge that (i) he has been advised by the Company to consult his own legal counsel in respect of this Plan, and (ii) that he has had full opportunity, prior to agreeing to participate in this Plan, to review thoroughly this Plan with his counsel.
- (b) Each Eligible Employee shall agree that the Company shall be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages and without posting a bond or other security, as well as an equitable accounting of all earnings, profits and other benefits arising from any violation of this Article VI, which rights shall be cumulative and in addition to any other rights or remedies to which the Company may be entitled.

(c) Each Eligible Employee shall also irrevocably and unconditionally consent to the service of any process, pleadings, notices or other papers in a manner permitted by the notice provisions of Section 10.04.

Section 6.11 Survival of Provisions. The obligations contained in this Article VI shall survive the termination of each Eligible Employee’s employment with the Company and shall be fully enforceable thereafter.

ARTICLE VII
PLAN ADMINISTRATOR

Section 7.01 Authority and Duties. The Company has established this Plan on behalf of Company. The Company is the “Plan Sponsor” and the CenturyLink Employee Benefits Committee (the “EBC”) is the “Plan Administrator” (unless and to the extent that Plan Administrator duties have been otherwise delegated), as those terms are defined under ERISA. In the absence of an EBC, the Company is the Plan Administrator. As Plan Administrator, the EBC shall have primary responsibility for the operation and administration of the Plan, and this responsibility shall be delegated as designated in the Plan or as determined by the EBC. To the extent of such delegation, the delegate shall be a “named fiduciary” of the Plan, as that term is defined in ERISA, and shall have all of the authority, discretion and powers of the Plan Administrator. It shall be the duty of the Plan Administrator to properly administer the Plan. The Plan Administrator shall have the full power, authority and discretion to construe, interpret and administer the Plan, to make factual determinations, to correct deficiencies therein, and to supply omissions. The Plan Administrator may adopt such rules and regulations and may make such decisions as it deems necessary or desirable for the proper administration of the Plan.

As set forth in this Section, “administration” of this Plan does not include any decisions to amend or terminate all or any portion of the Plan, which functions are reserved to the Company in its capacity as Plan Sponsor and not in any fiduciary capacity.

Section 7.02 Compensation of the Plan Administrator. The Plan Administrator shall receive no compensation for services as such. However, all reasonable expenses of the Plan Administrator shall be paid or reimbursed by the Company upon proper documentation. The Plan Administrator shall be indemnified by the Company against personal liability for actions taken in good faith in the discharge of the Plan Administrator’s duties.

Section 7.03 Records, Reporting and Disclosure. The Plan Administrator shall keep a copy of all records relating to the payment of Severance Benefits to Participants and former Participants and all other records necessary for the proper operation of the Plan. All Plan records shall be made available to the Company and to each Eligible Employee for examination during business hours except that an Eligible Employee shall examine only such records as pertain exclusively to the examining Eligible Employee and to the Plan. The Plan Administrator shall prepare and shall file as required by law or regulation all reports, forms, documents and other items required by ERISA, the Code, and every other relevant statute, each as amended, and all regulations thereunder (except that the Company, as payor of the Severance Benefits, shall prepare and distribute to the proper recipients all forms relating to withholding of income or wage taxes, Social Security taxes, and other amounts that may be similarly reportable).

Section 7.04 Discretion. Any decisions, actions or interpretations to be made under the Plan by the Plan Administrator shall be made in its sole and absolute discretion, subject to the terms of the Plan and applicable law, and need not be uniformly applied and such decisions, actions or interpretations shall be final, binding and conclusive upon all parties, with respect to denied claims for Severance Benefits. Not in limitation, but

in amplification of the foregoing and of the authority conferred upon the Plan Administrator, the Plan Sponsor specifically intends that the Plan Administrator and its duly authorized delegates have the greatest permissible discretion to construe the terms of the Plan and to determine all questions concerning eligibility, participation, and benefits. The decisions by the Plan Administrator or any delegates shall be conclusive and binding, and any interpretation, determination, or other action by them is intended to be subject to the most deferential standard of review. Such standard of review is not to be affected by any real or alleged conflict of interest on the part of the Plan Administrator or its delegates. The EBC delegated its authority and discretion to review and grant or deny initial claims under the Plan to the Director, Human Resources, Policy, and this delegation has been accepted. In addition to the duties and powers described hereunder and elsewhere in this Plan, the Plan Administrator or its delegate is specifically given the discretionary authority and such powers as are necessary for the proper administration of the Plan, including, but not limited to, the following:

- to resolve ambiguities or inconsistencies,
- to supply omissions and the like,
- to make determinations, grants, or denials of the amount, manner, and time of payment of any Benefits under the terms of the Plan,
- to authorize its agents or delegates to execute or deliver any instrument or make payments on the Plan Administrator’s behalf or with respect to the Plan;
- to select and retain counsel, service providers, vendors, employ agents, and provide for such clerical, accounting, actuarial, legal, consulting and/or claims processing services as it deems necessary or desirable to assist the Plan Administrator in the administration of the Plan;
- to prepare and distribute, in such manner as the Plan Administrator determines to be appropriate, summary plan descriptions and other information explaining the Plan;
- to receive from each Participating Company and from Eligible Employees such information as shall be necessary for the proper administration of the Plan, and to require such information as a condition to receiving benefits under the Plan;
- to furnish the Company, upon request, such annual reports with respect to the administration of the Plan as the Plan Administrator deems reasonable and appropriate;
- to receive, review and keep on file, as the Plan Administrator deems necessary or appropriate, reports of Plan payments and reports of disbursements for expenses; andd
- in general to decide and /or settle questions and disputes,

and all such authorizations, interpretations, determinations, decisions and settlements shall be final and binding for purposes of the Plan.

ARTICLE VIII

AMENDMENT, SUSPENSION AND TERMINATION

Section 8.01 Amendment, Suspension and Termination.

(a) In General. Except as otherwise provided in this Article VIII, the Plan may be amended, suspended or terminated, without prior notice, in whole or in part at any time, with future or with retroactive effect, by a writing approved by Board of Directors and signed on behalf of the Company by an authorized officer. The Plan may also be amended in writing by the CenturyLink Plan Design Committee. Amendment or termination of the Plan with respect to any Subsidiary of the Company shall not affect the rights of any Eligible Employee to any Plan benefit to which such Eligible Employee may have become irrevocably entitled under the Plan prior to the date such amendment or termination is adopted. On termination of the Plan, all rights to benefits end unless an Eligible Employee already has become entitled to such benefits. The CenturyLink Plan Design Committee or the Vice President of Human Resources with responsibility for benefits, or their respective designee, have the authority to amend Exhibit C, “List of Participating Companies,” at any time and from time to time, including but not limited to, adding an entity as a Participating Company as such participation is approved by the CenturyLink Plan Design Committee.

(b) Subsequent Amendments. Any amendment, suspension or termination that adversely affects an Eligible Employee’s benefits and/or rights under the Plan shall not apply to an Eligible Employee covered under the Plan prior to the One Year Anniversary of the Closing of the CenturyLink - Qwest Transaction, if the amendment, suspension or termination is made without the Eligible Employee’s written consent (and before all payments and benefits hereunder are paid), except as may be otherwise required to comply with changes in applicable laws or regulations.

(c) Prospective Operation of Amendments. Any amendment, suspension or termination shall operate prospectively only and shall not impair an Eligible Employee’s right to retain any amount paid to him/her prior to the date of the amendment, suspension or termination (except as expressly provided herein) or cause the cessation of Severance Benefits after an Eligible Employee has executed a Release as required under Article III.

Section 8.02 Continuation of Plan. Subject to Section 8.01, the Plan shall continue and shall be binding on the Company and its successors until the Company and/or its successors have fully performed all of the Company’s obligations under the Plan with respect to all Eligible Employees covered under the Plan as of the Effective Date.

ARTICLE IX

CLAIMS PROCEDURES

Section 9.01 Claims. The Plan Administrator, in its sole discretion, shall determine eligibility for Severance Benefits and the amount of Severance Benefits, as well as the administration of Severance Benefits, in accordance with the terms of this Plan. An Eligible Employee or his beneficiary, as applicable (the “claimant”) may contest such determinations by completing and filing with the Plan Administrator a written request for review in the manner specified by the Plan Administrator within 90 days following the Eligible Employee’s Termination Date. Each such application must be supported by such information as the Plan Administrator

deems relevant and appropriate. The claimant may not bring an action for any alleged wrongful denial of Plan benefits in a court of law unless the claims and appeals procedures described in this Article IX are exhausted and a final determination has been made by the Plan Administrator or its delegate. If the claimant challenges a decision by the Plan Administrator or its delegate, any review by a court of law will be limited to the facts, evidence and issues presented to the Plan Administrator during the claims procedure set forth in this Article IX. Facts and evidence that become known to the claimant after such individual has exhausted the claims procedure must be brought to the attention of the Plan Administrator for reconsideration. Issues not raised with the Plan Administrator will be deemed waived.

Section 9.02 Initial Claim. In the event that any claim under Section 9.01 is denied in whole or in part, the claimant whose claim has been so denied shall be notified of such denial in writing by the Plan Administrator, or its delegate, within 90 days after the receipt of the claim for benefits. This period may be extended an additional 90 days if the Plan Administrator, or its delegate, determines such extension is necessary and the Plan Administrator, or its delegate , provides notice of the extension to the claimant prior to the end of the initial 90-day period. The notice advising of the denial shall: (i) specify the reason or reasons for denial, (ii) make specific reference to the Plan provisions on which the determination was based, (iii) describe any additional material or information necessary for the claimant to perfect the claim (explaining why such material or information is needed), and (iv) describe the Plan’s review procedures and the time limits applicable to such procedures, including a statement of the claimant’s right to bring a civil action under section 502(a) of ERISA following an adverse benefit determination on review.

Section 9.03 Appeals of Denied Administrative Claims. All appeals of denied claims shall be made by the following procedure:

(a) A claimant whose claim has been denied shall file with the Plan Administrator a written notice of appeal of the denial. Such notice shall be filed within 60 calendar days of receipt of notification by the Plan Administrator of the denial of a claim, shall be made in writing, and shall set forth all of the facts upon which the appeal is based. Appeals not timely filed shall be barred.

(b) The Plan Administrator shall consider the merits of the claimant’s written presentations, the merits of any facts or evidence in support of the denial of benefits, and such other facts and circumstances as the Plan Administrator shall deem relevant.

(c) The Plan Administrator shall render a determination upon the appealed claim which determination shall be accompanied by a written statement as to the reasons therefore. The determination shall be made to the claimant within 60 days of the claimant’s request for review, unless the Plan Administrator determines that special circumstances require an extension of time for processing the claim. In such case, the Plan Administrator shall notify the claimant of the need for an extension of time to render its decision prior to the end of the initial 60-day period, and the Plan Administrator shall have an additional 60-day period to make its determination. The determination so rendered shall be binding upon all parties. If the determination is adverse to the claimant, the notice shall: (i) provide the reason or reasons for denial, (ii) make specific reference to the Plan provisions on which the determination was based, (iii) state that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to a the claimant’s claim for benefits, and (iv) state that the claimant has the right to bring a civil action under section 502(a) of ERISA.

Section 9.04 Deadline to Bring a Plan Claim, Arbitration or Civil Suit.

(a) Claims regarding any Benefit under the Plan must be submitted in writing within six (6) months of the earlier of:

- (i) the date a claimant has reason to believe that the Plan has not been properly administered or
- (ii) the date that a claimant did not receive a Plan benefit to which he believes he was entitled.

(b) Plan claims and appeals procedures as explained, above must be completely and timely exhausted by a claimant/Participant. A civil lawsuit, arbitration or other proceeding must be filed not later than one (1) year after the exhaustion of these internal Plan remedies as described in this Article IX.

ARTICLE X
MISCELLANEOUS

Section 10.01 Waiver of Jury Trial.

- (a) The Company waives and each Employee upon becoming an Eligible Employee in the Plan shall waive his, her or its right to a jury trial in any court action arising under the Plan or otherwise and whether made by claim, counter-claim, third-party claim or otherwise.
- (b) If for any reason the jury waiver is held to be unenforceable, but only in that event, the Eligible Employee and the Company agree to binding arbitration for any dispute arising out of this Plan or any claim arising under any federal, state or local statutes, laws or regulations, pursuant to the arbitration terms set forth on attached Exhibit B.
- (c) The agreement of the Eligible Employee to waive his right to a jury trial will be binding on his beneficiaries or assigns and will survive the termination of this Plan.

Section 10.02 Forum Selection. Any court proceeding brought by an Eligible Employee or the Company must be brought, as appropriate, in a Colorado state court located in Denver, Colorado, or in the United States District Court in Denver, Colorado. Each party agrees to personal jurisdiction in either court.

Section 10.03 Non-Alienation of Benefits. None of the payments, benefits or rights of any Participant shall be subject to any claim of any creditor of any Participant, and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment (if permitted under applicable law), trustee’s process, or any other legal or equitable process available to any creditor of such Participant. No Eligible Employee shall have the right to alienate, anticipate, commute, plead, encumber or assign any of the benefits or payments that he may expect to receive, continently or otherwise, under this Plan, except for the designation of a beneficiary.

Section 10.04 Notices. All notices and other communications required hereunder shall be in writing and shall be delivered personally or mailed by registered or certified mail, return receipt requested, or by overnight express courier service. In the case of the Eligible Employee, mailed notices shall be addressed to him or her at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to the Plan Administrator.

Section 10.05 No Mitigation. Eligible Employees shall not be required to mitigate the amount of any Severance Benefit provided for in this Plan by seeking other employment or otherwise, nor shall the amount of any Severance Benefit provided for herein be reduced by any compensation earned by other employment

or otherwise, except if the Eligible Employee is re-employed by the Company, in which case Severance Benefits shall cease.

Section 10.06 No Contract of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Eligible Employee or any person whosoever, the right to be retained in the service of the Company, and all Eligible Employees shall remain at-will employees, subject to discharge to the same extent as if the Plan had never been adopted.

Section 10.07 Severability of Provisions. Except to the extent provided in Section 6.09, if any provision of this Plan shall be held invalid, illegal or unenforceable by a court of competent jurisdiction, as to such jurisdiction that provision shall be limited (“blue penciled”) to the minimum extent necessary so that this Plan shall otherwise remain enforceable in full force and effect. To the extent such provision cannot be so modified, the offending provision shall, as to such jurisdiction, be deemed severable from the remainder of this Agreement, and the remaining provisions contained in this Agreement shall be construed to preserve to the maximum permissible extent the intent and purposes of this Agreement.

Section 10.08 Unfunded Plan. The Plan shall not be funded. No Participant shall have any right to, or interest in, any assets of the Company that may be applied by the Company to the payment of Severance Benefits. Payments of Severance Benefits under the Plan shall be paid from the Company’s general assets, in accordance with the terms of the Plan.

Section 10.09 Payments to Incompetent Persons. Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipting therefore shall be deemed paid when paid to such person’s guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge the Company, the Plan Administrator and all other parties with respect thereto.

Section 10.10 Lost Payees. A benefit shall be deemed forfeited if the Committee is unable to locate an Eligible Employee to whom a Severance Benefit is due. Such Severance Benefit shall be reinstated if application is made by the Eligible Employee for the forfeited Severance Benefit while this Plan is in operation.

Section 10.11 Controlling Law. This Plan shall be construed and enforced according to the laws of the State of Colorado to the extent not superseded by Federal law.

Executed this __ day of August, 2014.

CENTURYLINK, INC.

By: _____

Scott A. Trezise, Chair, CenturyLink Plan Design Committee

Title: Executive. Vice President, Human Resources

EXHIBIT A

Form of Release Agreement

subject to change by the Plan Administrator from time to time

CONFIDENTIAL SEPARATION AGREEMENT

AND RELEASE IN FULL OF ALL CLAIMS

For Employees Age 40 or Over

Employee Name:

Employee ID:

Work City, State:

Notice to Employee: You should discuss this Confidential Separation Agreement with an attorney prior to signing it. In any event, you should thoroughly review and understand the effect of this document before acting upon it. Therefore, please take this Confidential Separation Agreement home and carefully consider it before you decide whether to sign it. You have 45 calendar days from the date of receipt of this Confidential Separation Agreement in which to decide whether to sign and return it.

Capitalized words and phrases used in this document but not defined in this document will be as defined in the CenturyLink Executive Severance Plan (the “Plan”).

This Confidential Separation Agreement and Release in Full of All Claims (“Agreement”) is made by and between

<Name> (hereinafter referred to as “**Employee**”)

AND

CenturyLink, including for the purposes of this Agreement, its parent, affiliates (including, without limitation, EMBARQ Corporation and its subsidiary and affiliate companies), subsidiaries, predecessors, successors, assigns, management companies or any related or parent organizations or entities of which it is or becomes a part, as well as the foregoing entities’ respective shareholders, officers, directors, employees, agents, employee benefit plans, successors and assigns (collectively, “**Employer**”).

1. Intent to Resolve all Claims. In connection with Employee’s separation and termination of employment with Employer at the close of business on <LDW>, Employer and Employee desire to settle and compromise fully and finally all differences between them, including, but not limited to, all claims Employee has or might have asserted against Employer arising out of the employment with Employer or termination of that employment.
2. Severance Pay. Employee is entitled to Severance Benefits Payment in accordance with the terms of the Plan, provided all the following have occurred: (1) Employee’s employment has Terminated, (2) Employee has signed this Agreement on or after his/her last day of work and has returned it to Employer at the address provided in the notification letter, (3) the revocation period described in paragraph 20 has expired and Employee has not revoked the Agreement, and (4) Employee has complied in full with the terms

of this Agreement, including but not limited to paragraphs 9 and 10. Employer agrees to pay Employee the gross sum of \$<Amount> less withholdings, as severance pay, 60 days after the Employees separation from employment, in accordance with the terms of the Plan. In addition, Employee is entitled to outplacement assistance in accordance with Section 4.03 of the Plan.

3. Payment in Full of All Compensation and Benefits. Employee hereby expressly acknowledges and agrees that (a) Employee has been paid for all work performed and (b) Employee is not entitled to any additional payment of wages (including overtime), compensation, leave, or benefit of any kind from Employer as of the date of separation, except for accrued and unpaid PTO, applicable prorated bonus program payment, if eligible, and additional severance pay payable under the terms of this Agreement. Payments for accrued and unpaid PTO, applicable prorated bonus and severance payments will be made per the provisions described in the separation package that was provided to Employee.

4. Termination of Group Health Insurance/Continuation Coverage. Subject to applicable laws, Employee and dependent group health (medical, prescription, dental and vision) insurance coverage, if any, will end on <Benefit End Date>. Employer will provide, in accordance with applicable laws and plan documents, notice of any rights to continue, convert, or obtain (a) replacement health coverage at Employee’s own expense, and (b) replacement coverage for any disability and life insurance coverage in effect prior to Employee’s separation from employment. Employer will provide Employee, if eligible, the COBRA subsidy under Section 4.03 of the Plan.

5. Full and Complete Waiver and Release. Employee hereby accepts Employer’s payment of Severance Benefits in accordance with the requirements of Article V of the Plan and promises in this Agreement in full settlement and satisfaction of all grievances, claims, actions and lawsuits of every nature and kind whatsoever, known or unknown, suspected or unsuspected, past, present or future, in any way related to or arising from the employment relationship between Employer and Employee or the termination of that relationship, which Employee has or might have asserted against Employer in the future.

Employee releases, acquits, and forever discharges Employer, and each of its individual directors, officers, employees, agents and insurers, and their successors, and all other persons who might be claimed to be liable, to the fullest extent allowed by law, of and from any and all grievances, claims, actions and lawsuits arising out of or related to Employee’s employment with Employer or the termination of that employment, other than as expressly excepted in paragraph 6. Although (as noted in paragraph 6) this Agreement does not limit Employee’s right to file a charge with an administrative agency or participate in an agency investigation, Employee waives the right to recover money in connection with any charge or investigation by any agency, regardless of whether Employee or someone else initiated that charge or investigation. Employee hereby assigns to Employer all rights to such compensation, if any, in consideration of the payments received under this Agreement.

This release includes to the fullest extent allowed by law, but is not limited to, any and all claims, grievances, actions or lawsuits in any forum, which have been, might have been, or in the future might be asserted by Employee and/or on behalf of Employee, under local, state and federal laws, administrative regulations, Executive Orders, and wage payment or equal employment opportunity legislation such as Title VII of the Civil Rights Act of 1964; the Sarbanes-Oxley Act of 2002 (15 USC § 78d-3); the Civil Rights Acts of 1866, 1870, 1871, and 1991; 42 U.S.C. § 1981, the Age Discrimination in Employment Act; the Family and Medical Leave Act; the Older Workers Benefit Protection Act; the Americans with Disabilities Act; the Labor Management Relations Act; the National Labor Relations Act; the Employee Retirement Income Security Act, the Worker Adjustment and Retraining Notification (WARN) Act, 23 U.S.C. § 2101, including WARN Act claims that may arise after the date on which this Agreement became effective, and Executive Order 11246, all as amended. This release also includes, to the fullest extent allowed by law,

any and all state or common-law claims, including whistleblower, retaliation, tort and wrongful discharge claims; contract claims, including express or implied contract and breach of the covenant of good faith and fair dealing; and claims for attorneys’ fees.

6. Exceptions to the Release. Notwithstanding any other provisions of this Agreement, nothing in this Agreement will waive, release, modify, or otherwise affect any of Employee’s accrued and vested rights under existing pension and profit-sharing plans, such as claims for vested benefits, or under state workers’ compensation and unemployment laws. This Agreement is not intended to change or modify any provision of any benefit plan governed by ERISA. With the exception of claims under the WARN Act, this Agreement does not govern claims or rights based on events that may occur after the date of this Agreement. Also excluded from this Agreement is your right to file a charge with an administrative agency, participate in an agency investigation and to file an unfair labor practice charge. You are, however, waiving all rights to recover money in connection with any such charge, investigation or related lawsuit.

7. No Pending Claims. Employee represents that no complaints, grievances, or claims related to Employee’s employment with Employer or termination of that employment that are pending or filed against Employer, including any such grievances, claims, or charges filed or pending with any local, state, or federal agency or court as of the date this Agreement was signed

8. No Admission of Liability. Nothing in this Agreement shall be interpreted as an admission of liability as to any of the complaints, claims, or lawsuits that it releases. Employer and each of its individual directors, officers, employees, agents and insurers, and their successors, individually and collectively, expressly deny any such liability.

9. Agreement to be Bound by Restrictive Covenants in Executive Severance Plan. Employee agrees to abide by all Restrictive Covenants and promises set forth in Sections 6.01 (Code of Conduct), 6.02 (Proprietary Information), 6.03 (Non-Competition), 6.04 (Inducement of Employees, Customers and Others), 6.05 (No Adverse Actions), 6.06 (Return of Property), 6.07 (Non-Disparagement) and 6.08 (Assistance with Claims) of the Plan, the terms of which are incorporated herein by reference. Employee acknowledges that he has received a copy of the Plan and has read and understands Sections 6.01 through 6.08 of the Plan. Employee understands that if Employee breaches the provisions of Sections 6.01 through 6.08, Employer is entitled to recover the relief specified in Section 6.10 of the Plan, including any and all damages caused by such breach.

10. Confidentiality of Agreement. With the exception of necessary communications to taxing authorities, accountants, and attorneys; communications to immediate family members who reside with Employee; and any communications required by law, Employee agrees and covenants that the terms, amounts, and fact of this Agreement shall be kept strictly confidential. Employee further agrees not in any way (directly or indirectly) to communicate or disclose, or participate in the communication or disclosure, of any of that information to others (except as may be necessary to enforce the rights contained in this Agreement in an appropriate legal proceeding); including any of Employer’s past, present, or future employees or customers, and further agrees and covenants that the same restrictions shall apply with respect to representatives of the media.

11. Property of Employee and Employer. Employee has possession of all of Employee’s personal property that was on Employer’s premises.

12. Repayment Requirements - Employees rehired by CenturyLink before the expiration of the period covered by their separation allowance will be required to repay all or part of the allowance. The repayment amount will be determined by subtracting the number of days in layoff status from the separation

allowance applicable to the number of days included in the separation allowance calculation. The difference is the amount to be repaid.

13. Choice of Venue, Jury Trial and Class Action Damage Waiver. Venue for litigating any claims under this Agreement is proper in the court for the Federal District Court for Colorado, and Employee expressly consents to the jurisdiction of such court. Employee expressly waives and relinquishes the right to a trial before a jury in any action, brought in any court, concerning this Agreement or any other claim against Employer. Employee also expressly waives the right to collect money damages in any class or collective action against Employer.

14. Severability. To the extent that any provisions in this Agreement are deemed illegal and/or unenforceable, the parties agree that this Agreement shall be interpreted so that all other obligations and protections established by it are enforceable.

15. Controlling Law. Except as governed by federal law, this Agreement will be governed by the laws of [Colorado or the state where Employee last worked for Employer].

16. Final, Binding and Entire Agreement. This Agreement contains the entire agreement and understanding between the parties related to its subject matter, and supersedes and replaces all prior negotiations and understandings, written or oral, express or implied, concerning that subject matter. This Agreement may be amended only by a written document signed by the parties which specifically states that it was intended as an amendment.

17. Acknowledgements. You acknowledge and agree that the severance pay described in paragraph 2 of this Agreement is in addition to whatever you already are entitled to receive apart from this Agreement. You also acknowledge that Employer provided to you, as Exhibit B to the “Waiver of Rights or Claims” letter, a list setting forth: the class, unit or group of individuals covered by this separation or exit incentive program; any eligibility factors for such program; the job titles and ages of all individuals in the same decisional unit eligible or selected for the program; and the ages of all individuals in the same job classification or decisional unit who were not eligible or selected for the program.

18. WARN. If Employer paid any payments under WARN, Employee agrees and acknowledges that the method used to determine the rate of pay and benefits is reasonable and fairly compensates Employee for the sixty-day WARN Act period. In addition, Employee agrees and acknowledges that the separation pay is a voluntary and unconditional payment from Employer, which Employer is not legally obliged to provide unless you sign this Agreement, and such pay is sufficient and adequate consideration for your release of any WARN Act claims that you may have either now or in the future as a result of your termination of employment.

19. **Consideration and Revocation Periods.** Employee hereby acknowledges having been allowed at least forty-five (45) days to consider this Agreement and that if the Agreement is signed sooner, such decision is entirely voluntary. Employee has been advised in writing by Employer to consult an attorney prior to signing this Agreement and to ask the attorney to review and explain this Agreement. Employee has thoroughly reviewed this Agreement and understands this Agreement and the effect of it. Employee understands that Employee may revoke this Agreement for a period of seven (7) days after signing it, and that the Agreement will not become effective or enforceable until the seven-day period has expired without such revocation.

LEGAL NAME	For ORGANIZATION NAME
(For Employee Use Only)	(For HR Use Only)
Employee Signature	Human Resource Signature
Employee Name (Printed)	Human Resource Title
Date of Signature	Date of Signature

EXHIBIT B

Arbitration Provision

Any arbitration will be held in the Monroe, Louisiana area (or such other location as may be mutually agreed upon by the Company and the Eligible Employee) and be subject to the Governing Law provision of this Plan and in accordance with the National Rules for the Resolution of Employment Disputes then in effect of the American Arbitration Association, 9 U.S.C. § 1, *et seq.*, before a panel of three arbitrators, two of whom shall be selected by the Company and the Eligible Employee, respectively, and the third of whom shall be selected by the other two arbitrators. Discovery in the arbitration will be governed by the Local Rules applicable in the United States District Court for the Western District of Louisiana. Any award entered by the arbitrators shall be final, binding and non-appealable and judgment may be entered thereon by either party in accordance with applicable law in any court of competent jurisdiction. This arbitration provision shall be specifically enforceable. The arbitrators shall have no authority to modify any provision of this Plan or to award a remedy for a dispute involving this Plan other than a benefit specifically provided under or by virtue of the Plan. Each party shall be responsible for its own expenses relating to the conduct of the arbitration (including reasonable attorneys’ fees and expenses) and shall share the fees of the American Arbitration Association and the arbitrators.

List of Participating Companies

CenturyLink, Inc. and its Subsidiaries and affiliates as of November 15, 2013 (including subsidiaries and affiliates of Embarq Corporation, Qwest Communications International, Inc. and Savvis, Inc.), with the exception of:

- ▶ CenturyLink Marketing Solutions, LLC.
- ▶ Tier 3, Inc., a subsidiary of Savvis, Inc., which shall become a Participating Company in the Plan as follows:
 - Solely with respect to employees hired by it on or after November 18, 2013, Tier 3 shall be a Participating Company as of November 18, 2013.
 - With respect to all employees who were employees of Tier 3 as of November 18, 2013, Tier 3 shall become a Participating Company effective November 18, 2016.

The CenturyLink Plan Design Committee or the Vice President of Human Resources with responsibility for benefits, or their respective designee, have the authority to amend Exhibit C at any time and from time to time, including but not limited to, adding an entity as a Participating Company as such participation is approved by the CenturyLink Plan Design Committee.

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Section 5: EX-12 (EXHIBIT 12)

Exhibit 12

CENTURYLINK, INC.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Years Ended December 31,				
	2014	2013	2012	2011	2010
(Dollars in millions)					
Income before income taxes and cumulative effect of change in accounting principle	\$ 1,110	224	1,250	948	1,531
Less: income from equity investee	(22)	(24)	(15)	(13)	(16)
Add: estimated fixed charges	1,502	1,486	1,504	1,223	615
Add: estimated amortization of capitalized interest	17	16	15	12	2
Add: distributed income of equity investee	22	14	12	14	16
Less: interest capitalized	(47)	(41)	(43)	(25)	(13)
Total earnings available for fixed charges	<u>\$ 2,582</u>	<u>1,675</u>	<u>2,723</u>	<u>2,159</u>	<u>2,135</u>
Estimate of interest factor on rentals	\$ 144	147	142	126	57
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,311	1,298	1,319	1,072	545
Interest capitalized	47	41	43	25	13
Total fixed charges	<u>\$ 1,502</u>	<u>1,486</u>	<u>1,504</u>	<u>1,223</u>	<u>615</u>
Ratio of earnings to fixed charges	1.72	1.13	1.81	1.77	3.47

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Section 6: EX-21 (EXHIBIT 21)

Exhibit 21

**CENTURYLINK, INC.
SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2014**

<u>Subsidiary</u>	incorporation or formation
Actel, LLC	Delaware
Bloomingtondale Telephone Company, Inc. (20%)	Michigan
Century Cellunet International, Inc.	Louisiana
Cellunet of India Limited	Mauritius
Century Interactive Fax, Inc.	Louisiana
Century Telephone of West Virginia, Inc.	West Virginia
CenturyLink – Clarke M. Williams Foundation	Colorado
CenturyLink Communications, LLC	Delaware
Cognilytics, Inc.	California
Cognilytics Software and Consulting Private Limited	India
Qwest International Services Corporation	Delaware
Qwest N Limited Partnership (98.5%)	Delaware
Qwest Transoceanic, Inc.	Delaware
Qwest Communications International Ltd.	United Kingdom
Qwest Holdings, BV	Netherlands
CenturyLink Belgium Sprl	Belgium
Qwest France SAS	France
Qwest Germany GmbH	Germany
Qwest Netherlands BV	Netherlands
Qwest Peru S.R.L.	Peru
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Australia Pty Limited	Australia
Qwest Communications Japan Corporation	Japan
Qwest Communications Korea, Limited	Korea
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Singapore Pte Ltd.	Singapore
Qwest Taiwan Telecommunications, Limited	Taiwan
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel Broadband Services, LLC	Louisiana
CenturyTel TeleVideo, Inc.	Wisconsin
CenturyTel/Televue of Wisconsin, Inc.	Wisconsin
Qwest Broadband Services, Inc.	Delaware
CenturyTel Broadband Wireless, LLC	Louisiana
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Central Louisiana, LLC	Louisiana
CenturyTel of Chatham, LLC	Louisiana
CenturyTel of Chester, Inc.	Iowa
CenturyTel of Claiborne, Inc.	Tennessee
CenturyTel of East Louisiana, LLC	Louisiana

<u>Subsidiary</u>	State of incorporation or formation
CenturyTel of Evangeline, LLC	Louisiana
CenturyTel Holdings, Inc.	Louisiana
Century Marketing Solutions, LLC	Louisiana
CenturyTel Arkansas Holdings, Inc.	Arkansas
CenturyTel of Central Arkansas, LLC	Louisiana
CenturyTel of Northwest Arkansas, LLC	Louisiana
CenturyTel Holdings Alabama, Inc.	Alabama
CenturyTel of Alabama, LLC	Louisiana
CenturyTel Holdings Missouri, Inc.	Missouri
CenturyTel of Missouri, LLC	Louisiana
CenturyTel Investments of Texas, Inc.	Delaware
CenturyTel of the Northwest, Inc.	Washington
Brown Equipment Corp.	Nevada
Carter Company, Inc.	Hawaii
Honomach PR, Inc.	Puerto Rico
Cascade Autovon Company	Washington
CenturyTel/Cable Layers, Inc.	Wisconsin
CenturyTel of Central Wisconsin, LLC	Delaware
CenturyTel of Colorado, Inc.	Colorado
CenturyTel of Eagle, Inc.	Colorado
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel Entertainment, Inc.	Washington
CenturyTel of Fairwater-Brandon-Alto, LLC	Delaware
CenturyTel of Forestville, LLC	Delaware
CenturyTel of the Gem State, Inc. (97%)	Idaho
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Larsen-Readfield, LLC	Delaware
CenturyTel of the Midwest-Kendall, LLC	Delaware
CenturyTel of the Midwest-Wisconsin, LLC	Delaware
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Monroe County, LLC	Delaware
CenturyTel of Montana, Inc. (99%)	Oregon
CenturyTel of Northern Wisconsin, LLC	Delaware
CenturyTel of Northwest Wisconsin, LLC	Delaware
CenturyTel of Oregon, Inc.	Oregon
CenturyTel of Paradise, Inc.	Washington
CenturyTel of Cowiche, Inc.	Washington
CenturyTel of Postville, Inc.	Iowa
CenturyTel of Southern Wisconsin, LLC	Delaware
CenturyTel of the Southwest, Inc.	New Mexico
CenturyTel Telecom Service, Inc.	Washington
CenturyTel Telephone Utilities, Inc.	Washington
CenturyTel of Upper Michigan, Inc.	Michigan
CenturyTel of Washington, Inc.	Washington

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
CenturyTel/WORLDVOX, Inc.	Oregon
CenturyTel of Wyoming, Inc.	Wyoming
Eagle Valley Communications Corporation	Colorado
International Communications Holdings, Inc.	Delaware
Pacific Telecom, Inc. (Shell)	Oregon
PTI Communications of Ketchikan, Inc.	Alaska
PTI Communications of Minnesota, Inc.	Minnesota
PTI Transponders, Inc.	Oregon
Universal Manufacturing Corp.	Wisconsin
CenturyTel of Idaho, Inc.	Delaware
CenturyTel Interactive Company	Louisiana
CenturyTel Internet Holdings, Inc.	Louisiana
centurytel.com, LLC	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel of Michigan, Inc.	Michigan
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel Mobile Communications, Inc.	Louisiana
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Louisiana, LLC	Louisiana
CenturyTel of North Mississippi, Inc.	Mississippi
CenturyTel of Northern Michigan, Inc.	Michigan
CenturyTel of Northwest Louisiana, Inc.	Louisiana
CenturyTel of Odon, Inc.	Indiana
CenturyTel of Ohio, Inc.	Ohio
CenturyTel of Ooltewah-Collegedale, Inc.	Tennessee
CenturyTel of Port Aransas, Inc.	Texas
CenturyTel of Redfield, Inc.	Arkansas
CenturyTel of Ringgold, LLC	Louisiana
CenturyTel SM Telecorp, Inc.	Texas
CenturyTel Telecommunications, Inc.	Texas
CenturyTel of San Marcos, Inc.	Texas
CenturyTel San Marcos Investments, LLC	Delaware
CenturyTel Security Systems, Inc.	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel of South Arkansas, Inc.	Arkansas
CenturyTel of Southeast Louisiana, LLC	Louisiana
CenturyTel of Southwest Louisiana, LLC	Louisiana
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel/Tele-Max, Inc.	Texas
CenturyTel of Lake Dallas, Inc.	Texas
CenturyTel Web Solutions, LLC	Louisiana
CenturyTel of Wisconsin, LLC	Louisiana
Embarq Corporation	Delaware
Carolina Telephone and Telegraph Company LLC	North Carolina

<u>Subsidiary</u>	State of incorporation or formation
NOCUTS, Inc.	Pennsylvania
SC One Company	Kansas
Centel Corporation	Kansas
Centel Capital Corporation	Delaware
Centel-Texas, Inc.	Texas
Central Telephone Company of Texas	Texas
EQ Central Texas Equipment LLC	Texas
Central Telephone Company	Delaware
Central Telephone Company of Virginia	Virginia
Embarq Florida, Inc.	Florida
The Winter Park Telephone Company	Florida
CenturyLink Intellectual Property LLC	Delaware
Embarq Directory Trademark Company, LLC	Delaware
CenturyLink Public Communications, Inc.	Florida
CenturyLink Sales Solutions, Inc.	Delaware
Embarq, Inc.	Kansas
Embarq Capital Corporation	Delaware
SC Seven Company	Kansas
Embarq Interactive Holdings LLC	Delaware
Embarq Interactive Markets LLC	Delaware
Embarq Management Company	Delaware
EQ Management Equipment LP	Nevada
Embarq Mid-Atlantic Management Services Company	North Carolina
Embarq Minnesota, Inc.	Minnesota
Embarq Missouri, Inc.	Missouri
SC Eight Company	Kansas
Embarq Network Company LLC	Delaware
EQ Equipment Leasing, Inc.	Delaware
United Telephone Company of the Carolinas LLC	South Carolina
SC Two Company	Kansas
United Telephone Company of Eastern Kansas	Delaware
United Telephone Company of Florida	Florida
United Telephone Company of Indiana, Inc.	Indiana
SC Four Company	Kansas
United Telephone Company of Kansas	Kansas
Embarq Midwest Management Services Company	Kansas
United Teleservices, Inc.	Kansas
United Telephone Company of New Jersey, Inc.	New Jersey
United Telephone Company of the Northwest	Oregon
United Telephone Company of Ohio	Ohio
SC Five Company	Kansas
United Telephone Company of Pennsylvania LLC, The	Pennsylvania
SC Six Company	Kansas
Valley Network Partnership (40% aggregate)	Virginia

<u>Subsidiary</u>	State of incorporation or formation
United Telephone Company of Southcentral Kansas	Arkansas
United Telephone Company of Texas, Inc.	Texas
EQ United Texas Equipment LLC	Texas
United Telephone Company of the West	Delaware
United Telephone Southeast LLC	Virginia
SC Three Company	Kansas
Hillsboro Telephone Company, Inc. (20%)	Wisconsin
Lafayette MSA Limited Partnership (49%)	Delaware
Madison River Communications Corp.	Delaware
Gallatin River Holdings L.L.C.	Delaware
Gallatin River Communications L.L.C.	Delaware
Madison River Finance Corp.	Delaware
Madison River Holdings LLC	Delaware
Madison River LTD Funding LLC	Delaware
Coastal Utilities, Inc.	Georgia
GulfCoast Services, LLC	Alabama
GulfTelephone Company, LLC	Alabama
Madison River Management LLC	Delaware
Mehtel, Inc.	North Carolina
Pacific Telecom Cellular of Alaska RSA #1, Inc.	Alaska
Qwest Communications International, Inc.	Delaware
EUnet International Limited	United Kingdom
EUnet International B.V.	Netherlands
Qwest B.V.	Netherlands
KPNQwest N.V. (44.34%)	Netherlands
Qwest Capital Funding, Inc.	Colorado
Qwest Europe LLC	Delaware
Qwest Services Corporation	Colorado
CenturyLink Investment Management Company	Colorado
Qwest Corporation	Colorado
1200 Landmark Center Condominium Association, Inc.	Nebraska
Block 142 Parking Garage Association	Colorado
Qwest Database Services, Inc.	Colorado
SMS/800, Inc. (33.3%)	District of Columbia
Qwest India Holdings, LLC	Delaware
CenturyLink Technologies India Private Limited	India
The El Paso County Telephone Company	Colorado
MoveARoo, LLC (33.3%)	Delaware
Qwest Dex Holdings, Inc.	Delaware
Qwest Government Services, Inc.	Colorado
Qwest Wireless, L.L.C.	Delaware
SAVVIS, Inc.	Delaware
AppFog, Inc.	Delaware
CenturyLink Australia Pty. Ltd.	Australia

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
CenturyLink do Brasil Participações Ltda.	Brazil
CenturyLink Comunicações Ltda.	Brazil
CenturyLink Europe B.V.	Netherlands
CenturyLink Europe B.V., The Netherlands, filial Sweden	Sweden
SAVVIS Europe BV Sucursal en España	Spain
CenturyLink France S.A.S.	France
CenturyLink Germany GmbH	Germany
CenturyLink Italia S.r.l.	Italy
CenturyLink Japan, Ltd	Japan
CenturyLink New Zealand Limited	New Zealand
CenturyLink Philippines, Inc.	Philippines
CenturyLink Poland Sp Zo.o.	Poland
CenturyLink Singapore Pte. Ltd.	Singapore
CenturyLink Switzerland A.G.	Switzerland
CenturyLink Taiwan Limited	Taiwan
CenturyLink Technology Hong Kong Limited	Hong Kong
CenturyLink Technology Malaysia Sdn. Bhd.	Malaysia
CenturyLink Technology UK Limited	United Kingdom
CenturyLink (Thailand) Limited	Thailand
DataGardens, Inc.	Canada
SAVVIS Asia Holdings Singapore Pte.	Singapore
Digital Savvis HK JV	British VI
Digital Savvis HK Holding 1 Limited	British VI
Digital Savvis Investment Management HK Limited	Hong Kong
Digital Savvis Management Subsidiary Limited	Hong Kong
SAVVIS Canada, Inc.	Delaware
SAVVIS Communications Canada, Inc.	Canada
SAVVIS Communications Chile, S.A.	Chile
SAVVIS Communications Corporation	Missouri
SAVVIS Federal Systems, Inc.	Delaware
SAVVIS Communications International, Inc.	Delaware
CenturyLink Korea Limited	Korea
SAVVIS Communications Private Limited	India
SAVVIS do Brasil Ltda.	Brazil
SAVVIS Telecomunicações Ltda.	Brazil
SAVVIS Hungary Telecommunications KFT	Hungary
SAVVIS Mexico, S.A. de C.V.	Mexico
Tier 3, Inc.	Washington
SkyComm Technologies Corporation (50.0%)	Delaware
Spectra Communications Group, LLC	Delaware
TelUSA Holdings, LLC (89%)	Delaware
Telephone USA of Wisconsin, LLC	Delaware
Western Re, Inc.	Louisiana

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Section 7: EX-23 (EXHIBIT 23)

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CenturyLink, Inc.:

We consent to the incorporation by reference in the Registration Statements (No. 333-187366 and No. 333-179888) on Form S-3, the Registration Statements (No. 33-60061, No. 333-160391, No. 333-37148, No. 333-60806, No. 333-150157, No. 333-124854, No. 333-150188, and No. 333-174571) on Form S-8, and the Registration Statements (No. 33-48956, No. 333-17015, No. 333-167339, No. 333-174291, and No. 333-155521) on Form S-4 of CenturyLink, Inc. of our reports dated February 24, 2015, with respect to the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive (loss) income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2014, and the effectiveness of internal control over financial reporting as of December 31, 2014, which reports appear in the December 31, 2014 annual report on Form 10-K of CenturyLink, Inc.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2015

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Section 8: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

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

- I have reviewed this annual report on Form 10-K of CenturyLink, Inc.;
- 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;
- 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;
- 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:
 - 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;
 - 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;
 - 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
 - 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
- 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:
 - 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
 - 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 24, 2015

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and President

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Section 9: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

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

- I have reviewed this annual report on Form 10-K of CenturyLink, Inc.;
- 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;
- 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;
- 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:
 - 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;
 - 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;
 - 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
 - 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 24, 2015

/s/ R. Stewart Ewing, Jr.

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

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Section 10: EX-32 (EXHIBIT 32)

Exhibit 32

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of CenturyLink, Inc. ("CenturyLink"), certifies that, to his knowledge, the Annual Report on Form 10-K for the year ended December 31, 2014 of CenturyLink 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 CenturyLink as of the dates and for the periods covered by such report.

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

Date: February 24, 2015

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and
President

/s/ R. Stewart Ewing, Jr.

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

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Section 1: 10-K (10-K)

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, 2015
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. 001-7784



CENTURYLINK, INC.
(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)
100 CenturyLink Drive, Monroe, Louisiana
(Address of principal executive offices)

72-0651161
(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
Common Stock, par value \$1.00	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Stock Options

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.

(Do not check if a 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 17, 2016, 543,852,862 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2015 was \$16.4 billion.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2016 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

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Unless the context requires otherwise, references in this Annual Report to "CenturyLink," "we," "us" and "our" refer to 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 and business customers. Our communications services include local and long-distance voice, high-speed Internet, Multi-Protocol Label Switching ("MPLS"), private line (including special access), data integration, Ethernet, colocation, managed hosting (including cloud hosting), network, public access, video, wireless and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

Based on our approximately 11.7 million total access lines at December 31, 2015, we believe we are the third largest wireline telecommunications company in the United States. We operate 74% of our total access lines in portions of Colorado, Arizona, Washington, Minnesota, Florida, North Carolina, Oregon, Iowa, Utah, New Mexico, Missouri, and Nevada. We also provide local service in portions of Idaho, Ohio, Wisconsin, Virginia, Texas, Nebraska, Pennsylvania, Montana, Alabama, Indiana, Arkansas, Wyoming, Tennessee, New Jersey, South Dakota, North Dakota, Kansas, Louisiana, South Carolina, Michigan, Illinois, Georgia, Mississippi, Oklahoma, and California. In the portion of these 37 states where we have access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2015, we served approximately 6.0 million high-speed Internet subscribers and 285 thousand Prism TV subscribers. We also operate 59 data centers throughout North America, Europe and Asia.

We were incorporated under the laws of the State of Louisiana in 1968. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

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,		
	2015 ⁽¹⁾	2014 ⁽²⁾	2013 ⁽³⁾
	(Dollars in millions)		
Consolidated statements of operations summary results:			
Operating revenues	\$ 17,900	18,031	18,095
Operating expenses	15,295	15,621	16,642
Operating income	\$ 2,605	2,410	1,453
Net income (loss)	\$ 878	772	(239)

- (1) During 2015, we recognized an incremental \$215 million of revenue associated with the Federal Communications Commission ("FCC") Connect America Fund Phase 2 support program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.
- (2) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 13—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.
- (3) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments and a litigation settlement charge of \$235 million.

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

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Consolidated balance sheets summary information:		
Total assets ⁽¹⁾	\$ 47,604	49,103
Total long-term debt ^{(1) (2)}	20,225	20,503
Total stockholders' equity	14,060	15,023

- (1) We adopted both ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" by retrospectively applying the requirements of the ASUs to our previously issued consolidated financial statements. See further discussion in Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.
- (2) Total long-term debt is the sum of current maturities of long-term debt and long-term debt on our consolidated balance sheets. For additional information on our total long-term debt, see Note 3—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this Annual Report. 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,		
	2015	2014	2013
	(in thousands except for data centers, which are actuals)		
Operational metrics:			
Total access lines ⁽¹⁾	11,748	12,394	13,002
Total high-speed Internet subscribers ⁽¹⁾	6,048	6,082	5,991
Total Prism TV subscribers	285	242	175
Total data centers ⁽²⁾	59	58	55

- (1) Access lines are lines reaching from the customers' premises to a connection with the public network and high-speed Internet subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our access lines and high-speed Internet subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone high-speed Internet subscribers. We count lines when we install the service.
- (2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

Our methodology for counting access lines, high-speed Internet subscribers, Prism TV subscribers and data centers 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 total consolidated operating revenues are from customers located in the United States. We estimate that approximately 2% of our consolidated revenues is derived from providing telecommunications, colocation and hosting services outside the United States.

Operations

Segments

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- *Business Segment.* Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, private line (including special access), Ethernet, high-speed Internet, colocation, managed hosting, cloud hosting and other ancillary services. Our legacy services offered to these customers primarily include switched access, local and long-distance voice services, including the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use all or part of our network to provide voice and data services to their customers. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks; and
- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our high-speed Internet, video (including our Prism TV services) and wireless services. Our legacy services offered to these customers include local and long-distance voice service.

The following table shows the composition of our revenues by segment under our current segment categorization for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,			Percent Change	
	2015	2014	2013	2015 vs 2014	2014 vs 2013
Percentage of revenues:					
Business segment	59%	61%	61%	(2)%	—%
Consumer segment	34%	33%	33%	1 %	—%
Other operating revenues	7%	6%	6%	1 %	—%
Total operating revenues	100%	100%	100%		

For additional information on our segment data, including information on certain centrally-managed assets and expenses not reflected in our segment results, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

Products and Services

Our products and services include local and long-distance voice, high-speed Internet, MPLS, private line (including special access), data integration, Ethernet, colocation, managed hosting (including cloud hosting), network, public access, video, wireless and other ancillary services.

We offer our customers the ability to bundle together several products and services. For example, we offer integrated and unlimited local and long-distance voice services. Our customers can also bundle two or more services such as high-speed Internet, video (including DIRECTV through our strategic partnership), voice and Verizon Wireless (through our 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 11.7 million access lines and forms a portion of the public switched telephone network, or PSTN. For more information on our network, see "Business—Network Architecture" below.

Described in greater detail below are our key products and services.

Strategic Services

We primarily focus our marketing and sales efforts on our “strategic” services, which are those services for which demand generally remains strong and that we believe are most important to our future performance. Generally speaking, our strategic services enable our customers to access the Internet, connect to private networks and transmit data, and enhance the security, reliability and efficiency of our customers’ communications. Our strategic services are comprised of the following:

- *High-speed Internet.* Our high-speed Internet services allow customers to connect to the Internet through their existing telephone lines or fiber-optic cables at high speeds. Substantially all of our high-speed Internet subscribers are located within the local service area of our wireline telephone operations;
- *MPLS.* Multi-Protocol Label Switching is standards-approved data networking technology that we provide to support real-time voice and video. This technology allows network operators flexibility to divert and route traffic around link failures, congestion and bottlenecks;
- *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 wireless backhaul transmissions;
- *Ethernet.* Ethernet services include point-to-point and multi-point equipment 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;
- *Colocation.* Colocation services enable our customers to install their own information technology (“IT”) equipment in our data centers;
- *Managed Hosting.* Managed hosting includes provision of centralized IT infrastructure and a variety of managed services including cloud and traditional computing, application management, back-up, storage, and other advanced services including planning, design, implementation and support services;
- *Video.* Our video services include our facilities-based video, marketed as CenturyLink Prism TV, which is a premium entertainment service that allows our customers to watch hundreds of television or cable channels and record up to four shows on one home digital video recorder. We also offer satellite digital television under an arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name;
- *VoIP.* Voice over Internet Protocol, or VoIP, is a real-time, two-way voice communication service (similar to our traditional voice services) that originates over a broadband connection and often terminates on the PSTN; and
- *Managed Services.* Managed services represents a blend of network, hosting, cloud, and IT services that typically require ongoing support from our staff. These services frequently involve equipment or networks owned, acquired or controlled by the customer and often include consulting or software development.

Legacy Services

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

- *Local Voice Services.* 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 UNEs, which allow our wholesale customers to use all or part of our network 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;
- *Long-distance Voice Services.* We offer our residential and business customers domestic and international long-distance services and toll-free services. Our international long-distance services include voice calls that either terminate or originate with our customers in the United States;

- *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;
- *ISDN.* We offer integrated services digital network ("ISDN") services, which use regular telephone lines to support voice, video and data applications; and
- *WAN.* We offer wide area network ("WAN") services, which allow a local communications network to link to networks in remote locations.

Data Integration

Data integration includes the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for our business customers.

Other Operating Revenues

Other operating revenues consist primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both CAF Phase 1 and CAF Phase 2 programs, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and high-speed Internet infrastructure in high-cost rural areas where we are not able to recover our costs from our customers. USF surcharges are the amounts we collect based on specific items we list on our customers' invoices to fund the Federal Communications Commission's ("FCC") universal service programs. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

Additional Information

From time to time, we also make investments in other communications or technology companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this Annual Report.

Patents, Trade Names, Trademarks and Copyrights

Either directly or through our subsidiaries, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business, such as our CenturyLink® and Prism® brand names. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others as we deem appropriate.

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 of this Annual Report, and Note 14—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 and a variety of channel partners to promote sales of services that meet the needs of our customers. Our sales and marketing strategy is to enhance our sales by offering solutions tailored to the needs of our various customers and promoting our brands. Our offerings include both stand-alone services and bundled services designed to meet the needs of different customer segments.

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. Our switched digital television service offering is branded under the name "Prism TV." The wireless service that we offer under our agency agreement with Verizon Wireless is marketed under the "Verizon Wireless" brand name.

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

Similarly, our sales and marketing approach to our business customers includes a commitment to provide comprehensive communications and IT solutions for business, wholesale and governmental customers of all sizes, ranging from small offices to select enterprise customers. Our marketing plans include marketing our products and services primarily through digital advertising, direct sales representatives, inbound call centers, telemarketing and third parties, including telecommunications agents, system integrators, value-added resellers and other telecommunications firms. We support our distribution through digital advertising, events, television advertising, website promotions and public relations.

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, 2015, we maintained approximately 1.0 million miles of copper plant and approximately 259 thousand miles of domestic fiber-optic plant.

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. The Federal Communications Commission has defined "broadband service" as Internet access service with a minimum transmission speed of 25 megabits per second, which could create additional requirements for higher capital spending to address marketing and competitive issues. 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. 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 constant target of cyber-attacks of varying degrees, which has caused us to spend increasingly more time and money to deal with increasingly sophisticated attacks. Although none of our resulting security breaches to date have materially adversely affected our business, results of operations or financial condition, we periodically notify our customers, our employees or the public of select breaches.

We rely on several other communications companies to provide our offerings. We lease a significant portion of our core fiber network from our competitors and other third parties. Many of these leases will lapse in future years. All of our satellite television and wireless voice services are provided by other carriers under agency agreements, and some of our other services are reliant upon reselling arrangements with other carriers. Our future ability to provide services on the terms of our current offerings will depend in part upon our ability to renew or replace these leases, agreements and arrangements on terms substantially similar to those currently in effect.

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

Regulation

Overview

As discussed further below, our operations are subject to significant local, state, federal and foreign laws and regulations.

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 developed and administered support programs designed to subsidize the provision of services to high-cost rural 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. Many acquisitions and divestitures require approval by the FCC and some state commissions. These agencies typically have the authority to withhold their approval, or to request or impose substantial conditions upon the transacting parties in connection with granting their approvals.

Our telephone operating companies are considered incumbent local exchange carriers ("ILECs"). Historically, 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. 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.

The laws and regulations governing our affairs are quite complex and occasionally in conflict with each other. From time to time, we are fined for failing to meet applicable regulations or service requirements.

Federal Regulation

General

We are required to comply with the Communications Act of 1934. Among other things, this law requires our ILECs to offer various of our legacy services at just and reasonable rates and on non-discriminatory terms. The Telecommunications Act of 1996 materially 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 our access to and use of local telephone numbers and our provision of emergency 911 services. The FCC has responsibility for maintaining and administering support programs designed to expand nationwide access to communications services (which are described further below), as well as other programs supporting service to low-income households, schools and libraries, and rural health care providers.

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 voice and high-speed Internet 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. In addition, the FCC has heightened its focus on 911 reliability. The FCC has imposed fines on us and other companies for 911 outages and has adopted new compliance requirements for 911 service. We are making investments to protect against future 911 outages as well as incurring compliance-related costs to meet the FCC's 911 reliability standards. All of these laws and regulations may cause us to incur additional costs and could impact our ability to compete effectively.

In 2012, the FCC initiated a special access proceeding and requested data, information and documents to allow it to conduct a comprehensive evaluation of competition in the special access market. In late 2015, the FCC initiated a special access tariff investigation in order to review specific terms and conditions related to long-term special access contracts and discount plans. As part of its evaluations, the FCC is reviewing special access rates, terms and conditions. The ultimate impact of these proceedings on us 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.

In 2015, the FCC issued an order regulating the manner in which ILECs can discontinue or reduce certain copper-based services. This order requires ILECs to provide prior notice to certain customers of their proposed change in services, and in certain cases to provide replacement offerings on reasonably comparable terms and conditions. We expect that this order will limit our flexibility to react to changing conditions in the communications industry.

Intercarrier Compensation and Universal Service

For decades, the FCC has regularly 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. The FCC has also traditionally administered support programs designed to promote the deployment of voice and high-speed Internet services in high-cost rural areas of the country.

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 to 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 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.

In late 2011, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the 2011 order. 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. Rulemaking designed to implement the order is not complete, and several FCC proceedings relating to the 2011 order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

As a result of the 2011 order, a new Universal Service program was created to deploy broadband to unserved and underserved rural areas utilizing the Connect America Fund or "CAF". The CAF substantially replaces interstate USF funding previously utilized to support 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 August 2015, we agreed to accept from the FCC CAF Phase 2 funding of approximately \$500 million per year for six years to fund the deployment of voice and high-speed Internet infrastructure for approximately 1.2 million rural households and businesses in 33 states. The funding from the CAF Phase 2 support program is expected to substantially supplant the funding we previously received from the interstate USF program that we previously utilized to support voice services in high-cost rural markets in these 33 states. In September of 2015, we began receiving payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly payments at a higher rate than under the interstate USF support and (ii) a substantial one-time cumulative catch-up payment designed to address program transitioning issues.

We declined annual funding of approximately \$10 million in four states, and we expect the funding from the CAF Phase 2 support program for these four states will be auctioned by the FCC, perhaps in the latter part of 2016. In these four states, the interstate USF support we have historically received is expected to continue until the CAF Phase 2 auctions are completed.

As a result of accepting CAF Phase 2 support payments for 33 states, we will be obligated to make substantial capital expenditures to build infrastructure by certain specified milestone deadlines. Future funding is contingent upon our compliance with these infrastructure buildout commitments and certain other service requirements, including certain minimum transmission speed requirements (broadband service with download speeds of 10 megabits per second and upload speeds of 1 megabit per second). In addition, if we are not in compliance with FCC measures at the end of the six-year CAF Phase 2 period, we will have 12 months to attain full compliance. If we are not in full compliance after the additional 12 months, we would incur a penalty equal to 1.89 times the average amount of support per location received in the state over the six-year term, plus a potential penalty of 10% of the total CAF Phase 2 support over the six-year term for the state. For information on the risks associated with participating in this program, see Item 1A of Part I in this Annual Report.

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

Broadband Regulation

In February 2015, the FCC adopted new regulations that regulate Internet services as a public utility under Title II of the Communications Act of 1934. We anticipate that these regulations and any related rules will be reviewed by both the courts and Congress. At this time, we cannot estimate the impact this may have on our business.

The FCC recently adopted a new broadband 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, our telephone operating subsidiaries 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.

Other Regulations

We are subject to federal and state regulations of customer service standards related to Prism TV. The metrics that are followed are generally the federal rules, but local franchise authorities have the ability to adopt more stringent standards. The FCC has largely delegated its enforcement powers to the individual local franchise authorities. We are subject to penalties in many of our local franchise agreements if we miss customer service standards.

Certain of our telecommunications, colocation and hosting services conducted in foreign countries are or may become subject to various foreign laws. Some of the legal requirements governing our foreign operations are more restrictive than or conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks.

Various foreign, federal and state laws govern our storage, maintenance and use of customer data, including a wide range of consumer protection, data protection, privacy, intellectual property and similar laws. The application, interpretation and enforcement of these laws are often uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction. Various foreign, federal and state legislative or regulatory bodies have recently adopted increasingly restrictive laws or regulations governing the protection or retention of data, and others are contemplating similar actions.

For additional information about these matters, see “Risk Factors—Risks Affecting Our Business” and “Risk Factors—Risks Relating to Legal and Regulatory Matters.”

Competition

General

We compete in a rapidly evolving and highly competitive market and we expect intense competition to continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from several other sources, including cable and satellite companies, wireless providers, technology companies, cloud 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. 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. In addition, the communications industry has, in recent years, experienced substantial consolidation; and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

Wireless telephone services are a significant source of competition with our ILEC services. It is increasingly common for customers to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly as our older customers are replaced over time with younger customers who are less accustomed to using traditional wireline voice services. Technological and regulatory developments in wireless services, Wi-Fi, and other wired and wireless technologies have contributed to the development of alternatives to traditional landline voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services. These factors have led to a long-term systemic decline in the number of our wireline voice service customers.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through reselling an ILEC's local services, through use of an ILEC's unbundled network elements or through their own facilities.

Technological developments have led to the development of new products and services that have reduced the demand for our traditional services, as noted above, or that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively marketed these services. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services. In addition, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster average broadband transmission speeds than ours.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Such activities will continue to place downward pressure on the demand for and pricing of our services.

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 competitive 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 and to compete effectively. In addition, network reliability and security are increasingly important competitive factors in our business.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers, municipalities or alternative access vendors. These systems are capable of originating or terminating calls without use of an ILEC's networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of an ILEC's access lines. We anticipate that all these trends will continue and lead to decreased billable use of our networks.

Additional information about competitive pressures is located (i) under the heading "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this Annual Report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our segments.

Business Segment

Strategic Services

In connection with providing strategic services to our business customers, which includes our small, medium and enterprise business, wholesale and governmental customers, we compete against other telecommunication providers, as well as other regional and national carriers, other fiber providers, cable companies, CLECs and other enterprises, some of whom are substantially larger than us. Competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. In providing broadband services, we compete primarily with cable companies, wireless providers, technology companies and other broadband service providers. Competition for private line services is based on price, network reach and reliability, service, promotions and bundled offerings. We face competition in Ethernet based services in the wholesale market from cable companies and fiber based CLEC providers.

Our competitors for providing integrated data, Internet, voice services and other IT services to our business customers range from mid-sized businesses to large enterprises. Due to the size and capacity of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing sophisticated, secure and performance-driven services to our business customers through our global infrastructure.

The number of companies providing business services has grown and increased competition for these services, particularly with respect to smaller business customers. Many of our competitors for 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.

Our competitors for cloud, hosting, colocation and other IT services include telecommunications companies, technology companies, cloud companies, colocation companies, hardware manufacturers and system integrators that support the in-house IT operations for a business or offer outsourcing solutions. Due to the size, capacity and strategically low pricing tactics of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. The increase in recent years in the number of companies providing these services has placed substantial downward pressure on pricing for a wide range of cloud, hosting, colocation and other IT services. We believe, however, that our hybrid IT services capabilities, which offer multiple products and services (including colocation, managed hosting, cloud and network services), could help differentiate our products and services from those offered by competitors with a narrower range of products and services. We have remained focused on expanding our hybrid cloud portfolio by adding differentiating features across the cloud spectrum, to include private and public services, and acquiring additional companies that we believe have strengthened our cloud products.

Legacy Services

We face intense competition with respect to our legacy services and continue to see customers migrating away from these services and into strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by product substitution, technological migration and price competition. For our wholesale customers, we will continue to be adversely affected by product substitution, technological migration, industry consolidation and mandated rate reductions. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers as well as some of our own wholesale markets customers, many of which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce revenue producing traffic on our network.

Data Integration

In providing data integration to our business customers, we compete primarily with large integrators, equipment providers and national telecommunication providers. Competition is based on package offerings, and as such we focus on providing these customers individualized and customizable packages. Our strategy is to provide our data integration through packages that include other strategic and legacy services. As such, in providing data integration we often face many of the same competitive pressures as we face in providing strategic and legacy services, as discussed above.

We expect data integration revenues to continue to fluctuate from quarter to quarter as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our governmental customers. We further expect the profit margins on our data integration offerings to continue to be lower than those of our strategic and legacy services.

Consumer Segment

Strategic Services

With respect to providing our strategic services to residential customers, 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. The manner in which we compete for high-speed Internet customers in this segment is substantially similar to the manner in which we compete for business customers, as described in the above section. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Our Prism TV residential video service faces substantial competition from a variety of competitors, including well-established cable companies, satellite companies and several national companies that deliver content over the Internet and on mobile devices. Many of our competitors for these strategic services are not subject to the same regulatory requirements as we are, and therefore are able to avoid significant regulatory costs and obligations.

Our strategy for maintaining and increasing our base of broadband customers is based on pricing, packaging of services and features, quality of service and meeting customer care needs. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our network, which allows for the delivery of higher speed broadband services. We also continue to expand our marketing and product bundling efforts by offering a variety of bundled products and services with various pricing discounts, as we compete in a maturing market in which a significant portion of consumers already have broadband services. We offer these bundled products and services through various sales and marketing opportunities as further described above under the heading "Sales and Marketing."

Legacy Services

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 and long-distance voice services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Our strategy to manage access line loss is based primarily on our pricing, packaging of services and features, quality of service and meeting customer care needs. While bundle price discounts have resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention.

Acquisitions

During the fourth quarter of 2014, we acquired all of the outstanding stock of two companies for total consideration of \$95 million, net of \$2 million acquired cash and including immaterial future cash payments. During the year ended December 31, 2013, we acquired all of the outstanding stock of two companies for total cash consideration of \$160 million. In each case, the acquisitions were designed to augment our hosting services or our emerging IT services.

We regularly evaluate the possibility of acquiring additional assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement.

Environmental Compliance

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating prior industrial sites or operating 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. For additional information, see Item 1A of Part II of this Annual Report and Note 14—Commitments and Contingencies included in Item 8 of Part II of this Annual Report.

Seasonality

Overall, our business is not materially impacted by seasonality. Our network-related operating expenses are, however, generally higher in the second and third quarters of the year. 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, but have generally been highest during the third quarter and have been related to damage from severe storms, including hurricanes, tropical storms and tornadoes in our markets along the Atlantic and Gulf of Mexico coastlines.

Employees

At December 31, 2015, we had approximately 43,000 employees, of which approximately 16,000 are members of either the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). 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 last several years, we have reduced our workforce primarily due to (i) integration efforts from our acquisitions, (ii) increased competitive pressures, and (iii) the loss of access lines and related legacy revenues.

Website Access and Important Investor Information

Our website is 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 amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the Securities and Exchange Commission ("SEC"). From time to time we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

We have adopted a written code of conduct that serves 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 we make any changes (other than by a technical, administrative or non-substantive amendment) to, or provide any waivers from, the provisions of our code of conduct applicable to our directors or executive officers, we intend to disclose these events on our website or in a report on Form 8-K filed with the SEC. The code of conduct, as well as copies of our guidelines on significant governance issues and the charters of our 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/ 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 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 its related regulations. In addition, during 2015, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

We typically disclose material non-public information by disseminating press releases, making public filings with the SEC, or disclosing information during publicly accessible meetings or conference calls. Nonetheless, from time to time we have used, and intend to continue to use, our website and social media accounts to augment our disclosures.

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 constitute "forward-looking" statements as defined by, and are subject to the "safe harbor" protections under, the federal securities laws. These statements include, among others:

- forecasts of our anticipated future results of operations or financial position;
- statements concerning the impact of our transactions, investments and other initiatives, including our participation in government programs;
- statements about our liquidity, tax position, tax rates, asset values, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, business strategies, dividend and stock repurchase plans, capital allocation plans, 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, (i) are not guarantees of future results, (ii) are inherently speculative and (iii) are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to:

- the effects of competition from a wide variety of competitive providers, including lower demand for our legacy offerings;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, access charges, universal service, broadband deployment, data protection and net neutrality;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for, 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 maintain the quality and profitability of our existing product and service offerings and to introduce new offerings on a timely and cost-effective basis;
- the adverse impact on our business and network from possible equipment failures, service outages, security breaches or similar events impacting our network;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, share repurchases, dividends, pension contributions and debt payments;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations;

- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;

- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us;
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including potential future impairment charges;
- the effects of adverse weather or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
- other risks referenced in Item 1A or elsewhere in this Annual Report or other of our filings with the SEC.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or stock repurchase 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.

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. You should carefully consider these factors, in addition to the other information set forth in this Annual Report and our subsequent filings with the SEC, when evaluating our business and whether to purchase, sell or hold our securities. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

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

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

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

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers 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 significantly impact our competitive and financial position.

The communications industry has been and continues to be impacted by significant technological changes, which in general are enhancing 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 wireline 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 cloud, hosting, colocation and other IT services industries. 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 their broadband transmission speed and decrease their service rates. 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 or respond to changes in technology or industry standards, or to the introduction of newly-offered services. Any of these developments could make some or all of our offerings less desirable or even obsolete. These developments could also require us to (i) expend capital or other resources in excess of currently contemplated levels, (ii) forego the development or provision of products or services that others can provide more efficiently, or (iii) make other changes to our operating plans, corporate strategies or capital allocation plans, any of which could be contrary to the expectations of our security holders or could adversely impact our operations. 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.

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

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

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

Our legacy 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 experienced a prolonged systemic decline in our access lines, long-distance revenues and network access revenues, which continue to decrease revenues generated from our legacy services. We have also experienced a decline in our private line revenues due to our customers' optimization of their networks, industry consolidation, price compression and technological migration to higher-speed services. The loss of private line services has placed downward pressure on our strategic revenues.

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 Annual Report;
- an increased focus on serving a broader range of business, governmental and wholesale customers;
- greater use of service bundles; and
- acquisitions to increase our scale and strengthen our product offerings, including new products and services.

However, for the reasons described elsewhere in this Annual Report, most of these strategic services generate lower profit margins than our legacy and private line services, and some can be expected to experience slowing growth as increasing numbers of our existing or potential customers subscribe to these newer products. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated with our legacy and private line services. 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 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 may not be able to successfully adjust to changes in our industry, our markets and our product mix.

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

Our revenues and cash flows may not be adequate to fund all of our current objectives.

As noted in the risk factor disclosures appearing above and below, changes in competition, technology, regulation and demand for our legacy services continue to place downward pressure on our consolidated revenues and cash flows. During each of 2015, 2014 and 2013, we experienced declines in revenues and net cash provided by operating activities as compared to prior years. Our cash flows will be further reduced as a result of anticipated increases in our cash tax payments due to our depletion of substantially all of our net operating loss carryforwards.

We rely upon our consolidated revenues and cash flows to fund our commitments and business objectives, including without limitation, funding our capital expenditures, operating costs, share repurchases, dividends, pension funding payments and debt repayments. We cannot assure you that our future cash flows will be sufficient to fund all of our cash requirements in the manner currently contemplated. Our inability to fund certain of these payments could have an adverse impact on our business, operations or competitive position or on the value of our securities.

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

We are materially reliant upon our networks, information technology infrastructure (including data centers) and related technology systems (including our billing systems) to provide products and services to our customers and to manage our operations and affairs. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems. As a communications company that transmits large amounts of 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 customers (which includes our wholesale 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 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 information and systems under our control, and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, 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 constant target of cyber-attacks of varying degrees. Although some of these attacks have resulted in security breaches, to date none of these breaches have resulted in a material adverse effect on our operating results or financial condition. You should be aware, however, that defenses against cyber-attacks currently available to U.S. companies are unlikely to prevent intrusions by a highly-determined, highly-sophisticated hacker. Consequently, you should assume that we will be unable to implement security barriers or other preventative measures that repel all future cyber-attacks. Any such future security breaches or disruptions could materially adversely affect our business, results of operations or financial condition, especially in light of the growing frequency, scope and well-documented sophistication of cyber-attacks and intrusions.

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

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

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

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

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

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

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

Our ability to expand and update our systems and information technology infrastructure in response to our growth and changing business needs is important to our ability to maintain and develop attractive product and service offerings. As discussed further under "Business—Network Architecture" in Item 1 of Part I of 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 the networks of companies we have acquired in the past. Unanticipated delays in the completion of these projects may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions, and the diversion of development resources.

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

Negative publicity may adversely impact us.

Outages or other service failures of networks operated by us or other operators could cause substantial adverse publicity affecting us specifically or our industry generally. In either case, media coverage and public statements that insinuate improper actions by us or other operators, regardless of their factual accuracy or truthfulness, may result in negative publicity, litigation, governmental investigations or additional regulations. Addressing negative publicity and any resulting litigation or investigations may distract management, increase costs and divert resources. Negative publicity may have an adverse impact on our reputation and the morale of our employees, which could adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

Video streaming services, gaming and peer-to-peer file sharing applications use significantly more bandwidth than other Internet activity such as web browsing and email. As use of these newer services continues to grow, our 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, results of operations, financial condition and cash flows.

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

We may not be successful in protecting and enforcing our intellectual property rights.

We rely on various patents, copyright, trade names, trademark, service mark, trade secret and other similar laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe on our intellectual property. We may be unable to prevent competitors from acquiring proprietary rights that are similar to or infringe upon our proprietary rights, or to prevent our current or former employees from using or disclosing to others our proprietary information. Enforcement of our intellectual property rights may depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.

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. This risk is heightened when the other carrier is a competitor of ours and may benefit from terminating the agreement. If we lose these arrangements and cannot timely replace them, our ability to provide services to our customers and conduct our business could be materially adversely affected.

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

We also rely on reseller and sales agency arrangements with other communications companies to provide some of the services that we offer 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 (i) software vendors to support our business management systems, (ii) content suppliers to provide programming to our video operations, and (iii) contractors to assist us in connection with our network construction and maintenance activities. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, utilities or programming on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Reliance on utility providers and landlords. We operate a substantial number of data center facilities, which are susceptible to electrical power shortages or outages. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers. Due to the increasing sophistication of equipment and our products, our demand or our customers' demand for power may exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers.

We lease most of our data centers. Although the majority of these leases provide us with the opportunity to renew the lease, many of these renewal options provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. If the fair market rental rates are significantly higher than our current rental rates, we may be unable to offset these costs by charging more for our services, which could have a negative impact on our financial results. We cannot assure you that our data centers in the future will have access to sufficient space or power on attractive terms or at all.

Reliance on governmental payments. We receive a material amount of revenue or government subsidies under various government programs, which are further described under the heading "Risk Factors—Risks Relating to Legal and Regulatory Matters." We also provide products or services to various federal, state and local agencies. 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.

Reliance on financial institutions. We rely on a number of financial institutions to provide us with short-term liquidity under our credit facility. If one or more of these lenders default on their funding commitments, our access to revolving credit could be adversely affected.

Rising costs, changes in consumer behaviors and other industry changes may adversely impact our video business.

The costs of purchasing video programming have risen significantly in recent years and continue to rise. Moreover, an increasing number of consumers are receiving access to video content through video streaming or other services pursuant to new technologies for a nominal or no fee, which will likely reduce demand for more traditional video products, such as the satellite TV services that we resell and our Prism TV services.

New technologies are also affecting consumer behavior in ways that are changing how content is delivered and viewed. Increased access to various media through wireless devices has the potential to reduce the viewing of our content through traditional distribution outlets. These new technologies have increased the number of entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. Some of these newer technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis. All of these changes, coupled with changing consumer preferences and other related developments, could reduce demand for our video products and services. Reduced demand for our video products and services could, in turn, reduce advertisers' willingness to purchase advertising time from us, which would further reduce the profitability of our video offerings.

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, 2015, approximately 37% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

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 or under their respective properties. Our operations could be adversely affected if any of these authorizations terminate or lapse, or if the landowner requests price increases.

Our business customers may seek to shift risk to us.

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

Our international operations expose us to various regulatory, currency, tax, legal and other risks.

Our international operations are subject to U.S. and other laws and regulations regarding operations in foreign jurisdictions in which we provide services. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, anti-competition laws, trade restrictions, tax laws, immigration laws, privacy laws and accounting requirements. Many of these laws are complex and change frequently. Regulations that require the awarding of contracts to local contractors or the employment of local citizens may adversely affect our flexibility or competitiveness in these jurisdictions. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. There is a risk that these laws or regulations may materially restrict our ability to deliver services in various foreign jurisdictions or could be breached through inadvertence or mistake, fraudulent or negligent behavior of our employees or agents, failure to comply with certain formal documentation or technical requirements, or otherwise. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us or our personnel, or prohibitions on the conduct of our business or our ability to operate in one or more countries, any of which could have a material adverse effect on our business, reputation, results of operations, financial condition or prospects.

Many foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to privacy rights and data retention. For example, all 28 member states of the European Union have adopted new European data protection laws that we believe could impact our operations in Europe and could potentially expose us to an increased risk of litigation or significant regulatory fines. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products we seek to offer.

In addition to these international regulatory risks, some of the other risks inherent in conducting business internationally include:

- tax, licensing, political or other business restrictions or requirements;
- uncertainty concerning import and export restrictions, including the risk of fines or penalties assessed for violations;
- longer payment cycles and problems collecting accounts receivable;
- domestic and foreign regulation of overseas operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- currency and repatriation restrictions and fluctuations in currency exchange rates;
- challenges in securing and maintaining the necessary physical and telecommunications infrastructure;
- the inability in certain jurisdictions to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;
- the inability in certain jurisdictions to adequately protect intellectual property rights;
- laws, policies or practices that restrict with whom we can contract or otherwise limit the scope of operations that can legally or practicably be conducted within any particular country;
- potential submission of disputes to the jurisdiction of a foreign court or arbitration panel;

- reliance on third parties, including those with which we have limited experience;
- limitations in the availability, amount or terms of insurance coverage;
- the imposition of unanticipated or increased taxes, increased communications or privacy regulations or other forms of public or governmental regulation that increase our operating expenses; and
- challenges in staffing and managing foreign operations.

Many of these risks are beyond our control, and we cannot predict the nature or the likelihood of the occurrence or corresponding effect of any such events, each of which could have an adverse effect on our financial condition and results of operations.

We do business and may in the future do additional business in certain countries or regions in which corruption is a serious problem. Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. In certain instances, these local operators, partners or agents may have interests that are not always aligned with ours. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products, or being held liable under the FCPA or other anti-corruption laws for actions taken by our strategic or local partners or agents even though these partners or agents may not themselves be subject to the FCPA or other applicable anti-corruption laws. Any determination that we have violated the FCPA or other anti-corruption laws could have a material adverse effect on our business, results of operations, reputation or prospects.

We may be unable to integrate successfully our acquired operations and realize the anticipated benefits of our recent acquisitions.

Historically, much of our growth has been attributable to acquisitions. Although we have completed most of the work to integrate the operations of the acquired companies into our operations, we will continue to devote significant management attention and resources to completing the integration of the business practices, systems and operations of CenturyLink and the acquired companies. You should be aware that our remaining efforts to integrate these companies and businesses could distract our management, disrupt our ongoing business or create inconsistencies in our products, services, standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of our acquisitions, or could otherwise adversely affect our business and financial results.

Any additional future acquisitions by us would subject us to additional business, operating and financial risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure or financial position.

From time to time in the future we may pursue other acquisition or expansion opportunities in an effort to implement our business strategies. These transactions could involve acquisitions of entire businesses or investments in start-up or established companies, and could take several forms, including mergers, joint ventures, investments in new lines of business, or the purchase of equity interests or assets. These types of transactions may present significant risks and uncertainties, including distraction of management from current operations, insufficient revenue acquired to offset liabilities assumed, unexpected expenses, inadequate return of capital, regulatory or compliance issues, potential infringements, potential violations of covenants in our debt instruments and other unidentified issues not discovered in due diligence. To the extent we acquire a business that is financially unstable or is otherwise subject to a high level of risk, we may be affected by currently unascertainable risks of that business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular business or assets that we may acquire. Moreover, we cannot guarantee that any such transaction will ultimately result in the realization of the benefits of the transaction originally anticipated by us or that any such transaction will not have a material adverse impact on our financial condition or results of operations. In particular, we can provide no assurances that we will be able to successfully integrate the technology systems, billing systems, accounting processes, sales force, cost structure, product development and service delivery processes, strategies and culture of the acquired company with ours. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional securities or the borrowing of additional funds. Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

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

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

For additional information about our business and operations, see 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 quite detailed and occasionally in conflict with each other. Accordingly, we cannot ensure that we are always considered to be in compliance with all these requirements at any single point in time. The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative. Even if we are ultimately found to have complied with applicable regulations, such actions or inquiries could create adverse publicity that negatively impacts our business.

Regulation of the telecommunications industry continues to change, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. 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 regulation. Historically, our financial performance has been substantially impacted by various aspects of federal regulation, including our receipt in the past of significant universal service payments designed to promote rural telephony. In October 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order (“the 2011 order”) intended to comprehensively reform the existing regulatory regime to focus support on networks capable of providing new technologies, including VoIP and other high-speed Internet services, and re-direct federal universal service funding to foster nationwide voice and high-speed Internet infrastructure. 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, among other things, fundamentally altered the manner in which federal subsidies are calculated and disbursed to us (including terminating substantially all of the old universal service payments paid to us under predecessor support programs), and have substantially increased the pace of reductions in the amount of switched access revenues we receive from our wholesale customers. We expect our participation in the FCC’s CAF Phase 2 support program will significantly impact our financial results and capital expenditures in the coming years. For more information, see “Regulation” in Item 1 of Part I and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in 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 rates and support programs. 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 various broadband and internet regulation initiatives including “network neutrality” regulations (as discussed further below) and actions that will restrict our ability to discontinue or reduce certain services, even if unprofitable. The FCC is also, among other things, investigating the special access tariffs of several carriers, including us, and 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.

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

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

Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to regulating broadband services, storing records, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, restricting data collection, protecting intellectual property rights of third parties, or addressing other issues that impact our business, including (i) the Communications Assistance for Law Enforcement Act, which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance, and (ii) the USA Freedom Act, which requires communication companies to store records of communications of their customers. 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. For instance, if enhanced regulation of greenhouse gas emissions increases our energy costs, the profitability of our hosting and other operations could be adversely affected.

Increased risks of fines. We have recently paid certain regulatory fines associated with network or service outages, particularly with respect to outages impacting the availability of emergency - 911 services. We believe that regulators are now pursuing higher fines than in the past for these types of incidents, and expect this trend to continue.

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 in all material respects, our management, discharge or disposal of hazardous and environmentally sensitive materials might expose us to claims or actions that could potentially have a material adverse effect on our business, financial condition and operating results. For a discussion of regulatory risks associated with our international operations, see “Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks.”

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

Our participation in the CAF Phase 2 support programs subjects us to certain financial risks. If we fail to attain certain specified infrastructure buildout requirements, the FCC could withhold future CAF support payments until these shortcomings are rectified. In addition, if we are not in compliance with FCC measures at the end of the six-year CAF Phase 2 period, we will have 12 months to attain full compliance. If we are not in full compliance after the additional 12 months, we would incur a penalty equal to 1.89 times the average amount of support per location received in the state over the six-year term, plus a potential penalty of 10% of the total CAF Phase 2 support over the six-year term for the state. The amount of these penalties could be material. To comply with the FCC's buildout requirements, we believe we will need to dedicate a substantial portion of our future capital expenditure budget to the construction of new infrastructure. The CAF-related expenditures could reduce the amount of funds we are willing or able to allocate to other initiatives or projects.

“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 February 2015, the FCC adopted new regulations that regulate Internet services as a public utility under Title II of the Communications Act. Several companies, including us, have initiated judicial actions challenging the new regulations, which remain pending. The ultimate impact of the new regulations will depend on several factors, including the results of pending litigation and the manner in which the new regulations are implemented and enforced. Although it is premature for us to determine the ultimate impact of the new regulations upon our operations, we currently 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. It is possible that Congress, the FCC or the courts 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 that remain unsettled in many jurisdictions. As a private network provider, we could be exposed to legal claims relating to third party content stored or transmitted on our networks. Such claims could involve, among others, allegations of defamation, invasion of privacy, copyright infringement, or aiding and abetting restricted activities such as online gambling or pornography. If we decide to implement additional measures to reduce our exposure to these risks, or if we are required to defend ourselves against these kinds of claims, our operations and financial results could be negatively affected.

Any adverse outcome in any of our pending key legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets.

There are several material proceedings pending against us, as described in Note 14—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this Annual Report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. Any of the proceedings described in Note 14, as well as current litigation not described therein or future litigation, 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 or result in potential fines or penalties.

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

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, and related regulations implemented thereunder, 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

Our high debt levels expose us to a broad range of risks.

We continue to carry significant debt. As of December 31, 2015, our consolidated long-term debt was approximately \$20.225 billion. As of the date of this Annual Report, approximately \$3.085 billion aggregate principal amount of our consolidated debt securities, excluding capital lease and other obligations, is scheduled to mature prior to December 31, 2018. While we currently believe we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of the credit markets or the economy generally.

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

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, refinancings or other general corporate purposes, particularly if, as discussed further in the risk factor disclosure below, (i) the ratings assigned to our debt securities by nationally recognized credit rating organizations are revised downward or (ii) we seek capital during periods of turbulent or unsettled market conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal on our debt, thereby reducing the funds available to us for other purposes, including acquisitions, capital expenditures, strategic initiatives, dividends, stock repurchases and marketing;
- hindering our ability to capitalize on business opportunities and to plan for or react to changing market, industry, competitive or economic conditions;
- increasing our future borrowing costs;
- increasing the risk that third parties will be unwilling or unable to engage in hedging or other financial or commercial arrangements with us;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;

- increasing the risk that we will need to sell securities or 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.

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

Our debt agreements and the debt agreements of our subsidiaries allow us to incur significantly more debt, which could exacerbate the other risks described in this Annual Report.

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

We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities of CenturyLink, Inc., Qwest Corporation or both. Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Global financial markets continue to be volatile. Prevailing market conditions could be adversely affected by (i) general market conditions, such as disruptions in domestic or overseas sovereign or corporate debt markets, geo-political instabilities, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad and (ii) specific conditions in the communications industry. Volatility in the global markets could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce our debt obligations.

We may also need to obtain additional financing under a variety of other circumstances, including if:

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;
- we engage in any acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements, including in connection with one or more of the matters discussed in Note 14—Commitments and Contingencies to our consolidated financial statements included elsewhere in this Annual Report.

For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us, or at all.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities 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. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

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

Any downgrade in the credit ratings of us or our affiliates 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.

Nationally recognized credit rating organizations have issued credit ratings relating to CenturyLink, Inc.'s long-term debt and the long-term debt of several of its subsidiaries. Most of these ratings are below "investment grade", which results in higher borrowing costs than "investment grade" debt as well as reduced marketability of our debt securities. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt or equity securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

Under certain circumstances upon a change of control, we will be obligated to offer to repurchase certain of our outstanding debt securities, which could have certain adverse ramifications.

If the credit ratings relating to certain of our long-term debt securities are downgraded in the manner specified thereunder in connection with a "change of control" of CenturyLink, Inc, then we will be required to offer to repurchase such debt securities. If, due to lack of cash, legal or contractual impediments, or otherwise, we fail to offer to repurchase such debt securities, such failure could constitute an event of default under such debt securities, which could in turn constitute a default under other of our agreements relating to our indebtedness outstanding at that time. Moreover, the existence of these repurchase covenants may in certain circumstances render it more difficult or discourage a sale or takeover of us, or the removal of our incumbent directors.

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 noted elsewhere in this Annual Report, we committed to spend substantial sums to construct infrastructure in connection with our participation in the FCC's CAF Phase 2 program. In addition, 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 has 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 as needed to meet CAF Phase 2 infrastructure requirements, 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.

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and their distribution of those earnings to us in the form of dividends, loans or other payments. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing or cash management purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. State law applicable to each of our subsidiaries restricts the amount of dividends that they may pay. Restrictions that have been or may be imposed by state regulators (either in connection with obtaining necessary approvals for our acquisitions or in connection with our regulated operations), and restrictions imposed by credit instruments or other agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included elsewhere in this Annual Report for further discussion of these matters.

We cannot assure you that we will continue paying dividends at the current rates or at all.

For the reasons noted below, we cannot assure you that we will continue periodic dividends on our capital stock at the current rates or at all.

As noted in the immediately preceding risk factor, because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to furnish funds to us in the form of dividends, loans or other payments.

Any quarterly dividends on our common stock and our outstanding shares of preferred stock will be paid from funds legally available for such purpose when, as and if declared by our Board of Directors. Decisions on whether, when and in which amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason without prior notice, including without limitation any of the following:

- our supply of cash or other liquid assets is anticipated to decrease due to our projected payment of higher cash taxes and might decrease further for any of the reasons or potential adverse events or developments described in this Annual Report, including (i) changes in competition, regulation, federal and state support, technology, taxes, capital markets, operating costs or litigation costs, or (ii) the impact of any liquidity shortfalls caused by the below-described restrictions on the ability of our subsidiaries to lawfully transfer cash to us;
- our cash requirements or plans might change for a wide variety of reasons, including changes in our capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding payments, or financial position;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and restrictions imposed by our existing or future credit facilities, debt securities, outstanding preferred stock securities, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions described in the immediately preceding risk factor.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock or our outstanding shares of preferred stock for any period for any reason, regardless of whether we have funds legally available for such purposes. Holders of our equity securities should be aware that they have no contractual or other legal right to receive dividends.

Similarly, holders of our common stock should be aware that repurchases of our common stock under various repurchase plans are completely discretionary, and may be suspended or discontinued at any time for any reason regardless of our financial position.

Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.

The current practice of our Board of Directors to pay common share dividends reflects a current intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending may depend more than it otherwise would on our ability to obtain third party financing.

We cannot assure you whether, when or in what amounts we will be able to use our net operating losses, or when they will be depleted.

At December 31, 2015, we had approximately \$72 million of federal net operating losses, or NOLs, which relate primarily to pre-acquisition losses of Qwest Communications International Inc. ("Qwest"). Under certain circumstances, these NOLs can be used to offset our future federal taxable income. The acquisitions of Qwest, SAVVIS, Inc. ("Savvis") and other corporations caused "ownership changes" under federal tax laws relating to the post-acquisition use of NOLs and other federal tax attributes. As a result, these laws could limit our ability to use the federal NOLs and certain other federal tax attributes of each of those corporations. Further limitations could apply if we are deemed to undergo an ownership change in the future. Based on current laws and circumstances, we expect to use only a portion of the aforementioned federal NOLs from 2016 through 2032.

Additionally, at December 31, 2015, we had state NOLs of approximately \$13 billion. A significant portion of the state NOLs are generated in states where separate company income tax returns are filed and our subsidiaries that generated the losses may not have the ability to generate income in sufficient amounts to realize these losses. In addition, certain of these state NOLs will be limited by state laws related to ownership changes. As a result, we expect to utilize only a small portion of the state NOLs, and consequently have determined that as of December 31, 2015, these state NOLs had a net tax benefit (before valuation allowance) of approximately \$444 million.

Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.

With approximately 43,000 employees, approximately 68,000 pension retirees and approximately 14,000 former employees with vested benefits participating in our benefit plans as of December 31, 2015, the costs of pension and healthcare benefits for our active and retired employees have a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and discount rates used to calculate the funding status of our pension and other post-retirement plans;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- increasing longevity of our employees and retirees;
- the continuing implementation of the Patient Protection and Affordable Care Act, and the related reconciliation act and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- increases in insurance premiums we are required to pay to the Pension Benefit Guaranty Corporation, an independent agency of the United States government that must cover its own underfunded status by collecting premiums from an ever shrinking population of pension plans that are qualified under the U.S. tax code;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows.

As of December 31, 2015, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 7—Employee Benefits to our consolidated financial statements included in Item 8 of Part II of this Annual Report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations” included in Item 7 of Part II of this Annual Report.

For additional information concerning our liquidity and capital resources, see Item 7 of Part II of this Annual Report. For a discussion of certain currency and liquidity risks associated with our international operations, see “Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks.”

Other Risks

We face risks from natural disasters, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.

A substantial number of our facilities are located in Florida, Alabama, Louisiana, Texas, North Carolina, South Carolina and other coastal states, which subjects them to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our property (excluding our above ground outside plant) and may, under certain circumstances, be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for catastrophic hazard-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles or retentions and the premiums to be based on our loss experience. Moreover, our insurance coverage is limited for certain specified types of exposure to losses. For all these reasons, any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

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.

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

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

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, 2015, approximately 55% of our total consolidated assets reflected on the consolidated balance sheet included in this Annual Report consisted of goodwill, customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time (most recently for the third quarter of 2013), we have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional 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.

Like all large businesses, we are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

We believe that we have adequately provided for tax contingencies. However, our 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.

Our agreements and organizational documents and applicable law could limit another party's ability to acquire us.

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC on March 2, 2015. This could deprive our shareholders of any related takeover premium.

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,	
	2015	2014
Land	2%	2%
Fiber, conduit and other outside plant ⁽¹⁾	42%	41%
Central office and other network electronics ⁽²⁾	36%	36%
Support assets ⁽³⁾	18%	18%
Construction in progress ⁽⁴⁾	2%	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, data centers, 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 both in the United States and internationally. 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 or in connection with legal challenges to our rights under such agreements.

Our net property, plant and equipment was approximately \$18.1 billion and \$18.4 billion at December 31, 2015 and 2014, respectively. Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. 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 the subheadings "Pending Matters" and "Other Proceedings and Disputes" in Note 14—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

Our common stock is listed on the New York Stock Exchange ("NYSE") and the Berlin Stock Exchange and is traded under the symbol CTL and CYT, respectively. The following table sets forth the high and low reported sales prices on the NYSE along with the quarterly dividends, for each of the quarters indicated.

	Sales Price		Cash Dividend per Common Share
	High	Low	
2015			
First quarter	\$ 40.59	34.04	0.540
Second quarter	37.00	29.28	0.540
Third quarter	31.13	24.29	0.540
Fourth quarter	29.37	24.11	0.540
2014			
First quarter	\$ 32.98	27.93	0.540
Second quarter	38.21	32.45	0.540
Third quarter	45.67	35.70	0.540
Fourth quarter	41.99	37.56	0.540

Dividends on common stock during 2015 and 2014 were paid each quarter. On February 23, 2016, our Board of Directors declared a common stock dividend of \$0.54 per share.

As described in greater detail in Item 1A of Part I of this Annual Report, the declaration and payment of dividends is at the discretion of our Board of Directors, and will depend upon our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

At February 17, 2016, there were approximately 135,000 stockholders of record, although there were significantly more beneficial holders of our common stock. At February 17, 2016, the closing stock price of our common stock was \$29.73.

Issuer Purchases of Equity Securities

In February 2014, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This 2014 stock repurchase program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. On December 7, 2015, we completed the 2014 stock repurchase program. During the three months ended December 31, 2015, we repurchased approximately 10.3 million shares of our outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$278 million or an average purchase price of \$27.07 per share. The common stock repurchased has been retired. For additional information, see Note 17—Repurchase of CenturyLink, Inc. Common Stock to our consolidated financial statements included in Item 8 of Part II of this Annual Report.

The following table contains information about shares of our previously-issued common stock that were repurchased under our 24-month 2014 stock repurchase program during the fourth quarter of 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
October 2015	5,031,341	\$ 26.20	5,031,341	\$ 145,743,848
November 2015	4,211,762	28.15	4,211,762	27,178,346
December 2015	1,007,841	26.97	1,007,841	—
Total	10,250,944	27.07	10,250,944	

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the fourth quarter of 2015 to satisfy the related minimum tax withholding obligations:

Period	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
October 2015	2,940	\$ 25.93
November 2015	27,471	27.72
December 2015	3,884	27.00
Total	34,295	

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 tables of 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.

The results of operations include Savvis for periods after July 15, 2011 and Qwest for periods after April 1, 2011.

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

	Years Ended December 31, ⁽¹⁾				
	2015 ⁽²⁾	2014 ⁽³⁾	2013 ⁽⁴⁾	2012	2011
	(Dollars in millions, except per share amounts and shares in thousands)				
Operating revenues	\$ 17,900	18,031	18,095	18,376	15,351
Operating expenses	15,295	15,621	16,642	15,663	13,326
Operating income	\$ 2,605	2,410	1,453	2,713	2,025
Income before income tax expense	1,316	1,110	224	1,250	948
Net income (loss)	878	772	(239)	777	573
Basic earnings (loss) per common share	1.58	1.36	(0.40)	1.25	1.07
Diluted earnings (loss) per common share	1.58	1.36	(0.40)	1.25	1.07
Dividends declared per common share	2.16	2.16	2.16	2.90	2.90
Weighted average basic common shares outstanding	554,278	568,435	600,892	620,205	532,780
Weighted average diluted common shares outstanding	555,093	569,739	600,892	622,285	534,121

⁽¹⁾ 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 years ended December 31, 2015, 2014 and 2013.

⁽²⁾ During 2015, we recognized an incremental \$215 million of revenue associated with the Federal Communications Commission ("FCC") Connect America Fund Phase 2 support program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.

⁽³⁾ During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 13—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.

⁽⁴⁾ During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments and a litigation settlement charge of \$235 million.

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

	As of December 31,				
	2015	2014	2013	2012	2011
	(Dollars in millions)				
Net property, plant and equipment	\$ 18,069	18,433	18,646	18,909	19,361
Goodwill ⁽¹⁾	20,742	20,755	20,674	21,627	21,627
Total assets ⁽²⁾	47,604	49,103	50,471	52,901	54,842
Total long-term debt ⁽²⁾⁽³⁾	20,225	20,503	20,809	20,481	21,758
Total stockholders' equity ⁽¹⁾	14,060	15,023	17,191	19,289	20,827

- (1) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments. For additional information, see Note 2—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of Part II of this Annual Report.
- (2) We adopted both ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" by retrospectively applying the requirements of the ASUs to our previously issued consolidated financial statements. The adoption of both ASU 2015-03 and ASU 2015-17 reduced total assets by \$1.044 billion, \$1.316 billion, \$1.039 billion and \$1.122 billion in each year for the four years ended December 31, 2014, respectively, and ASU 2015-03 reduced total long-term debt by \$168 million, \$157 million, \$124 million and \$78 million in each year for the four years ended December 31, 2014, respectively. See further discussion in Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.
- (3) Total long-term debt is the sum of current maturities of long-term debt and long-term debt on our consolidated balance sheets. For additional information on our total long-term debt, see Note 3—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this Annual Report. 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:

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in millions)				
Net cash provided by operating activities	\$ 5,152	5,188	5,559	6,065	4,201
Net cash used in investing activities	(2,853)	(3,077)	(3,148)	(2,690)	(3,647)
Net cash used in financing activities	(2,301)	(2,151)	(2,454)	(3,295)	(577)
Payments for property, plant and equipment and capitalized software	(2,872)	(3,047)	(3,048)	(2,919)	(2,411)

The following table presents certain of our selected operational metrics:

	As of December 31,				
	2015	2014	2013	2012	2011
	(in thousands except for data centers, which are actuals)				
Operational metrics:					
Total access lines ⁽¹⁾	11,748	12,394	13,002	13,751	14,587
Total high-speed Internet subscribers ⁽¹⁾	6,048	6,082	5,991	5,851	5,655
Prism TV subscribers	285	242	175	106	65
Total data centers ⁽²⁾	59	58	55	54	51

- (1) Access lines are lines reaching from the customers' premises to a connection with the public network and high-speed Internet subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our access lines and high-speed Internet subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone high-speed Internet subscribers. We count lines when we install the service.
- (2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

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 and business customers. Our communications services include local and long-distance voice, high-speed Internet, Multi-Protocol Label Switching ("MPLS"), private line (including special access), data integration, Ethernet, colocation, managed hosting (including cloud hosting), network, public access, video, wireless and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

At December 31, 2015, we operated approximately 11.7 million access lines in 37 states and served approximately 6.0 million high-speed Internet subscribers and 285 thousand Prism TV subscribers. We also operated 59 data centers throughout North America, Europe and Asia. Our methodology for counting access lines, high-speed Internet subscribers and data centers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

Our consolidated financial statements include the accounts of CenturyLink, Inc. and its majority-owned subsidiaries ("CenturyLink").

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- *Business Segment.* Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, private line (including special access), Ethernet, high-speed Internet, colocation, managed hosting, cloud hosting and other ancillary services. Our legacy services offered to these customers primarily include switched access, local and long-distance voice services, including the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use all or part of our network to provide voice and data services to their customers. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks; and
- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our high-speed Internet, video (including our Prism TV services) and wireless services. Our legacy services offered to these customers include local and long-distance voice service.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015 ⁽¹⁾	2014 ⁽²⁾	2013 ⁽³⁾
	(Dollars in millions except per share amounts)		
Operating revenues	\$ 17,900	18,031	18,095
Operating expenses	15,295	15,621	16,642
Operating income	2,605	2,410	1,453
Other expense, net	1,289	1,300	1,229
Income tax expense	438	338	463
Net income (loss)	\$ 878	772	(239)
Basic earnings (loss) per common share	\$ 1.58	1.36	(0.40)
Diluted earnings (loss) per common share	\$ 1.58	1.36	(0.40)

- (1) During 2015, we recognized an incremental \$215 million of revenue associated with the Federal Communications Commission ("FCC") Connect America Fund Phase 2 support program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.
- (2) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge. For additional information, see Note 13—Quarterly Financial Data (Unaudited) to our consolidated financial statements included in Item 8 of Part II of this Annual Report.
- (3) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments and a litigation settlement charge of \$235 million.

The following table summarizes our access lines, high-speed Internet subscribers, Prism TV subscribers, data centers and number of employees:

	As of December 31,		
	2015	2014	2013
	(in thousands except for data centers, which are actuals)		
Operational metrics:			
Total access lines ⁽¹⁾	11,748	12,394	13,002
Total high-speed Internet subscribers ⁽¹⁾	6,048	6,082	5,991
Total Prism TV subscribers	285	242	175
Total data centers ⁽²⁾	59	58	55
Total employees	43	45	47

- (1) Access lines are lines reaching from the customers' premises to a connection with the public network and high-speed Internet subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our access lines and high-speed Internet subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone high-speed Internet subscribers. We count lines when we install the service.
- (2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

During the last decade, we have experienced revenue declines primarily due to declines in access lines, private line customers, switched access rates and minutes of use. To mitigate these revenue declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;

- provide our high-speed Internet and premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable;
- increase the capacity and speed of our networks;
- increase usage of our networks; and
- market our products and services to new customers.

Operating Revenues

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

- *Strategic services*, which include primarily high-speed Internet, MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video), private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we now offer in 16 markets), VoIP and Verizon Wireless services;
- *Legacy services*, which include primarily local and long-distance voice services, including the sale of UNEs, switched access, and Integrated Services Digital Network ("ISDN") services (which use regular telephone lines to support voice, video and data applications);
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our business customers; and
- *Other operating revenues*, which consists primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both CAF Phase 1 and CAF Phase 2 programs, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and high-speed Internet infrastructure in high-cost rural areas where we are not able to recover our costs from our customers. USF surcharges are the amounts we collect based on specific items we list on our customers' invoices to fund the Federal Communications Commission's ("FCC") universal service programs. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Strategic services	\$ 9,343	9,166	177	2 %
Legacy services	6,752	7,172	(420)	(6)%
Data integration	573	690	(117)	(17)%
Other	1,232	1,003	229	23 %
Total operating revenues	\$ 17,900	18,031	(131)	(1)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Strategic services	\$ 9,166	8,776	390	4 %
Legacy services	7,172	7,663	(491)	(6)%
Data integration	690	656	34	5 %
Other	1,003	1,000	3	— %
Total operating revenues	\$ 18,031	18,095	(64)	— %

During the first quarter of 2015, we determined that certain products and services associated with our acquisition of SAVVIS, Inc. ("Savvis") are more closely aligned to legacy services than to strategic services. As a result, these operating revenues are now reflected as legacy services. The revision resulted in a reduction of revenue from strategic services of \$34 million and \$47 million, respectively, and a corresponding increase in revenue from legacy services for the years ended December 31, 2014 and 2013, respectively.

Our total operating revenues decreased by \$131 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014 and operating revenues decreased by \$64 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decline in revenues for both periods was primarily due to lower legacy services revenues, which decreased by \$420 million, or 6%, and \$491 million, or 6%, for the respective periods. The decline in legacy services revenues reflects the continuing loss of access lines and loss of long-distance revenues primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including Internet and wireless communication services. At December 31, 2015, we had approximately 11.7 million access lines, or approximately 5.2% less than the number of access lines we operated at December 31, 2014. At December 31, 2014, we had approximately 12.4 million access lines, or approximately 4.7% less than the number of access lines we operated at December 31, 2013. We estimate that the rate of our access lines losses will be between 5.0% and 6.0% over the full year of 2016. The growth in our strategic services revenues for both periods was primarily due to increases in high-speed Internet, Ethernet, MPLS, facilities-based video and IT services and from rate increases on various services, which were substantially offset by declines in private line (including special access) services, colocation and hosting services. The level of strategic revenue growth in 2015 was lower than 2014, primarily driven by revenue declines in hosting products as well as a pricing change for a large wholesale customer in exchange for a longer term commitment. Data integration revenues, which are typically more volatile than our other sources of revenues, decreased by \$117 million, or 17%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decline in data integration revenues was primarily due to declines in governmental sales and professional services, which were partially offset by an increase in maintenance services. Data integration revenues increased by \$34 million, or 5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to several large sales of customer premises equipment to governmental customers and related professional services in 2014. Other operating revenues increased by \$229 million, or 23%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in other operating revenues was primarily due to additional revenue recorded under the CAF Phase 2 support program. Other operating revenues increased by \$3 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to higher USF surcharge revenues related to increased universal service fund contribution factors. For additional information about the CAF Phase 2 support program, see the discussion below in "Liquidity and Capital Resources—Connect America Fund."

We are aggressively marketing our strategic services in an effort to partially offset the continuing declines in our legacy and private line services.

Further analysis of our segment operating revenues and trends impacting our performance are provided below in "Segment Results."

Operating Expenses

Our current definitions of operating expenses are as follows:

- *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 data integration and modem expenses); payments to 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); certain litigation expenses associated with our operations; and other expenses directly related to our operations; and
- *Selling, general and administrative expenses* are 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.

These expense classifications may not be comparable to those of other companies.

The following tables summarize our operating expenses:

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,778	7,846	(68)	(1)%
Selling, general and administrative	3,328	3,347	(19)	(1)%
Depreciation and amortization	4,189	4,428	(239)	(5)%
Total operating expenses	\$ 15,295	15,621	(326)	(2)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,846	7,507	339	5 %
Selling, general and administrative	3,347	3,502	(155)	(4)%
Depreciation and amortization	4,428	4,541	(113)	(2)%
Impairment of goodwill	—	1,092	(1,092)	nm
Total operating expenses	\$ 15,621	16,642	(1,021)	(6)%

nm - Attributing changes in impairment of goodwill to the 2013 goodwill impairment charge are considered not meaningful.

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

Cost of services and products (exclusive of depreciation and amortization) decreased by \$68 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Excluding the lower customer premises equipment costs, cost of services and products increased by \$56 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in costs of services and products was primarily due to increases in pension and postretirement costs, USF rate increases, higher network expenses and increases in content costs for Prism TV. These increases were partially offset by decreases in salaries and wages from lower headcount, professional fees and contract labor costs. Cost of services and products (exclusive of depreciation and amortization) increased by \$339 million, or 5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to increases in employee-related costs (which was significantly impacted by the below-noted lump sum pension payments), customer premises equipment installation expenses related to the increase in data integration revenues, facility and network costs, real estate and power costs and content costs for Prism TV.

Selling, General and Administrative

Selling, general and administrative expenses decreased by \$19 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in selling, general and administrative expenses was primarily due to lower benefit expenses, insurance costs and asset impairment charges. These decreases were partially offset by increases in bad debt expense, external commissions and regulatory fines of \$15 million associated with a 911 system outage. Selling, general and administrative expenses decreased by \$155 million, or 4%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a charge in 2013 of \$235 million in connection with a litigation settlement. The decrease was partially offset by increases in employee-related costs (including severance costs), insurance costs and impairment charges related to office buildings sold and currently being held for sale.

Pension Lump Sum Offer

Our pension plan contains provisions that allow us, from time to time, to offer lump sum payment options to certain former employees in settlement of their future retirement benefits. We record an accounting settlement charge associated with these lump sum payments only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit cost, which represents the settlement threshold. In September 2015, we offered to make cash settlement payments in December 2015 to a group of former employees provided they accepted the offer by the end of October 2015. During the fourth quarter of 2015, we made cash settlement payments for the lump sum offer of approximately \$356 million. The total amount of the lump sum settlement payments for the year ended December 31, 2015, which included the lump sum offer and lump sum elections from employees who terminated employment during the year, was less than the settlement threshold, therefore settlement accounting was not triggered in 2015. We made cash settlement payments of approximately \$460 million, which triggered settlement accounting and resulted in us recording additional pension expense of \$63 million for the year ended December 31, 2014. Pension expense is allocated to cost of services and products (exclusive of depreciation and amortization) and to selling, general and administrative.

Non-recurring Operating Expenses Related to Acquisitions

We have incurred certain non-recurring operating expenses related to our acquisitions since 2009, including our acquisitions of Qwest in April 2011 and Savvis in July 2011. These expenses are reflected in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations, as summarized below.

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Cost of services and products:			
Integration and other expenses associated with acquisitions	\$ 14	15	15
Total	\$ 14	15	15
Selling, general and administrative:			
Integration and other expenses associated with acquisitions	\$ 18	36	28
Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions	—	—	10
Total	\$ 18	36	38

Based on current plans and information, we estimate, in relation to our Qwest acquisition, total integration, severance and retention expenses to be between \$600 million to \$625 million (which includes approximately \$594 million of cumulative expenses incurred through December 31, 2015) and our capital expenditures associated with integration activities will approximate \$170 million (which includes approximately \$144 million of cumulative capital expenditures incurred through December 31, 2015). We anticipate that the amount of our integration costs in future years will vary substantially based on integration activities conducted during those periods and could in certain cases be higher than those incurred by us during the year ended December 31, 2015.

Depreciation and Amortization

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Depreciation	\$ 2,836	2,958	(122)	(4)%
Amortization	1,353	1,470	(117)	(8)%
Total depreciation and amortization	\$ 4,189	4,428	(239)	(5)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Depreciation	\$ 2,958	2,952	6	— %
Amortization	1,470	1,589	(119)	(7)%
Total depreciation and amortization	\$ 4,428	4,541	(113)	(2)%

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 network assets and the addition of new plant. Depreciation expense decreased by \$122 million, or 4%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The depreciation expense related to our plant for the year ended December 31, 2015 was lower than the depreciation expense for the year ended December 31, 2014 due to full depreciation and retirement of certain plant placed in service prior to 2015. This decrease was partially offset by increases in depreciation attributable to new plant placed in service during the year ended December 31, 2015 and the impact of changes in the estimated lives of certain property, plant and equipment which resulted in additional depreciation during 2015. The changes in the estimated lives of certain property, plant and equipment resulted in an increase in depreciation expense of approximately \$48 million for 2015, which was more than fully offset by the decrease in depreciation expense noted above. Depreciation expense increased by \$6 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The 2014 depreciation expense was higher than the respective prior period depreciation expense due to new plant additions in 2014 and changes in the estimated lives of certain property, plant and equipment, which were partially offset by our plant aging and becoming fully depreciated or retired. 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. Additionally, we developed a plan to migrate customers from one of our networks to another between late 2014 and late 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. The impact from the above-noted changes in estimates and network migration resulted in an increase in depreciation expense of approximately \$90 million for the year ended December 31, 2014. For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this Annual Report.

Amortization expense decreased by \$117 million, or 8%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014 and amortization expense decreased by \$119 million, or 7%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease in amortization expense for both periods was primarily due to software becoming fully amortized faster than new software was acquired or developed.

Goodwill Impairment

During our 2013 annual goodwill impairment assessment, we concluded the carrying value of goodwill assigned to one of our previous reporting units exceeded its estimated implied fair value by \$1.092 billion. The decline in estimated fair value of this previous reporting unit was the result of slower than previously projected revenue and margin growth and greater than anticipated competitive pressures.

For additional information on the risk associated with intangible assets, see "Critical Accounting Policies and Estimates-Goodwill, Customer Relationships and Other Intangibles Assets" below and "Risk Factors" in Item 1A of Part I of this Annual Report.

Further analysis of our operating expenses by segment is provided below in "Segment Results."

Other Consolidated Results

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Interest expense	\$ (1,312)	(1,311)	1	— %
Other income, net	23	11	12	109 %
Total other expense, net	\$ (1,289)	(1,300)	(11)	(1)%
Income tax expense	\$ 438	338	100	30 %

	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Interest expense	\$ (1,311)	(1,298)	13	1 %
Net gain on early retirement of debt	—	10	(10)	(100)%
Other income, net	11	59	(48)	(81)%
Total other expense, net	\$ (1,300)	(1,229)	71	6 %
Income tax expense	\$ 338	463	(125)	(27)%

Interest Expense

Interest expense increased by \$1 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in interest expense was primarily due to a reduction in the amortization of debt premiums, which was substantially offset by higher capitalized interest, lower bond coupon rates and lower interest under our Credit Facility. Interest expense increased by \$13 million, or 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase in interest expense was primarily due to a reduction in the amortization of debt premiums, which was partially offset by the reversal of certain tax interest reserves and increased capitalized interest.

Net Gain on Early Retirement of Debt

In the fourth quarter of 2013, Qwest redeemed its outstanding debt securities, which resulted in a gain of \$10 million.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from non-operating asset dispositions and foreign currency gains and losses. Other income, net increased by \$12 million, or 109%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase in other income, net was primarily due to the impact of a 2014 impairment charge of \$14 million recorded in connection with the sale of our 700 MHz A-Block Wireless Spectrum licenses, which was partially offset by a net loss on early retirement of debt in 2015. Other income, net decreased by \$48 million, or 81%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to the above-noted impairment charge and a \$32 million gain on the sale of wireless spectrum in 2013.

Income Tax Expense

Income tax expense increased by \$100 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Our income tax expense for the year ended December 31, 2014 decreased by \$125 million from the amounts for the comparable prior year. For the years ended December 31, 2015, 2014 and 2013, our effective income tax rate was 33.3%, 30.5% and 206.7%, respectively. The effective tax rate for the year ended December 31, 2015, reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015, and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating losses ("NOLs"). The effective tax rate for the year ended December 31, 2014, reflects a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset, an indirect investment in KPNQwest, N.V. The subsidiary was acquired as part of the acquisition of Qwest and we assigned it no fair value in the acquisition due to the bankruptcy proceedings, which were then ongoing. The effective tax rate for the year ended December 31, 2014 also reflects a \$13 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of NOLs. The rate also reflects the absence of tax benefits from the impairment and disposition of our 700 MHz A-Block wireless spectrum licenses in 2014, because we are not likely to generate income of a character required to realize a tax benefit from the loss on disposition during the period permitted by law for utilization of that loss. The 2013 effective tax rate reflects the impacts of the \$1.092 billion non-deductible goodwill impairment and of an unfavorable accounting adjustment of \$17 million related to non-deductible life insurance costs. The 2013 tax expense also includes the impacts of a favorable settlement with the Internal Revenue Service ("IRS") of \$33 million and a favorable adjustment of \$22 million related to the reversal of liabilities for uncertain tax positions. See Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report and "Critical Accounting Policies and Estimates—Income Taxes" below for additional information.

Segment Results

The results for our business and consumer segments are summarized below for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Total segment revenues	\$ 16,668	17,028	17,095
Total segment expenses	8,459	8,509	8,167
Total segment income	\$ 8,209	8,519	8,928
Total margin percentage	49%	50%	52%
Business segment:			
Revenues	\$ 10,647	11,034	11,091
Expenses	6,034	6,089	5,808
Income	\$ 4,613	4,945	5,283
Margin percentage	43%	45%	48%
Consumer segment:			
Revenues	\$ 6,021	5,994	6,004
Expenses	2,425	2,420	2,359
Income	\$ 3,596	3,574	3,645
Margin percentage	60%	60%	61%

The following table reconciles our total segment revenues and total segment income presented above to consolidated operating revenues and consolidated operating income reported in our consolidated statements of operations.

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Total segment revenues	\$ 16,668	17,028	17,095
Other operating revenues	1,232	1,003	1,000
Operating revenues reported in our consolidated statements of operations	\$ 17,900	18,031	18,095
Total segment income	\$ 8,209	8,519	8,928
Other operating revenues	1,232	1,003	1,000
Depreciation and amortization	(4,189)	(4,428)	(4,541)
Impairment of goodwill (Note 2)	—	—	(1,092)
Other unassigned operating expenses	(2,647)	(2,684)	(2,842)
Operating income reported in our consolidated statement of operations	\$ 2,605	2,410	1,453

Allocation of Revenues and Expenses

Our segment revenues include all revenues from our strategic services, legacy services and data integration as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. For information on how we allocate expenses to our segments, as well as other additional information about our segments, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report.

Business Segment

The operations of our business segment have been impacted by several significant trends, including those described below:

- Strategic services.** Our mix of total business segment revenues continues to migrate from legacy services to strategic services as our small, medium and enterprise business, wholesale and governmental customers increasingly demand integrated data, Internet, hosting and voice services. During 2015, our strategic revenues were negatively impacted by several factors, including competitive pressures, customer losses, migration from traditional hosting services to lower priced cloud-based services and transitioning to our new management structure negatively impacted the growth of our strategic revenues. Demand for our private line services (including special access) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. Additionally, we face competition in Ethernet based services in the wholesale market from cable companies and fiber based CLEC providers. We anticipate continued pricing pressure for our colocation services as vendors continue to expand their enterprise colocation operations. In recent years, our competitors, as well as several large, diversified technology companies, have made substantial investments in cloud computing, which has intensified competitive pressures. This expansion in competitive cloud computing offerings has led to increased pricing pressure and competition for enterprise customers, and we expect these trends to continue. The demand for new technology has also increased the number of competitors offering strategic services similar to ours. Price compression from each of these above-mentioned competitive pressures has negatively impacted the operating margins of our strategic services and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services, but to a lesser extent than price compression and customer disconnects. These operating costs include sales commissions, modem costs, software costs on selected services, installation costs and third-party facility costs. We believe increases in operating costs have generally had a greater impact on the operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed costs;

- *Legacy services.* We continue to experience customers migrating away from our higher margin legacy services into lower margin strategic services. Our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. In particular, our access, local services and long-distance revenues have been, and we expect will continue to be, adversely affected by customer migration to more technologically advanced services, declining demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, many of our business segment customers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. Beginning in 2016, we expect that a recent FCC order will also reduce our revenue that we collect for local voice and long-distance services provided to correctional facilities. Although our legacy services generally face fewer direct competitors than certain of our strategic services, customer migration and, to a lesser degree, price compression from competitive pressures have negatively impacted our legacy revenues and the operating margins of our legacy services. We expect this trend to continue. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer migration and price compression. Operating costs also tend to impact our strategic services to a greater extent than legacy services as noted above;
- *Data integration.* We expect both data integration revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have recently experienced substantial budget cuts with the possibility of additional future budget cuts. Our data integration operating margins are typically smaller than most of our other offerings; and
- *Operating efficiencies.* We continue to evaluate our segment 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, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our business segment:

	Business Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2015	2014			
	(Dollars in millions)				
Segment revenues:					
Strategic services					
High-bandwidth data services (1)	\$	2,816	2,579	237	9 %
Low-bandwidth data services (2)		2,052	2,345	(293)	(12)%
Hosting services (3)		1,281	1,316	(35)	(3)%
Other strategic services (4)		162	76	86	113 %
Total strategic services revenues		6,311	6,316	(5)	— %
Legacy services					
Voice services (5)		2,590	2,780	(190)	(7)%
Other legacy services (6)		1,175	1,252	(77)	(6)%
Total legacy services revenues		3,765	4,032	(267)	(7)%
Data integration		571	686	(115)	(17)%
Total revenues		10,647	11,034	(387)	(4)%
Segment expenses:					
Total expenses		6,034	6,089	(55)	(1)%
Segment income	\$	4,613	4,945	(332)	(7)%
Segment margin percentage		43%	45%		

	Business Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2014	2013			
	(Dollars in millions)				
Segment revenues:					
Strategic services					
High-bandwidth data services (1)	\$	2,579	2,230	349	16 %
Low-bandwidth data services (2)		2,345	2,577	(232)	(9)%
Hosting services (3)		1,316	1,259	57	5 %
Other strategic services (4)		76	60	16	27 %
Total strategic services revenues		6,316	6,126	190	3 %
Legacy services					
Voice services (5)		2,780	2,916	(136)	(5)%
Other legacy services (6)		1,252	1,398	(146)	(10)%
Total legacy services revenues		4,032	4,314	(282)	(7)%
Data integration		686	651	35	5 %
Total revenues		11,034	11,091	(57)	(1)%
Segment expenses:					
Total expenses		6,089	5,808	281	5 %
Segment income	\$	4,945	5,283	(338)	(6)%
Segment margin percentage		45%	48%		

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- (1) Includes MPLS and Ethernet revenue
- (2) Includes private line and high-speed Internet revenue
- (3) Includes colocation, hosting (including cloud hosting and managed hosting) and hosting area network revenue
- (4) Includes primarily VoIP, video and IT services revenue
- (5) Includes local and long-distance voice revenue
- (6) Includes UNEs, public access and other ancillary revenue

Segment Revenues

Business segment revenues decreased by \$387 million, or 4%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in business segment revenues was primarily due to declines in legacy services revenues, private line (including special access) revenues in our strategic services and data integration revenues. The decline in legacy services revenues was attributable to a reduction in local service access lines and lower volumes of long-distance, access and traditional WAN services for the reasons noted above. The decline in our strategic services revenues was primarily due to a reduction in hosting services and private line (including special access) volumes, as well as a pricing change on private line services for a large wholesale customer in exchange for a longer term commitment. These declines were partially offset by MPLS unit growth and higher Ethernet volumes. The decrease in data integration revenues was primarily due to lower sales of customer premises equipment to governmental and business customers during the period. Business segment revenues decreased by \$57 million, or 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease in business segment revenues was primarily due to the decline in legacy services revenues, which were partially offset by the growth in our strategic services and data integration revenues. The decline in legacy services revenues was attributable to lower volumes of local access and traditional WAN services. The growth in our strategic services revenues was primarily due to MPLS unit growth and higher Ethernet volume, which were substantially offset by a decline in private line (including special access) services. The increase in data integration revenues was primarily due to higher sales of customer premises equipment to governmental customers during the period.

Segment Expenses

Business segment expenses decreased by \$55 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was due primarily to reductions in customer premises equipment costs resulting from the lower sales noted above in segment revenues. Excluding the lower customer premises equipment costs, business expenses increased by \$59 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase is primarily due to increases in salaries and wages, benefits expense, external commissions, network expense and facility costs, which were partially offset by decreases in professional fees, materials and supplies and fleet expenses. Business segment expenses increased by \$281 million, or 5%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The increase was primarily due to increases in employee-related costs attributable to higher wages, benefits and internal commissions, customer premises equipment costs resulting from higher sales noted above, facility costs driven by MPLS unit growth and real estate and power costs.

Segment Income

Business segment income decreased by \$332 million, or 7%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in business segment income was due to the loss of customers and lower service volumes in our legacy services and to the increase in operating expenses, excluding the impact of the reduction in customer premises equipment costs. Business segment income decreased by \$338 million, or 6%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decrease was primarily due to customers migrating from legacy services to lower margin strategic services.

Consumer Segment

The operations of our consumer segment have been impacted by several significant trends, including those described below:

- *Strategic services.* In order to remain competitive and attract additional residential high-speed Internet subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. 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 consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in Item 1A of Part II of this Annual Report, certain of our competitors continue to provide high-speed Internet services at higher average transmission speeds than ours or through advanced wireless data service offerings, both of which we believe have impacted the competitiveness of certain of our high-speed Internet offerings. We also continue to expand our other strategic product offerings, including facilities-based video services. The expansion of our facilities-based video service infrastructure requires us to incur substantial start-up expenses in advance of marketing and selling the service. Also, our associated content costs continue to increase and the video business has become more competitive as more options become available to customers to access video services through new technologies. The demand for new technology has increased the number of competitors offering strategic services similar to ours. Price compression and new technology from our competitors have negatively impacted the operating margins of our strategic services and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services, but to a lesser extent than price compression and customer disconnects caused by competition. These operating costs include sales commissions, modem costs, Prism TV content costs, software costs on selected services and installation costs. We believe increases in operating costs have generally had a greater impact on our operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed costs;
- *Legacy services.* Our voice 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 substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of higher margin services associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below. Customer migration and price compression from competitive pressures have not only negatively impacted our legacy revenues, but they have also negatively impacted the operating margins of our legacy services and we expect this trend to continue. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer migration and price compression. The operating costs also tend to impact our strategic services to a greater extent than legacy services as noted above;

- *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 high-speed Internet, video, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment; and
- *Operating efficiencies.* We continue to evaluate our segment 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. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

	Consumer Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2015	2014			
	(Dollars in millions)				
Segment revenues:					
Strategic services					
High-speed Internet services (1)	\$	2,611	2,469	142	6 %
Other strategic services (2)		421	381	40	10 %
Total strategic services revenues		3,032	2,850	182	6 %
Legacy services					
Voice services (3)		2,676	2,864	(188)	(7)%
Other legacy services (4)		311	276	35	13 %
Total legacy services revenues		2,987	3,140	(153)	(5)%
Data integration		2	4	(2)	(50)%
Total revenues		6,021	5,994	27	— %
Segment expenses:					
Total expenses		2,425	2,420	5	— %
Segment income	\$	3,596	3,574	22	1 %
Segment income margin percentage		60%	60%		

	Consumer Segment			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2014	2013		
	(Dollars in millions)			
Segment revenues:				
Strategic services				
High-speed Internet services (1)	\$ 2,469	2,358	111	5 %
Other strategic services (2)	381	292	89	30 %
Total strategic services revenues	2,850	2,650	200	8 %
Legacy services				
Voice services (3)	2,864	3,101	(237)	(8)%
Other legacy services (4)	276	248	28	11 %
Total legacy services revenues	3,140	3,349	(209)	(6)%
Data integration	4	5	(1)	(20)%
Total revenues	5,994	6,004	(10)	— %
Segment expenses:				
Total expenses	2,420	2,359	61	3 %
Segment income	\$ 3,574	3,645	(71)	(2)%
Segment income margin percentage	60%	61%		

(1) Includes high-speed Internet and related services revenue

(2) Includes video and Verizon wireless revenue

(3) Includes local and long-distance voice revenue

(4) Includes switched access and other ancillary revenue

Segment Revenues

Consumer segment revenues increased by \$27 million, or less than 1%, for year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in strategic services revenues was primarily due to increases in the number of Prism TV customers, as well as from 2015 price increases on various services. The decline in legacy services revenues was primarily due to declines in local and long-distance services volumes associated with access line losses resulting from the competitive and technological changes as further described above. Consumer segment revenues decreased by \$10 million, or less than 1%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. The decline in legacy services revenues was due to the same reasons noted above. The increase in strategic services revenues was primarily due to growth in the number of high-speed Internet subscribers and increases in the number of Prism TV customers, as well as from 2014 price increases on various services. The increase in consumer segment revenues during 2015 as compared to the decline in revenues for 2014 was primarily attributable to the above-noted price increases.

Segment Expenses

Consumer segment expenses increased by \$5 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase was primarily due to increases in Prism TV content costs (resulting from higher volume and rates) and bad debt expense, which were partially offset by reductions in employee-related costs, marketing and advertising expenses and fleet expenses. Consumer segment expenses increased by \$61 million, or 3%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This increase was primarily due to increases in marketing and advertising expenses, Prism TV content costs resulting from subscriber growth in our Prism TV markets and the number of modems shipped for Prism TV customers, which were partially offset by reductions in employee-related costs and facility costs.

Segment Income

Consumer segment income increased by \$22 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase was primarily due to price increases on various services and reduction of costs. Consumer segment income decreased by \$71 million, or 2%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013. This decrease was primarily due to customers migrating from legacy services to lower margin strategic services, and the increase in Prism TV content costs.

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) loss contingencies and litigation reserves; (v) Connect America Fund support payments; and (vi) 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 were made. However, there can be no assurance that actual results will not differ from those estimates.

Goodwill, Customer Relationships and Other Intangible Assets

We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We annually review the estimated lives and methods used to amortize our other intangible assets, primarily capitalized software. The amount of future amortization expense may differ materially from current amounts, depending on the results of our annual reviews.

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. We assign goodwill to the reporting units using a relative fair value approach. We utilize the trailing twelve months earnings before interest, taxes, depreciation and amortization as our allocation methodology as we believe that it represents a reasonable proxy for the fair value of the operations being reorganized. The use of other fair value assignment methods could result in materially different results. For additional information on our segments, see Note 12—Segment Information to our consolidated financial statements in Item 8 of Part II of this Annual Report.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of our reporting units. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment test. Our annual assessment date for testing goodwill impairment is October 31.

As of October 31, 2015, we assessed goodwill for impairment for our three reporting units, which we determined to be business (excluding wholesale), consumer and wholesale and determined that the estimated fair value of our wholesale reporting unit was substantially in excess of our carrying value of equity and the estimated fair value of our business and consumer reporting units exceeded our carrying value of equity by 23% and 8%, respectively.

For additional information on our goodwill balances by segment, see Note 2—Goodwill, Customer Relationships and Other Intangible Assets in Item 8 of Part II of this Annual Report.

We may be required to assess our goodwill for impairment before our next required assessment date of October 31, 2016 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 stock price and resulting market capitalization as a result of an adverse change to our overall business operations; (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 one or more of our subsidiaries that are a component of our segments. 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, 2016.

Property, Plant and Equipment

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date, plus the estimated value of any associated legally or contractually required asset retirement obligation. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required asset retirement obligation. 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 3 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 \$410 million annually or increased depreciation expense by approximately \$580 million annually, respectively.

Pension and Post-retirement Benefits

We sponsor a noncontributory qualified defined benefit pension plan (referred to as our pension plan) for a substantial portion of our employees. In addition to this tax qualified pension plan, we also maintain several non-qualified pension plans for certain eligible highly compensated employees. We also maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees.

In 2015, approximately 45% of the qualified pension plan's January 1, 2015 net actuarial loss balance of \$2.740 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plan. The other 55% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2015. The entire beginning net actuarial loss of \$277 million for the post-retirement benefit plans was treated as indefinitely deferred during 2015.

In 2014, approximately 16% of the qualified pension plans' January 1, 2014 net actuarial loss balance of \$1.048 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plans. The other 84% of the pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2014. The entire beginning net actuarial loss of \$37 million for the post-retirement benefit plans was treated as indefinitely deferred during 2014.

In 2013, approximately 33% of the qualified pension plans' January 1, 2013 net actuarial loss balance of \$2.221 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 12 years for the plans. The other 67% of the pension plans' beginning net actuarial loss balance was treated as indefinitely deferred during 2013. The entire beginning net actuarial loss of \$446 million for the post-retirement benefit plans was treated as indefinitely deferred during 2013.

In computing our pension and post-retirement health care and life insurance benefit obligations, our most significant assumptions are the discount rate and mortality rates. In computing our periodic pension and post-retirement benefit expense, our most significant assumptions are the discount rate and the expected rate of return on plan assets.

The discount rate for each plan is the rate at which we believe we could effectively settle the plan's benefit obligations as of the end of the year. We selected each plan's discount rate based on a cash flow matching analysis using hypothetical yield curves from U.S. corporate bonds rated high quality and projections of the future benefit payments that constitute the projected benefit obligation for the plans. This process establishes the uniform discount rate that produces the same present value of the estimated future benefit payments as is generated by discounting each year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 60th to 90th percentile of U.S. high quality bonds.

In 2016, we plan to change the method we use to estimate the service and interest components of net periodic benefit cost for pension and other postretirement benefits. This change will result in a decrease in the service and interest components in 2016. Beginning in 2016, we plan to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change will not affect the measurement of our total benefit obligations but is currently expected to lower our annual net periodic benefit cost by approximately \$150 million in 2016. If implemented as expected, this change will be accounted for as a change in accounting estimate and accordingly will be accounted for prospectively.

Mortality rates help predict the expected life of plan participants and are based on historical demographic studies by the Society of Actuaries. In 2015, we adopted the revised mortality table and projection scale released by the Society of Actuaries ("SOA"), which decreased the projected benefit obligation of our benefit plans by \$379 million. In 2014, the SOA published new mortality rate tables reflecting increases in the projected life expectancies of North Americans since its publications of earlier tables. We adopted the new tables immediately. This resulted in an increase to the projected benefit obligation of approximately \$1.3 billion for our pension and post-retirement benefit plans.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets in the future, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations to which we then add a factor of 50 basis points to reflect the benefit we expect to result from our active management of the assets. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

To compute the expected return on pension and post-retirement benefit plan assets, we apply an expected rate of return to the fair value of the pension plan assets and to the fair value of the post-retirement benefit plan assets adjusted for contribution timing and for projected benefit payments to be made from the plan assets. Annual market volatility for these assets (higher or lower than expected return) is reflected in the net actuarial losses.

Changes in any of the above factors could significantly impact operating expenses in the consolidated statements of operations and other comprehensive income (loss) in the consolidated statements of comprehensive income (loss) as well as the value of the liability and accumulated other comprehensive loss of stockholders' equity on our consolidated balance sheets. The expected return on plan assets is reflected as a reduction to our pension and post-retirement benefit expense. If our assumed expected rates of return for 2015 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2015 would have increased by \$121 million. If our assumed discount rates for 2015 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2015 would have increased by \$119 million and our projected benefit obligation for 2015 would have increased by approximately \$1.821 billion.

Loss Contingencies and Litigation Reserves

We are involved in several material legal proceedings, as described in more detail in Note 14—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report. We assess potential losses in relation to these and other pending or threatened tax and legal matters. 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. To the extent these estimates are more or less than the actual liability resulting from the resolution of these matters, our earnings will be increased or decreased accordingly. If the differences are material, our consolidated financial statements could be materially impacted.

For matters related to income taxes, if we determine in our judgment 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 in our financial statements 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 we determine in our judgment that the position has less than a 50% likelihood of being sustained. Though the validity of any tax position is a matter of tax law, the body of statutory, regulatory and interpretive guidance on the application of the law is complex and often ambiguous. Because of this, whether a tax position will ultimately be sustained may be uncertain.

Connect America Fund Support Payments

In 2015, we accepted funding from the Connect America Fund ("CAF") from the Federal Communications Commission ("FCC") of approximately \$500 million per year for six years to fund the deployment of voice and high-speed Internet infrastructure for approximately 1.2 million rural households and businesses (living units) in 33 states under the CAF Phase 2 high-cost support program. This program provides a monthly high-cost subsidy similar to the support provided by the FCC's previous cost reimbursement programs. Although we believe that there is no specific authoritative U.S. GAAP guidance for the treatment of government assistance, we identified three acceptable methods to account for these funds; 1) recognize revenue when entitled to receive cash, 2) defer cash received until the living units are enabled to receive the service at the FCC specified level, or 3) record the cash received as contra capital. After assessing these alternatives, we have determined that we will recognize CAF Phase 2 funds each month as revenue when we are entitled to receive the cash less a deferred amount. The amount of revenue deferred in 2015 was approximately \$12 million. We believe our recognition methodology is consistent with other companies in our industry in the United States, but may not necessarily be consistent with companies outside the United States that receive similar government funding, and we cannot provide assurances to this effect.

In computing the amount of revenue to recognize, we assume that we will not be able to economically enable 100% of the required living units in every state with voice and high-speed Internet capabilities under the CAF Phase 2 program. We defer recognition of the funds related to potential living units that we estimate we will not enable until we can precisely determine that we can fully meet the enablement targets. As disclosed elsewhere herein, in some limited instances, a portion of the funds must be returned. The effect of a hypothetical 1% change in our estimate of living units we will not enable with voice and high-speed Internet capabilities under the CAF Phase 2 program would have increased or decreased our revenue up to \$3 million or \$9 million, respectively, in 2015.

For additional information about the CAF Phase 2 support program, see the discussion below in "Liquidity and Capital Resources—Connect America Fund."

Income Taxes

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, differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities and tax net operating losses, or NOLs. 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. 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.

In connection with recording deferred income tax assets and liabilities, we establish valuation allowances when necessary to reduce deferred income tax assets to amounts that we believe are more likely than not to be realized. We evaluate our deferred tax assets quarterly to determine whether adjustments to our valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. In making this evaluation, we rely on our recent history of pre-tax earnings. We also rely on our forecasts of future earnings and the nature and timing of future deductions and benefits represented by the deferred tax assets, all which involve the exercise of significant judgment. At December 31, 2015, we established a valuation allowance of \$380 million, primarily related to state NOLs, as it is more likely than not that these NOLs will expire unused. If forecasts of future earnings and the nature and estimated timing of future deductions and benefits change in the future, we may determine that a valuation allowance for certain deferred tax assets is appropriate, which 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

At December 31, 2015, we held cash and cash equivalents of \$126 million and we had approximately \$1.7 billion of borrowing capacity available under our \$2.0 billion amended and restated revolving credit facility (referred to as our "Credit Facility", which is described further below). At December 31, 2015, cash and cash equivalents of \$62 million were held in foreign bank accounts for the purpose of funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

In connection with our budgeting process in early 2016, our executive officers and our Board of Directors reviewed our sources and potential uses of cash over the next several years, including among other things the previously-disclosed effect of the anticipated depletion of our federal net operating loss carryforwards during 2016. Generally speaking, our principal funding source is cash from operating activities and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic stock repurchases and periodic pension contributions.

Based on our current capital allocation objectives, during 2016 we anticipate expending approximately \$3.0 billion of cash for capital investment in property, plant and equipment and up to \$1.2 billion for dividends on our common stock, based on the current annual common stock dividend rate of \$2.16 and the current number of outstanding common shares. During 2016, we have debt maturities of approximately \$1.4 billion, scheduled debt principal payments of approximately \$22 million and capital lease and other fixed payments of approximately \$62 million.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our revolving credit facility as a source of liquidity for operating activities and our other cash requirements.

Connect America Fund

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and high-speed Internet infrastructure for approximately 1.2 million rural households and businesses in 33 states under the CAF Phase 2 support program. The funding from the CAF Phase 2 support program is expected to substantially supplant the funding we previously received from the interstate USF program that we previously utilized to support voice services in high-cost rural markets in these 33 states. In September of 2015, we began receiving these payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly support payments at a higher rate than under the interstate USF support program and (ii) a one-time cumulative catch-up payment representing the incrementally higher funding under the CAF Phase 2 support program over the interstate USF Support program for the first seven months of 2015. During 2015, we received \$209 million more cash than we would have otherwise received during the same period under the interstate USF support program.

We declined annual funding of approximately \$10 million in four states, and we expect the funding from the CAF Phase 2 support program for these four states will be auctioned by the FCC, perhaps in the latter part of 2016. In these four states, the interstate USF support we have historically received is expected to continue until the CAF Phase 2 auctions are completed.

As a result of accepting CAF Phase 2 support payments for 33 states, we will be obligated to make substantial capital expenditures to build infrastructure. See "Capital Expenditures" below.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of this Annual Report. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of this Annual Report.

In 2013, under the second round of the first phase of the CAF program, we received \$40 million in funding for deployment of broadband services in rural areas. The CAF Phase 2 support program overlaps certain eligible areas of the second round of CAF 1 funding, and we are continuing to evaluate how much of the \$40 million in funding we will utilize or return to the FCC. As of the date of this Annual Report, we are past one of the benchmark deadlines for completing a portion of the broadband deployment. Due to the delays we encountered in evaluating the eligible areas, we have requested relief and an extension of the deadline with the FCC. If the FCC does not grant us relief, we will be requested to refund a substantial portion of the \$40 million in funding we received. This \$40 million of CAF 1 Round 2 funding is included in other noncurrent liabilities on our consolidated balance sheet as of December 31, 2015.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as the CAF Phase 2 infrastructure buildout requirements). Based on current circumstances, we estimate that our total capital expenditures for 2016 will be approximately \$3.0 billion, inclusive of CAF Phase 2 related capital expenditures.

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

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation debt securities to refinance its maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us and Qwest Corporation by credit rating agencies, among other factors. For further information on our debt maturities, see below "Future Contractual Obligations."

As of the date of this Annual Report, the credit ratings for the senior unsecured debt of CenturyLink, Inc. and Qwest Corporation were as follows:

Agency	CenturyLink, Inc.	Qwest Corporation
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc.	Ba2	Baa3
Fitch Ratings	BB+	BBB-

Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades of CenturyLink, Inc.'s senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of our borrowing under the Credit Facility. Moreover, any downgrades of CenturyLink, Inc.'s or Qwest Corporation's senior unsecured debt ratings could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of this Annual Report.

In January 2016, Qwest Corporation issued \$235 million aggregate principal amount of 7% Notes due 2056, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$227 million. All of the 7% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

Net Operating Loss Carryforwards

We have been using NOLs to offset our federal taxable income. At December 31, 2015, we had approximately \$72 million of federal net operating losses. Since the remainder of our NOLs are subject to the limitations imposed by section 382 of the Internal Revenue Code, we expect that the amounts of our cash flows dedicated to the payment of federal taxes will increase substantially. The amounts of those payments will depend upon many factors, including future earnings, tax law changes and future tax circumstances. Based on current laws (including the extension of bonus depreciation) and circumstances applied to estimates of 2016 earnings, we estimate our cash income tax liability related to 2016 will be between \$400 million to \$600 million.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.54 per share, as approved by our Board of Directors, which we believe is a dividend rate per share that gives us the flexibility to balance our multiple objectives of managing our business, paying our fixed commitments and returning cash to our shareholders. Assuming continued payment during 2016 at this rate of \$0.54 per share, our total dividends paid each quarter would be approximately \$292 million based on our current number of outstanding shares (which does not reflect shares that we might repurchase or issue in future periods). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this Annual Report.

Credit Facility

Our \$2.0 billion Credit Facility matures on December 3, 2019 and has 16 lenders, each with commitments ranging from \$3.5 million to \$198.5 million. The Credit Facility allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries. At December 31, 2015, we had \$330 million in borrowings and no amounts of letters of credit outstanding under the Credit Facility.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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. Our debt to EBITDA ratios could be adversely affected by a wide variety of events, including unforeseen expenses or contingencies. 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.

Term Loans, Revolving Line of Credit and Revolving Letter of Credit

At December 31, 2015, CenturyLink, Inc. owed \$358 million under a term loan maturing in 2019 and Qwest Corporation owed \$100 million under a term loan maturing in 2025. Both of these term loans include covenants substantially similar to those set forth in the Credit Facility.

In January 2015, CenturyLink, Inc. entered into a \$100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility. The amount available under this uncommitted revolving line of credit is reduced by any amount outstanding under the Credit Facility with the same lender. Interest is paid monthly based upon the LIBOR plus an applicable margin between 1.00% and 2.25% per annum. At December 31, 2015, we had \$80 million borrowings outstanding under this uncommitted revolving line of credit.

We have a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2015, our outstanding letters of credit totaled \$109 million under this facility.

For information on our outstanding debt securities, see immediately below "Future Contractual Obligations" and Note 3—Long-Term Debt and Credit Facilities 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, 2015:

	2016	2017	2018	2019	2020	2021 and thereafter	Total
	(Dollars in millions)						
Long-term debt ⁽¹⁾	\$ 1,503	1,501	251	1,160	1,032	15,082	20,529
Interest on long-term debt and capital leases ⁽²⁾	1,294	1,195	1,155	1,129	1,061	15,634	21,468
Operating leases	301	289	268	235	209	1,075	2,377
Purchase commitments ⁽³⁾	364	91	53	26	20	71	625
Post-retirement benefit obligation ⁽⁴⁾	56	73	90	87	83	872	1,261
Non-qualified pension obligations ⁽⁴⁾	5	5	5	5	5	21	46
Unrecognized tax benefits ⁽⁵⁾	—	—	—	—	—	48	48
Other	7	5	7	5	7	60	91
Total future contractual obligations ⁽⁶⁾	\$ 3,530	3,159	1,829	2,647	2,417	32,863	46,445

⁽¹⁾ Includes current maturities and capital lease obligations, but excludes unamortized discounts, net and unamortized debt issuance costs.

⁽²⁾ Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt. Interest on our floating rate debt was calculated for all years using the rates effective at December 31, 2015.

⁽³⁾ 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.

⁽⁴⁾ Reflects only the portion of total obligation that is contractual in nature. See Note 6 below.

⁽⁵⁾ Represents the amount of tax and interest we would pay for our unrecognized tax benefits. The \$48 million is composed of unrecognized tax benefits of \$15 million and related estimated interest of \$33 million, which would result in future cash payments if our tax positions were not upheld. See Note 11—Income Taxes to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information. The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "2021 and thereafter" column in the above table.

⁽⁶⁾ The table is limited to contractual obligations only and does not include:

- contingent liabilities;
- our open purchase orders as of December 31, 2015. 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;
- cash funding requirements for qualified pension benefits payable to certain eligible current and future retirees. Benefits paid by our qualified pension plan are paid through a trust. Cash funding requirements for this trust are not included in this table as we are not able to reliably estimate required contributions to this trust. Our funding projections are discussed further below;
- certain post-retirement benefits payable to certain eligible current and future retirees. Not all of our post-retirement benefit obligation amount is a contractual obligation and only the portion that we believe is a contractual obligation is reported in the table. See additional information on our benefits plans in Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report;
- 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 use the network facilities of other carriers and to purchase other goods and services. Our contracts to use other carriers' network facilities generally have no minimum volume requirements and are based on an interrelationship of volumes and discounted rates. Assuming we terminate these contracts in 2016, the contract termination fees would be approximately \$399 million. Under the same assumption, we estimate that our termination fees for these contracts to purchase goods and services would be approximately \$154 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

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2015, the accounting unfunded status of our defined benefit pension plans and post-retirement benefit plans were \$2.277 billion and \$3.374 billion, respectively. See Note 7—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this Annual Report for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan for 2016. The amount of required contributions to our qualified pension plan in 2017 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions.

Certain of our 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, 2015, the fair value of these trust assets was approximately \$193 million; however, a portion of these assets is comprised of investments with restricted liquidity. We estimate that the more liquid assets in these trusts will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately one year. Thereafter, covered benefits will be paid either directly by us or from these trusts as the remaining assets become liquid. This projected one year period could be shorter or longer depending on returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

For 2016, our estimated annual long-term rate of return is 7.0% 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.

Historical Information

The following tables summarize our consolidated cash flow activities:

	Years Ended December 31,		Increase /
	2015	2014	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 5,152	5,188	(36)
Net cash used in investing activities	(2,853)	(3,077)	(224)
Net cash used in financing activities	(2,301)	(2,151)	150

	Years Ended December 31,		Increase /
	2014	2013	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 5,188	5,559	(371)
Net cash used in investing activities	(3,077)	(3,148)	(71)
Net cash used in financing activities	(2,151)	(2,454)	(303)

Net cash provided by operating activities decreased by \$36 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to a slight negative variance in net income adjusted for non-cash items along with negative variances in accounts payable and other noncurrent assets and liabilities, net. The decreases were substantially offset with positive variances in accrued income and other taxes and other current assets and liabilities, net, which was primarily due to a payment of approximately \$235 million in 2014 to settle certain litigation. Our net cash provided by operating activities in 2015 was also positively impacted by the cash received from the CAF Phase 2 support program, which was \$209 million greater than the cash we would have otherwise received during the same period under the interstate USF support program. Net cash provided by operating activities decreased by \$371 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to a negative variance in net income adjusted for non-cash items along with a payment of approximately \$235 million in the first quarter of 2014 to settle certain litigation. These decreases were substantially offset by positive variances in the changes in accounts payable and retirement benefits.

During the year ended December 31, 2015, we made a voluntary cash contribution to the trust of \$100 million to fund our qualified pension plan. During the years ended December 31, 2014 and 2013, and prior to the pension plan merger, we made required cash contributions to the trust of \$157 million and \$146 million, respectively, to fund our qualified pension plans.

Net cash used in investing activities decreased by \$224 million for the year end December 31, 2015 as compared to the year ended December 31, 2014 primarily due to a decrease in payments of property, plant and equipment and amounts paid for acquisitions in 2015. Net cash used in investing activities decreased by \$71 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to less cash paid for acquisitions.

Net cash used in financing activities increased by \$150 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to additional common stock repurchases as the net debt repayments were approximately the same in both years. Net cash used in financing activities decreased by \$303 million for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily due to reductions in net debt paydowns in 2014 versus net borrowings in 2013 and common stock repurchases.

During the year ended December 31, 2015, we repurchased 27.1 million shares of the company's outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$800 million, or an average purchase price of \$29.56 per share. The repurchased common stock has been retired. For additional information, see "Note 17—Repurchase of CenturyLink, Inc. Common Stock" in Item 8 of Part II of this Annual Report.

On October 13, 2015, Qwest Corporation redeemed all \$250 million of its 7.2% Notes due 2026, which resulted in an immaterial gain, and redeemed \$150 million of its 6.875% Notes due 2033, which resulted in an immaterial loss.

On September 21, 2015, Qwest Corporation issued \$400 million aggregate principal amount of 6.625% Notes due 2055, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$386 million. The underwriting agreement included an over-allotment option granting the underwriters for the offering an opportunity to purchase additional 6.625% Notes due 2055. On September 30, 2015, Qwest Corporation issued an additional \$10 million aggregate principal amount of its 6.625% Notes under this over-allotment option. All of the 6.625% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after September 15, 2020, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On June 15, 2015, Qwest Corporation paid at maturity the \$92 million principal amount of its 7.625% Notes.

On March 19, 2015, CenturyLink, Inc. issued in a private offering \$500 million aggregate principal amount of 5.625% Notes due 2025, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$494 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, at any time before January 1, 2025 at a redemption price equal to the greater of 100% of the principal amount of the Notes or the sum of the present value of the remaining scheduled payments of principal and interest on the Notes, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. At any time on or after January 1, 2025, CenturyLink, Inc. may redeem the Notes at par plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2018, CenturyLink, Inc. may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with net cash proceeds of certain equity offerings. Under certain circumstances, CenturyLink, Inc. will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date. In October 2015, CenturyLink, Inc. exchanged all of the unregistered Notes issued on March 19, 2015 for fully-registered Notes.

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

On February 17, 2015, CenturyLink, Inc. paid at maturity the \$350 million plus accrued and unpaid interest due under its Series M 5.00% notes.

In January 2015, CenturyLink, Inc. entered into a \$100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility.

Certain Matters Related to Acquisitions

When we acquired Qwest and Savvis in 2011, Qwest's pre-acquisition debt obligations consisted primarily of debt securities issued by Qwest and two of its subsidiaries while Savvis' long-term debt obligations (after the discharge of its convertible senior notes in connection with the completion of the acquisition) consisted primarily of capital leases, the remaining outstanding portions of which are all now included in our consolidated debt balances. The indentures governing Qwest's remaining debt securities contain customary covenants that restrict the ability of Qwest or its subsidiaries from making certain payments and investments, granting liens and selling or transferring assets. Based on current circumstances, we do not anticipate that these covenants will significantly restrict our ability to manage cash balances or transfer cash between entities within our consolidated group of companies as needed.

In accounting for the Qwest acquisition, we recorded Qwest's debt securities at their estimated fair values, which totaled \$12.292 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. We determined that the fair value of Qwest's debt securities exceeded their stated principal balances on the acquisition date by \$693 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:

	Years Ended December 31,		From April 1, 2011 through December 31, 2013	Total Since Acquisition
	2015	2014		
(Dollars in millions)				
Amortized	\$ 22	42	302	366
Extinguished ⁽¹⁾	1	—	276	277
Total	\$ 23	42	578	643

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

The remaining premium of \$50 million as of December 31, 2015, will reduce interest expense in future periods, unless otherwise extinguished.

Other Matters

In February 2015, the FCC adopted new regulations that regulate Internet services as a public utility under Title II of the Communications Act. Although it is premature for us to determine the ultimate impact of the new regulations on our operations, we currently expect that they will negatively impact our current operations. For additional information, see "Risk Factors—Risks Relating to Legal and Regulatory Matters" in Item 1A of Part I of this Annual Report.

CenturyLink has cash management arrangements with certain of its principal subsidiaries, in which substantial portions of the subsidiaries' cash is regularly advanced to CenturyLink. Although CenturyLink periodically repays these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time CenturyLink may owe a substantial sum to our subsidiaries under these advances, which, in accordance with generally accepted accounting principles, are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

We also are involved in various legal proceedings that could substantially impact our financial position. See Note 14—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this Annual Report for the current status of such legal proceedings.

On November 4, 2015, we announced that we have retained financial advisors to assist in the exploration of strategic alternatives for our data centers and colocation business operations. The review of strategic alternatives will involve a full range of options, including, but not limited to, a partnership or joint venture, a sale of all or a portion of the data centers, as well as keeping some or all of these assets and operations as part of our portfolio. Strategic services revenues generated from our colocation services was approximately \$626 million, \$644 million and \$623 million for the years ended December 31, 2015, 2014 and 2013, respectively.

The following tables present additional metrics related to our data centers:

	As of December 31,		Increase / (Decrease)	% Change
	2015	2014		
(Dollars in millions)				
Hosting Data Center Metrics				
Number of data centers (1)	59	58	1	2%
Sellable square feet, million sq ft	1.58	1.46	0.12	8%
Billed square feet, million sq feet	0.99	0.92	0.07	8%
Utilization	63%	63%	—%	—%

	As of December 31,		Increase / (Decrease)	% Change
	2014	2013		
(Dollars in millions)				
Hosting Data Center Metrics				
Number of data centers (1)	58	55	3	5 %
Sellable square feet, million sq ft	1.46	1.39	0.07	5 %
Billed square feet, million sq feet	0.92	0.96	(0.04)	(4)%
Utilization	63%	69%	(6)%	(9)%

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- (1) We define a data center as any facility where we market, sell and deliver colocation services, managed hosting (including cloud hosting) services, multi-tenant managed services or any combination of.

Market Risk

We are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. 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, 2015, 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, 2015, we had approximately \$19.8 billion (excluding capital lease and other obligations with a carrying amount of \$425 million) of long-term debt outstanding, approximately 95.6% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. At December 31, 2015, we had \$738 million floating rate debt exposed to changes in the London InterBank Offered Rate (LIBOR). A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$7 million.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, primarily the British Pound, the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are immaterial, future volatility in exchange rates and an increase in the number of transactions could adversely impact our consolidated results of operations. We use a sensitivity analysis to estimate our exposure to this foreign currency risk, measuring the change in financial position arising from hypothetical 10% change in the exchange rates of these currencies, relative to the U.S. Dollar, with all other variables held constant. The aggregate potential change in the fair value of financial assets resulting from a hypothetical 10% change in these exchange rates was \$19 million at December 31, 2015.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at December 31, 2015.

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 14—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 Stockholders
CenturyLink, Inc.:

We have audited the accompanying consolidated balance sheets of CenturyLink, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for debt issuance costs effective January 1, 2014 due to the adoption of FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. Additionally, as discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred income taxes effective January 1, 2014 due to the adoption of FASB ASU 2015-17, Balance Sheet Classification of Deferred Taxes.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2016

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CenturyLink, Inc.:

We have audited CenturyLink, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2015, and our report dated February 24, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2016

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUES	\$ 17,900	18,031	18,095
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	7,778	7,846	7,507
Selling, general and administrative	3,328	3,347	3,502
Depreciation and amortization	4,189	4,428	4,541
Impairment of goodwill (Note 2)	—	—	1,092
Total operating expenses	15,295	15,621	16,642
OPERATING INCOME	2,605	2,410	1,453
OTHER (EXPENSE) INCOME			
Interest expense	(1,312)	(1,311)	(1,298)
Net gain on early retirement of debt	—	—	10
Other income, net	23	11	59
Total other expense, net	(1,289)	(1,300)	(1,229)
INCOME BEFORE INCOME TAX EXPENSE	1,316	1,110	224
Income tax expense	438	338	463
NET INCOME (LOSS)	\$ 878	772	(239)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE			
BASIC	\$ 1.58	1.36	(0.40)
DILUTED	\$ 1.58	1.36	(0.40)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	554,278	568,435	600,892
DILUTED	555,093	569,739	600,892

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
NET INCOME (LOSS)	\$ 878	772	(239)
OTHER COMPREHENSIVE INCOME (LOSS):			
Items related to employee benefit plans:			
Change in net actuarial gain (loss), net of \$(12), \$742 and \$(606) tax	21	(1,200)	981
Change in net prior service credit (costs), net of \$(47), \$1 and \$52 tax	76	(1)	(84)
Foreign currency translation adjustment and other, net of \$—, \$1 and \$— tax	(14)	(14)	2
Other comprehensive income (loss)	83	(1,215)	899
COMPREHENSIVE INCOME (LOSS)	\$ 961	(443)	660

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2015	2014
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 126	128
Accounts receivable, less allowance of \$152 and \$162	1,943	1,988
Other	581	580
Total current assets	2,650	2,696
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	38,785	36,718
Accumulated depreciation	(20,716)	(18,285)
Net property, plant and equipment	18,069	18,433
GOODWILL AND OTHER ASSETS		
Goodwill	20,742	20,755
Customer relationships, net	3,928	4,893
Other intangible assets, net	1,555	1,647
Other, net	660	679
Total goodwill and other assets	26,885	27,974
TOTAL ASSETS	\$ 47,604	49,103
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,503	550
Accounts payable	968	1,226
Accrued expenses and other liabilities		
Salaries and benefits	602	641
Income and other taxes	318	309
Interest	250	256
Other	220	210
Advance billings and customer deposits	743	726
Total current liabilities	4,604	3,918
LONG-TERM DEBT	18,722	19,953
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,569	3,154
Benefit plan obligations, net	5,511	5,808
Other	1,138	1,247
Total deferred credits and other liabilities	10,218	10,209
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock — non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 543,800 and 568,517 shares	544	569
Additional paid-in capital	15,178	16,324
Accumulated other comprehensive loss	(1,934)	(2,017)
Retained earnings	272	147
Total stockholders' equity	14,060	15,023
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 47,604	49,103

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income (loss)	\$ 878	772	(239)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,189	4,428	4,541
Impairment of goodwill (Note 2)	—	—	1,092
Impairment of assets	9	32	—
Deferred income taxes	350	291	391
Provision for uncollectible accounts	177	159	152
Gain on sale of intangible assets	—	—	(32)
Net long-term debt issuance costs and premium amortization	(3)	(21)	(46)
Net gain on early retirement of debt	—	—	(10)
Share-based compensation	73	79	71
Changes in current assets and liabilities:			
Accounts receivable	(132)	(163)	(212)
Accounts payable	(168)	70	(76)
Accrued income and other taxes	32	(84)	28
Other current assets and liabilities, net	(53)	(270)	263
Retirement benefits	(141)	(184)	(342)
Changes in other noncurrent assets and liabilities, net	(78)	99	8
Other, net	19	(20)	(30)
Net cash provided by operating activities	5,152	5,188	5,559
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(2,872)	(3,047)	(3,048)
Cash paid for acquisitions	(4)	(93)	(160)
Proceeds from sale of property and intangible assets	31	63	80
Other, net	(8)	—	(20)
Net cash used in investing activities	(2,853)	(3,077)	(3,148)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	989	483	2,481
Payments of long-term debt	(966)	(800)	(2,010)
Net payments on credit facility and revolving line of credit	(315)	(4)	(95)
Early retirement of debt costs	(1)	—	(31)
Dividends paid	(1,198)	(1,228)	(1,301)
Net proceeds from issuance of common stock	11	50	73
Repurchase of common stock	(819)	(650)	(1,586)
Other, net	(2)	(2)	15
Net cash used in financing activities	(2,301)	(2,151)	(2,454)
Net decrease in cash and cash equivalents	(2)	(40)	(43)
Cash and cash equivalents at beginning of period	128	168	211
Cash and cash equivalents at end of period	\$ 126	128	168
Supplemental cash flow information:			
Income taxes paid, net	\$ (63)	(27)	(48)
Interest paid (net of capitalized interest of \$52, \$47 and \$41)	\$ (1,310)	(1,338)	(1,333)

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
COMMON STOCK (represents dollars and shares)			
Balance at beginning of period	\$ 569	584	626
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2	4	4
Repurchase of common stock	(27)	(19)	(46)
Balance at end of period	544	569	584
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	16,324	17,343	19,079
Issuance of common stock through dividend reinvestment, incentive and benefit plans	9	46	69
Repurchase of common stock	(767)	(591)	(1,551)
Shares withheld to satisfy tax withholdings	(19)	(16)	(18)
Share-based compensation and other, net	77	82	85
Dividends declared	(446)	(540)	(321)
Balance at end of period	15,178	16,324	17,343
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period	(2,017)	(802)	(1,701)
Other comprehensive income (loss)	83	(1,215)	899
Balance at end of period	(1,934)	(2,017)	(802)
RETAINED EARNINGS			
Balance at beginning of period	147	66	1,285
Net income (loss)	878	772	(239)
Dividends declared	(753)	(691)	(980)
Balance at end of period	272	147	66
TOTAL STOCKHOLDERS' EQUITY	\$ 14,060	15,023	17,191

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the content otherwise requires and except in Note 3, where such references refer solely to CenturyLink, Inc.

(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 and business customers. Our communications services include local and long-distance voice, high-speed Internet, Multi-Protocol Label Switching ("MPLS"), private line (including special access), data integration, Ethernet, colocation, managed hosting (including cloud hosting), network, public access, wireless, video and other ancillary services.

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.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income, net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 12—Segment Information for additional information. These changes had no impact on total revenues, total operating expenses or net income (loss) for any period.

Connect America Fund Support Payments

In 2015, we accepted funding from the Federal Communications Commission's ("FCC") Connect America Fund ("CAF") of approximately \$500 million per year for six years to fund the deployment of voice and high-speed Internet infrastructure for approximately 1.2 million rural households and businesses in 33 states under the CAF Phase 2 high-cost support program. The funding from the CAF Phase 2 support program in these 33 states will substantially supplant funding from the interstate Universal Service Fund ("USF") high-cost program that we previously utilized to support voice services in high-cost rural markets. In September of 2015, we began receiving these support payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly support payments at a higher rate than under the interstate USF support program and (ii) a one-time cumulative catch-up payment representing the incrementally higher funding under the CAF Phase 2 support program over the interstate USF support program for the first seven months of 2015. During 2015, we recorded \$215 million more revenue than we would have otherwise recorded during the same period under the interstate USF support program.

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 a net increase in depreciation expense of approximately \$78 million for the year ended December 31, 2014. This net increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$48 million, or \$0.08 per basic and diluted common share, for the year ended December 31, 2014.

Additionally, during the third quarter of 2014, we developed a plan to migrate customers from one of our networks to another over a one-year period beginning in the fourth quarter of 2014. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. The increase in depreciation expense from the changes in estimates was more than fully offset by decreases in depreciation expense resulting from normal aging of our property, plant and equipment. These changes in the estimated remaining economic lives resulted in an increase in depreciation expense of approximately \$48 million and \$12 million for the years ended December 31, 2015 and 2014, respectively. This increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$32 million, or \$0.06 per basic and diluted common share and \$7 million, or \$0.01 per basic and diluted common share, for the years ended December 31, 2015 and 2014, respectively.

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 specific items and matters, including, but not limited to, investments, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, 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 are made. These estimates, judgments and assumptions can materially affect the reported amounts of assets, liabilities and components of stockholders' equity 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 other consolidated financial statements. 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 14—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 materially 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. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We offer bundle discounts to our customers who receive certain groupings of services. These bundle discounts are 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 infeasible 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 our agreements with DIRECTV and Verizon Wireless, we offer these services through sales agency relationships which are reported on a net basis.

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

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 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 \$210 million, \$214 million and \$210 million for the years ended December 31, 2015, 2014 and 2013, 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

We file a consolidated federal income tax return with our eligible subsidiaries. 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 tax net operating losses ("NOLs"), 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.

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. In evaluating investments for classification as cash equivalents, we require that individual securities have original maturities of ninety days or less and that individual investment funds have dollar-weighted average maturities of ninety days or less. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Book overdrafts occur when checks have been issued but have not been presented to our controlled disbursement bank accounts for payment. Disbursement bank accounts allow us to delay funding of issued checks until the checks are presented for payment. Until the issued checks are presented for payment, the book overdrafts are included in accounts payable on our consolidated balance sheet. This activity is included in the operating activities section in our consolidated statements of cash flows.

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

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date plus the estimated value of any associated legally or contractually required retirement obligations. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required retirement obligations. 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 and we determine there is no alternative use for the asset.

We have asset retirement obligations associated with the legally or contractually required removal of a limited group of property, plant and equipment assets from leased properties and the disposal of certain hazardous materials present in our owned properties. When an asset retirement obligation is identified, usually in association with the acquisition of the asset, we record the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Where the removal obligation is not legally binding, the net cost to remove assets is expensed in the period in which the costs are actually incurred.

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, capitalized software, trademarks and trade names, are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We amortize our other intangible assets predominantly using the sum-of-the-years-digits method over an estimated life of 4 years. Other intangible assets not arising from business combinations are initially recorded at cost. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite-lived and such intangible assets are not amortized.

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.

Our long-lived intangible assets, other than goodwill, with indefinite lives are assessed for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be an impairment. These assets are carried at the estimated fair value at the time of acquisition and assets not acquired in acquisitions are recorded at historical cost. However, if their estimated fair value is less than the carrying amount, other indefinite-lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment assessment is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment assessment.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. Goodwill is reassigned to the reporting units using a relative fair value approach. We utilize the earnings before interest, taxes, depreciation and amortization as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized.

See Note 2—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

Pension and Post-Retirement Benefits

We recognize the funded status of our defined benefit and post-retirement plans as an asset or a liability on our consolidated balance sheet. Each year's actuarial gains or losses are a component of our other comprehensive income (loss), which is then included in our accumulated other comprehensive loss. Pension and post-retirement benefit expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make significant assumptions (including the discount rate, expected rate of return on plan assets, mortality and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 7—Employee Benefits for additional information.

Foreign Currency

Our results of operations include foreign subsidiaries, which are translated from the applicable functional currency to the United States Dollar using the average exchange rates during the reporting period, while assets and liabilities are translated at the reporting date. We include gains or losses from foreign currency remeasurement in other income, net in our consolidated statements of operations. Certain non-U.S. subsidiaries designate the local currency as their functional currency, and we record the translation of their assets and liabilities into U.S. Dollars at the balance sheet date as translation adjustments and include them as a component of accumulated other comprehensive loss in our consolidated balance sheets.

Common Stock

At December 31, 2015, we had 4 million unissued shares of CenturyLink, Inc. common stock reserved for acquisitions. In addition, we had 25 million shares authorized for future issuance under our equity incentive plans.

Preferred stock

Holders of outstanding CenturyLink, Inc. preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon CenturyLink, Inc.'s liquidation and vote as a single class with the holders of common stock.

Dividends

We pay dividends out of retained earnings to the extent we have retained earnings on the date the dividend is declared. If the dividend is in excess of our retained earnings on the declaration date, then the excess is drawn from our additional paid-in capital.

Recently Adopted Accounting Pronouncements

In 2015, we adopted Accounting Standards Update (“ASU”) 2015-03 “Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03) and ASU 2015-17 “Balance Sheet Classification of Deferred Taxes” (ASU 2015-17). Both ASUs are intended to simplify the presentation of financial information. ASU 2015-03 requires that debt issuance costs be presented as a reduction in the associated debt rather than as an other asset, net. ASU 2015-17 requires that deferred taxes be presented on a net basis by jurisdiction as either a net noncurrent asset or liability. The ASUs affect neither the timing of expense recognition related to the debt issuance costs nor the timing of income and expense recognition related to deferred income taxes.

We adopted both ASU 2015-03 and 2015-17 by retrospectively applying the requirements of the ASUs to our previously issued consolidated financial statements. The retrospective application had no impact on our net income (loss) or earnings (loss) per share for the years ended December 31, 2014 and 2013, but resulted in the following changes in our previously reported consolidated balance sheet as of December 31, 2014:

- A decrease of \$880 million in Total current assets;
- A decrease of \$164 million in Other assets, net;
- A decrease of \$168 million in Long-term debt; and
- A decrease of \$876 million in Deferred income taxes, net.

The adoption of the ASUs had no impact on our net cash provided by operating activities, but did change the presentation of the adjustments to reconcile net income and changes in other noncurrent assets and liabilities, net for the years ended December 31, 2014 and 2013.

In 2015, we adopted Accounting Standards Update (“ASU”) 2015-07 (“ASU 2015-07”), which retrospectively changed the disclosure requirements for certain investments that are valued based upon net asset value (“NAV”) as a practical expedient. ASU 2015-07 was issued to eliminate diversity among entities on what level in the fair value hierarchy such investments were assigned. Under ASU 2015-07, investments valued using NAV as a practical expedient are no longer assigned to a level in the fair value hierarchy rather the value associated with the investments is disclosed in a reconciliation of the total investments measured at fair value.

For us, the change in disclosure requirements as a result of the adoption of ASU 2015-07, only affects the disclosure of the fair value of our pension and post-retirement plan assets included in footnote 7, “Employee Benefits”. ASU 2015-07 results in \$5.749 billion and \$264 million of pension plan and post-retirement plan assets, respectively as of December 31, 2014, not being assigned to a level in the fair value hierarchy but rather disclosed as a separate line added to the fair value hierarchy table to present total plan assets. There was no change in total pension or post-retirement plan assets as of December 31, 2014 due to the adoption of ASU 2015-07.

Recent Accounting Pronouncements

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09” or “new standard”). 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.

On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year until January 1, 2018. Early adoption is permitted as of January 1, 2017. 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, if adopting early, otherwise in the first quarter of 2018. We have not yet decided which implementation method we will adopt. 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 at this time, however, provide any estimate of the impact of adopting the new standard.

(2) Goodwill, Customer Relationships and Other Intangible Assets

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

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Goodwill	\$ 20,742	20,755
Customer relationships, less accumulated amortization of \$5,648 and \$4,682	3,928	4,893
Indefinite-life intangible assets	269	268
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$1,778 and \$1,533	1,248	1,338
Trade names and patents, less accumulated amortization of \$20 and \$196	38	41
Total other intangible assets, net	\$ 1,555	1,647

Total amortization expense for intangible assets for the years ended December 31, 2015, 2014 and 2013 was \$1.353 billion, \$1.470 billion and \$1.589 billion, respectively. As of December 31, 2015, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$33.671 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2016 through 2020 will be as follows:

	(Dollars in millions)
2016	\$ 1,161
2017	1,056
2018	944
2019	827
2020	726

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We assess our goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the recorded amount of goodwill exceeds the fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assessed our reporting units, which are business (excluding wholesale), consumer and wholesale. Our annual impairment assessment date for indefinite-lived intangible assets other than goodwill is December 31.

Our reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. For each reporting unit, we compare its estimated fair value of equity to its carrying value of equity that we assign to the reporting unit. If the estimated fair value of the reporting unit is greater than the carrying value, we conclude that no impairment exists. If the estimated fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to the carrying value of goodwill that we assigned to the reporting unit. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

At October 31, 2015, we estimated the fair value of our business (excluding wholesale), consumer and wholesale reporting units by considering both a market approach 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 of the reporting units beyond the cash flows from the discrete projection period. We discounted the estimated cash flows for our consumer and wholesale reporting units using a rate that represents their 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 3.3% and a cost of equity of 7.6%). We discounted the estimated cash flows of our business (excluding wholesale) reporting unit using a rate that represents its estimated weighted average cost of capital, which we determined to be approximately 7.0% as of the assessment date (which was comprised of an after-tax cost of debt of 3.3% and a cost of equity of 8.6%). We also reconciled the estimated fair values of the reporting units to our market capitalization as of October 31, 2015 and concluded that the indicated implied control premium of approximately 24.6% was reasonable based on recent transactions in the market place. As of October 31, 2015, based on our assessment performed with respect to these reporting units as described above, we concluded that our goodwill for our three reporting units was not impaired as of that date.

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2013 through December 31, 2015.

	Business	Consumer	Wholesale	Hosting	Total
	(Dollars in millions)				
As of December 31, 2013	\$ 6,363	10,348	3,274	689	20,674
Purchase accounting adjustments	—	—	—	(11)	(11)
November 1, 2014 reorganization	4,022	(70)	(3,274)	(678)	—
Acquisitions	92	—	—	—	92
As of December 31, 2014	\$ 10,477	10,278	—	—	20,755
Purchase accounting and other adjustments	(13)	—	—	—	(13)
As of December 31, 2015	\$ 10,464	10,278	—	—	20,742

During the year ended December 31, 2014, we acquired all of the outstanding stock of two companies for total consideration of \$95 million, net of \$2 million acquired cash and including immaterial future cash payments of which \$92 million was attributed to goodwill and the remainder to various assets and liabilities. During 2015, we finalized the valuations for these acquisitions resulting in a \$14 million decrease in goodwill, a \$13 million increase in other intangible assets and a \$1 million decrease in deferred income taxes, net. The acquisitions were consummated to expand the product offerings of our business segment and therefore the goodwill has been assigned to that segment. The goodwill is attributed primarily to expected future increases in business segment revenue from the sale of new products. The goodwill is not deductible for tax purposes.

The acquisitions did not materially impact the consolidated results of operations from the dates of the acquisitions in 2014 and would not materially impact pro forma results of operations.

For additional information on our segments, see Note 12—Segment Information.

We completed our qualitative assessment of our indefinite-lived intangible assets other than goodwill as of December 31, 2015 and concluded it is more likely than not that our indefinite-lived intangible assets are not impaired; thus, no impairment charge was recorded in 2015.

As of October 31, 2014, based on our assessment performed, we concluded that our goodwill for our then four reporting units was not impaired as of that date. During 2013, one of our previous reporting units experienced slower than previously projected revenues and margin growth and greater than anticipated competitive pressures and as a result, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill assigned to one of our then four reporting units.

(3) Long-Term Debt and Credit Facilities

Long-term debt, including unamortized discounts and premiums and unamortized debt issuance costs, consisted of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest Corporation, Qwest Capital Funding, Inc. and Embarq Corporation and subsidiaries ("Embarq"), were as follows:

	Interest Rates	Maturities	As of December 31,	
			2015	2014
(Dollars in millions)				
CenturyLink, Inc.				
Senior notes	5.150% - 7.650%	2017 - 2042	\$ 7,975	7,825
Credit facility and revolving line of credit ⁽¹⁾	2.010% - 4.250%	2019	410	725
Term loan	2.180%	2019	358	380
Subsidiaries				
Qwest Corporation				
Senior notes	6.125% - 8.375%	2016 - 2055	7,229	7,311
Term loan	2.180%	2025	100	—
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation and subsidiaries				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	2,669
First mortgage bonds	7.125% - 8.770%	2017 - 2025	232	232
Other	9.000%	2019	150	150
Capital lease and other obligations	Various	Various	425	509
Unamortized discounts, net			(125)	(111)
Unamortized debt issuance costs			(179)	(168)
Total long-term debt			20,225	20,503
Less current maturities			(1,503)	(550)
Long-term debt, excluding current maturities			\$ 18,722	19,953

⁽¹⁾ The aggregate amount outstanding on our Credit Facility and revolving line of credit borrowings at December 31, 2015 and 2014 was \$410 million and \$725 million, respectively, with weighted average interest rates of 2.756% and 2.270%, respectively. These amounts change on a regular basis.

New Issuances

2015

On September 21, 2015, Qwest Corporation issued \$400 million aggregate principal amount of 6.625% Notes due 2055, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$386 million. The underwriting agreement included an over-allotment option granting the underwriters for the offering an opportunity to purchase additional 6.625% Notes due 2055. On September 30, 2015, Qwest Corporation issued an additional \$10 million aggregate principal amount of the 6.625% Notes under this over-allotment option. All of the 6.625% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after September 15, 2020, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On March 19, 2015, CenturyLink, Inc. issued in a private offering \$500 million aggregate principal amount of 5.625% Notes due 2025, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$494 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, at any time before January 1, 2025 at a redemption price equal to the greater of 100% of the principal amount of the Notes or the sum of the present value of the remaining scheduled payments of principal and interest on the Notes, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. At any time on or after January 1, 2025, CenturyLink, Inc. may redeem the Notes at par plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2018, CenturyLink, Inc. may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with net cash proceeds of certain equity offerings. Under certain circumstances, CenturyLink, Inc. will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date. In October 2015, CenturyLink, Inc. exchanged all of the unregistered Notes issued on March 19, 2015 for fully-registered Notes.

2014

On September 29, 2014, Qwest Corporation 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.

Repayments

2015

On October 13, 2015, Qwest Corporation redeemed all \$250 million of its 7.2% Notes due 2026, which resulted in an immaterial gain, and redeemed \$150 million of its 6.875% Notes due 2033, which resulted in an immaterial loss.

On June 15, 2015, Qwest Corporation paid at maturity the \$92 million principal amount of its 7.625% Notes.

On February 17, 2015, CenturyLink, Inc. paid at maturity the \$350 million principal and accrued and unpaid interest due under its Series M 5.00% Notes.

2014

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

On April 1, 2014, a subsidiary of Embarq paid at maturity the \$30 million principal amount of its 7.46% first mortgage bonds.

Credit Facility

On December 3, 2014, we amended our existing \$2 billion revolving credit facility to extend the maturity date to December 3, 2019. The amended Credit Facility (the "Credit Facility") has 16 lenders, each with commitments ranging from \$3.5 million to \$198.5 million. The Credit Facility allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries.

Term Loans, Revolving Line of Credit and Revolving Letter of Credit

On March 13, 2015, CenturyLink, Inc. amended its term loan agreement to reduce the interest rate payable by it thereunder and to modify some covenants to provide additional flexibility.

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

In January 2015, CenturyLink, Inc. entered into a \$100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility. The amount available under this uncommitted revolving line of credit is reduced by any amount outstanding under the Credit Facility with the same lender. Interest is paid monthly based upon the LIBOR plus an applicable margin between 1.00% and 2.25% per annum. At December 31, 2015, CenturyLink, Inc. had \$80 million borrowings outstanding under this uncommitted revolving line of credit.

In April 2011, we entered into a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2015 and 2014, our outstanding letters of credit totaled \$109 million and \$124 million, respectively, under this facility.

Aggregate Maturities of Long-Term Debt

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

	(Dollars in millions)⁽¹⁾
2016	\$ 1,503
2017	1,501
2018	251
2019	1,160
2020	1,032
2021 and thereafter	15,082
Total long-term debt	\$ 20,529

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

Interest Expense

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

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 1,364	1,358	1,339
Capitalized interest	(52)	(47)	(41)
Total interest expense	\$ 1,312	1,311	1,298

Covenants

Certain of our loan agreements contain various restrictions, as described more fully below. Under current circumstances, we believe the covenants currently in effect place no significant restriction on the transfer of funds from our consolidated subsidiaries to CenturyLink.

The senior notes of CenturyLink, Inc. were issued under an indenture dated March 31, 1994. This indenture restricts our ability to (i) incur, issue or create liens upon our property and (ii) consolidate with or merge into, or transfer or lease all or substantially all of our assets to any other party. The indenture does not contain any provisions that are impacted by our credit ratings or that restrict the issuance of new securities in the event of a material adverse change to us. However, if the credit ratings relating to certain of our long-term debt securities issued under this indenture are downgraded in the manner specified thereunder in connection with a "change of control" of CenturyLink, Inc., then we will be required to offer to repurchase such debt securities.

The senior notes of Qwest Corporation were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures contain restrictions on the incurrence of liens and the consummation of certain transactions substantially similar to the above-described covenants in CenturyLink, Inc.'s March 31, 1994 indenture. The senior notes of Qwest Capital Funding, Inc. were issued under an indenture dated June 29, 1998 containing terms substantially similar to those set forth in Qwest Corporation's indentures.

Embarq's senior notes were issued pursuant to an indenture dated as of May 17, 2006. While Embarq is generally prohibited from creating liens on its property unless its senior notes are secured equally and ratably, Embarq can create liens on its property without equally and ratably securing its senior notes so long as the sum of all indebtedness so secured does not exceed 15% of Embarq's consolidated net tangible assets. The indenture contains customary events of default, none of which are impacted by Embarq's credit rating.

None of the above-listed indentures of CenturyLink, Inc., Qwest Corporation, Qwest Capital Funding, Inc. and Embarq contain any financial covenants or restrictions on the ability to issue new securities in accordance with the terms of the indenture.

Several of our Embarq subsidiaries have outstanding first mortgage bonds. Each issue of these first mortgage bonds is secured by substantially all of the property, plant and equipment of the issuing subsidiary. Approximately 10% of our net property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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. Our debt to EBITDA ratios could be adversely affected by a wide range of events, including unforeseen expenses or contingencies. 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.

CenturyLink, Inc. and Qwest Corporation are both indebted under term loans, each of which includes covenants substantially similar to those set forth in the Credit Facility.

At December 31, 2015, we believe we were in compliance with all of the provisions and covenants contained in our Credit Facility and other material debt agreements.

Guarantees

We do not guarantee the debt of any unaffiliated parties, but certain of our subsidiaries guarantee the outstanding senior notes issued by other subsidiaries. In addition, seven of our largest non-regulated subsidiaries guarantee the obligations of (i) CenturyLink, Inc. under the Credit Facility and its term loan and (ii) Qwest Corporation under its term loan.

Subsequent Event

In January 2016, Qwest Corporation issued \$235 million aggregate principal amount of 7% Notes due 2056, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$227 million. All of the 7% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

(4) Accounts Receivable

The following table presents details of our accounts receivable balances:

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Trade and purchased receivables	\$ 1,789	1,821
Earned and unbilled receivables	288	307
Other	18	22
Total accounts receivable	2,095	2,150
Less: allowance for doubtful accounts	(152)	(162)
Accounts receivable, less allowance	\$ 1,943	1,988

We are exposed to concentrations of credit risk from residential and business customers within our local service area, business customers outside of our local service area and from other telecommunications service providers. 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)			
2015	\$ 162	177	(187)	152
2014	\$ 155	159	(152)	162
2013	\$ 158	152	(155)	155

(5) Property, Plant and Equipment

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

	Depreciable Lives	As of December 31,	
		2015	2014
		(Dollars in millions)	
Land	n/a	\$ 571	575
Fiber, conduit and other outside plant ⁽¹⁾	15-45	16,166	15,151
Central office and other network electronics ⁽²⁾	3-10	14,144	13,248
Support assets ⁽³⁾	3-30	7,000	6,578
Construction in progress ⁽⁴⁾	n/a	904	1,166
Gross property, plant and equipment		38,785	36,718
Accumulated depreciation		(20,716)	(18,285)
Net property, plant and equipment		\$ 18,069	18,433

⁽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, data centers, 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 \$2.836 billion, \$2.958 billion and \$2.952 billion for the years ended December 31, 2015, 2014 and 2013, respectively.

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 statement of operations for the year ended December 31, 2014.

Additionally, in 2014 we sold an office building for \$12 million.

Asset Retirement Obligations

At December 31, 2015, our asset retirement obligations balance was primarily related to estimated future costs of removing equipment from leased properties and estimated future costs of properly disposing of asbestos and other hazardous materials upon remodeling or demolishing buildings. Asset retirement obligations are included in other long-term liabilities on our consolidated balance sheets.

The following table provides asset retirement obligation activity:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Balance at beginning of year	\$ 107	106	106
Accretion expense	7	7	7
Liabilities incurred	—	6	—
Liabilities settled	(2)	(2)	(4)
Change in estimate	(21)	(10)	(3)
Balance at end of year	<u>\$ 91</u>	<u>107</u>	<u>106</u>

During 2015, 2014 and 2013, we revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$21 million, \$10 million and \$3 million, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment and revisions to assets specifically identified are recorded as a reduction to accretion expense.

(6) Severance and Leased Real Estate

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, 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. As noted in Note 12—Segment Information, we do not allocate these severance expenses to our segments.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate for which we have ceased using, net of estimated sublease rentals. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically, we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities-other and report the noncurrent portion in deferred credits and other liabilities in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At December 31, 2015, the current and noncurrent portions of our leased real estate accrual were \$9 million and \$71 million, respectively. The remaining lease terms range from 0.3 years to 10 years, with a weighted average of 8 years.

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2013	\$ 17	113
Accrued to expense	87	1
Payments, net	(78)	(16)
Reversals and adjustments	—	(2)
Balance at December 31, 2014	26	96
Accrued to expense	96	—
Payments, net	(108)	(13)
Reversals and adjustments	—	(3)
Balance at December 31, 2015	<u>\$ 14</u>	<u>80</u>

(7) Employee Benefits

Pension, Post-Retirement and Other Post-Employment Benefits

We sponsor various defined benefit pension plans (qualified and non-qualified), which in the aggregate cover a substantial portion of our employees including legacy CenturyLink, legacy Qwest Communications International, Inc. ("Qwest") and legacy Embarq employees. On December 31, 2014, we merged our existing qualified pension plans, which included merging the Qwest Pension Plan and Embarq Retirement Pension Plan into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan ("Combined Plan"). Pension benefits for participants of the new Combined Plan who are represented by a collective bargaining agreement are based on negotiated schedules. All other participants' pension benefits are based on each individual participant's years of service and compensation. We also maintain non-qualified pension plans for certain current and former highly compensated employees. We maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. We also provide other post-employment benefits for eligible former employees. We use a December 31 measurement date for all our plans.

Pension Benefits

Current funding laws require a company with a pension shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Our funding policy for our Combined Plan is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due under the terms of the plan. The accounting unfunded status of our qualified pension plan was \$2.215 billion and \$2.403 billion as of December 31, 2015 and 2014, respectively.

In 2015, we made a voluntary cash contribution of \$100 million to our qualified pension plan and paid approximately \$6 million of benefits directly to participants of our non-qualified pension plans. Based on current laws and circumstances, we are not required to make any contributions to our qualified pension plan in 2016, but we estimate that we will pay approximately \$5 million of benefits to participants of our non-qualified pension plans.

Our pension plans contain provisions that allow us, from time to time, to offer lump sum payment options to certain former employees in settlement of their future retirement benefits. We record these payments as a settlement only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit costs, which represents the settlement threshold. In September 2015, we offered to make cash settlement payments in December 2015 to a group of former employees provided they accepted the offer by the end of October 2015. During the fourth quarter of 2015, we made cash settlement payments for the lump sum offer of approximately \$356 million. The total amount of the lump sum settlement payments for the year ended December 31, 2015, which included the lump sum offer and lump sum elections from employees who terminated employment during the year, was less than the settlement threshold, therefore settlement accounting was not triggered in 2015. On December 8, 2014, lump sum pension settlement payments to terminated, but not-yet-retired legacy Qwest participants was \$460 million, which exceeded the settlement threshold of \$418 million. As a result, we were required to recognize a settlement charge of \$63 million in 2014 to accelerate the recognition of a portion of the previously unrecognized actuarial losses in the qualified pension plan, which has been allocated and reflected in cost of services and products (exclusive of depreciation and amortization) and selling, general and administrative in our consolidated statement of operations for the year ended December 31, 2014. This charge reduced our recorded net income and retained earnings, with an offset to accumulated other comprehensive loss in shareholders' equity. The amount of any future non-cash settlement charges will depend on the level of lump sum benefit payments made in 2016 and beyond.

Post-Retirement Benefits

Our post-retirement benefit plans provide post-retirement benefits to qualified retirees and allow (i) eligible employees retiring before certain dates to receive benefits at no or reduced cost and (ii) eligible employees retiring after certain dates to receive benefits on a shared cost basis. The post-retirement benefits not paid by the trust are funded by us and we expect to continue funding these post-retirement obligations as benefits are paid. The accounting unfunded status of our qualified post-retirement benefit plan was \$3.374 billion and \$3.477 billion as of December 31, 2015 and 2014, respectively.

No contributions were made to the post-retirement trusts in 2015, and we do not expect to make a contribution in 2016. However, in 2015 we paid approximately \$116 million of benefits (net of participant contributions and direct subsidies) that were not payable by the trusts. We estimate that in 2016, we will pay approximately \$137 million of benefits (net of participant contributions and direct subsidies) that are not payable by the trusts.

We expect our health care cost trend rate to decrease between 0.05% to 0.10% per year from 5.00% in 2016 to an ultimate rate of 4.50% in 2025. Our post-retirement benefit expense, for certain eligible legacy Qwest retirees and certain eligible legacy CenturyLink retirees, is capped at a set dollar amount. Therefore, those health care benefit obligations are not subject to increasing health care trends after the effective date of the caps.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2015:

	100 Basis Points Change	
	Increase	(Decrease)
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit expense (consolidated statement of operations)	\$ 3	(3)
Effect on benefit obligation (consolidated balance sheet)	73	(68)

Expected Cash Flows

The qualified pension, non-qualified pension and post-retirement health care benefit payments and premiums and life insurance premium payments are paid by us or distributed from plan assets. The estimated benefit payments provided below are based on actuarial assumptions using the demographics of the employee and retiree populations and have been reduced by estimated participant contributions.

	Pension Plans	Post-Retirement Benefit Plans	Medicare Part D Subsidy Receipts
	(Dollars in millions)		
Estimated future benefit payments:			
2016	\$ 1,059	309	(7)
2017	1,010	300	(7)
2018	991	290	(7)
2019	973	283	(7)
2020	954	276	(7)
2021 - 2025	4,433	1,256	(30)

Net Periodic Benefit Expense

The actuarial assumptions used to compute the net periodic benefit expense for our qualified pension, non-qualified pension and post-retirement benefit plans are based upon information available as of the beginning of the year, as presented in the following table.

	Pension Plans			Post-Retirement Benefit Plans		
	2015	2014	2013	2015	2014	2013
Actuarial assumptions at beginning of year:						
Discount rate	3.50% - 4.10%	4.20% - 5.10%	3.50% - 4.20%	3.80%	4.50%	3.60%
Rate of compensation increase	3.25%	3.25%	3.25%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	7.50%	6.00% - 7.50%	6.00% - 7.30%
Initial health care cost trend rate	N/A	N/A	N/A	6.00% / 6.50%	6.00% / 6.50%	6.50% / 7.00%
Ultimate health care cost trend rate	N/A	N/A	N/A	4.50%	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	N/A	2025	2024	2022

N/A-Not applicable

Net periodic (income) expense for our qualified and non-qualified pension plans includes the following components:

	Pension Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Service cost	\$ 83	77	91
Interest cost	568	602	544
Expected return on plan assets	(898)	(891)	(896)
Settlements	—	63	—
Recognition of prior service cost	5	5	5
Recognition of actuarial loss	161	22	84
Net periodic pension benefit income	<u>\$ (81)</u>	<u>(122)</u>	<u>(172)</u>

Net periodic expense (income) for our post-retirement benefit plans includes the following components:

	Post-Retirement Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Service cost	\$ 24	22	24
Interest cost	140	159	140
Expected return on plan assets	(21)	(33)	(39)
Recognition of prior service cost	19	20	—
Recognition of actuarial loss	—	—	4
Net periodic post-retirement benefit expense	<u>\$ 162</u>	<u>168</u>	<u>129</u>

We report net periodic benefit (income) expense for our qualified pension, non-qualified pension and post-retirement benefit plans in both cost of services and products and selling, general and administrative expenses on our consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013.

Benefit Obligations

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2015 and 2014 and are as follows:

	Pension Plans		Post-Retirement Benefit Plans	
	December 31,		December 31,	
	2015	2014	2015	2014
Actuarial assumptions at end of year:				
Discount rate	3.50% - 4.50%	3.50% - 4.10%	4.15%	3.80%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	5.00% / 5.25%	6.00% / 6.50%
Ultimate health care cost trend rate	N/A	N/A	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	2025	2024

N/A-Not applicable

In 2015, we adopted the revised mortality table and projection scale released by the Society of Actuaries ("SOA"), which decreased the projected benefit obligation of our benefit plans by \$379 million. In 2014, to better reflect the expected lifetimes of our plan participants, we adopted a new mortality table for our defined benefit plan. The table used was based on SOA tables and increased the projected benefit obligation by approximately \$1.3 billion. The 2014 increase in the projected obligation was recognized as part of the net actuarial loss and is included in the other comprehensive loss, a portion of which is subject to be amortized over the remaining estimated life of plan participants (approximately 8 years).

The following tables summarize the change in the benefit obligations for the pension and post-retirement benefit plans:

	Pension Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 15,042	13,401	14,881
Service cost	83	77	91
Interest cost	568	602	544
Plan amendments	(100)	4	—
Actuarial loss (gain)	(800)	2,269	(1,179)
Settlements	—	(460)	—
Benefits paid by company	(6)	(6)	(5)
Benefits paid from plan assets	(1,438)	(845)	(931)
Benefit obligation at end of year	<u>\$ 13,349</u>	<u>15,042</u>	<u>13,401</u>

	Post-Retirement Benefit Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 3,830	3,688	4,075
Service cost	24	22	24
Interest cost	140	159	140
Participant contributions	57	69	96
Plan amendments	—	23	141
Direct subsidy receipts	8	9	13
Actuarial loss (gain)	(148)	245	(399)
Benefits paid by company	(181)	(166)	(266)
Benefits paid from plan assets	(163)	(219)	(136)
Benefit obligation at end of year	<u>\$ 3,567</u>	<u>3,830</u>	<u>3,688</u>

Our aggregate benefit obligation as of December 31, 2015, 2014 and 2013 was \$16.916 billion, \$18.872 billion and \$17.089 billion, respectively.

Plan Assets

We maintain plan assets for our qualified pension plan and certain post-retirement benefit plans. The qualified pension plan's assets are used for the payment of pension benefits and certain eligible plan expenses. The post-retirement benefit plan's assets are used to pay health care benefits and premiums on behalf of eligible retirees and to pay certain eligible plan expenses. The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

The following tables summarize the change in the fair value of plan assets for the pension and post-retirement benefit plans:

	Pension Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 12,571	12,346	12,321
Return on plan assets	(161)	1,373	810
Employer contributions	100	157	146
Settlements	—	(460)	—
Benefits paid from plan assets	(1,438)	(845)	(931)
Fair value of plan assets at end of year	<u>\$ 11,072</u>	<u>12,571</u>	<u>12,346</u>

	Post-Retirement Benefit Plans		
	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 353	535	626
Return on plan assets	3	37	45
Benefits paid from plan assets	(163)	(219)	(136)
Fair value of plan assets at end of year	<u>\$ 193</u>	<u>353</u>	<u>535</u>

Pension Plans: Our investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits and minimize the risk of large losses. Our pension plan investment strategy is designed to meet this objective by broadly diversifying plan assets across numerous strategies with differing expected returns, volatilities and correlations. The pension plan assets have target allocations of 45% to interest rate sensitive investments and 55% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 30% of plan assets targeted primarily to long-duration investment grade bonds, 10% targeted to high yield and emerging market bonds and 5% targeted to diversified strategies, which primarily have exposures to global bonds, as well as some exposures to global stocks and commodities. Assets expected to provide higher returns than the interest rate sensitive assets include broadly diversified equity investments with targets of approximately 15% to U.S. equity markets and 15% to non-U.S. developed and emerging markets. Approximately 7% is targeted to broadly diversified multi-asset class strategies that have the flexibility to adjust exposures to different asset classes. Approximately 10% is allocated to private markets investments including funds primarily invested in private equity, private debt and hedge funds. Real estate investments are targeted at 8% of plan assets. At the beginning of 2016, our expected annual long-term rate of return on pension assets before consideration of administrative expenses is assumed to be 7.5%. However, projected increases in PBGC (Pension Benefit Guaranty Corporation) premium rates have now become large enough to reduce the annual long-term expected return net of administrative expenses to 7.0%.

Our non-qualified pension plans are not funded. We pay benefits directly to the participants of these plans.

Post-Retirement Benefit Plans: Our investment objective for the post-retirement benefit plans' assets is to achieve an attractive risk-adjusted return and minimize the risk of large losses over the expected life of the assets. Investment risk is managed by broadly diversifying assets across numerous strategies with differing expected returns, volatilities and correlations. Our investment strategy is designed to be consistent with the investment objective, with particular focus on providing liquidity for the reimbursement of our union-represented employees' post-retirement health care costs. The liquid post-retirement benefit plan assets (excluding private market investments) have target allocations of 20% to equities and 80% to non-equity investments. Specific target allocations within these broad categories are allowed to vary to meet reimbursement requirements. Liquid equity investments are broadly diversified with exposure to publicly traded U.S., non-U.S. and emerging market stocks. The 80% non-equity allocation includes investment grade bonds, real estate, hedge funds and diversified strategies. While no new private market investments have been made in recent years, the percent allocation to existing private market investments is expected to increase as liquid, publicly traded stocks are drawn down for the reimbursement of health care costs. At the beginning of 2016, our expected annual long-term rate of return on post-retirement benefit plan assets is assumed to be 7.0%.

Permitted investments: Plan assets are managed consistent with the restrictions set forth by the Employee Retirement Income Security Act of 1974, as amended, which requires diversification of assets and also generally prohibits defined benefit and welfare plans from investing more than 10% of their assets in securities issued by the sponsor company. At December 31, 2015 and 2014, the pension and post-retirement benefit plans did not directly own any shares of our common stock or any of our debt.

Derivative instruments: Derivative instruments are used to reduce risk as well as provide return. The pension and post-retirement benefit plans use exchange traded futures and swaps to gain exposure to equity and interest rate markets consistent with target asset allocations and to reduce risk relative to measurement of the benefit obligation, which is sensitive to interest rate changes. Foreign exchange forward contracts are used to manage currency exposures. Credit default swaps are used to manage credit risk exposures in a cost effective and targeted manner relative to transacting with physical corporate fixed income securities. Options are currently used to manage interest rate exposure taking into account the implied volatility and current pricing of the specific underlying market instrument. Some derivative instruments subject the plans to counterparty risk. The external investment managers, along with Plan Management, monitor counterparty exposure and mitigate this risk by diversifying the exposure among multiple high credit quality counterparties, requiring collateral and limiting exposure by periodically settling contracts.

The gross notional exposure of the derivative instruments directly held by the plans is shown below. The notional amount of the derivatives corresponds to market exposure but does not represent an actual cash investment.

	Gross Notional Exposure				
	Pension Plans		Post-Retirement Benefit Plans		
	Years Ended December 31,				
	2015	2014	2015	2014	
	(Dollars in millions)				
<u>Derivative instruments:</u>					
Exchange-traded U.S. equity futures	\$	79	134	—	7
Exchange-traded Treasury and other interest rate futures		1,767	2,451	—	—
Interest rate swaps		550	579	—	—
Credit default swaps		189	382	—	—
Foreign exchange forwards		992	1,195	—	13
Options		285	529	—	—

Fair Value Measurements: 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. For additional information on the fair value hierarchy, see Note 10—Fair Value Disclosure.

At December 31, 2015, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2015:

- Level 1—Assets were valued using the closing price reported in the active market in which the individual security was traded.
- Level 2—Assets were valued using quoted prices in markets that are not active, broker dealer quotations, net asset value of shares held by the plans and other methods by which all significant inputs were observable at the measurement date.
- Level 3—Assets were valued using unobservable inputs in which little or no market data exists as reported by the respective institutions at the measurement date.

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2015. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivables, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2015				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 841	1,045	—	\$ 1,886
High yield bonds (b)	—	544	13	557
Emerging market bonds (c)	208	232	1	441
Convertible bonds (d)	—	2	—	2
U.S. stocks (f)	1,201	—	—	1,201
Non-U.S. stocks (g)	1,127	1	—	1,128
Multi-asset strategies (m)	376	—	—	376
Derivatives (n)	2	(6)	—	(4)
Cash equivalents and short-term investments (o)	—	192	—	192
Total investments, excluding investments valued at NAV	<u>\$ 3,755</u>	<u>2,010</u>	<u>14</u>	<u>5,779</u>
Investments valued at NAV				<u>5,293</u>
Total pension plan assets				<u>\$ 11,072</u>

Fair Value of Post-Retirement Plan Assets at December 31, 2015				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 2	1	—	\$ 3
High yield bonds (b)	—	1	—	1
U.S. stocks (f)	16	—	—	16
Non-U.S. stocks (g)	12	—	—	12
Emerging market stocks (h)	4	—	—	4
Cash equivalents and short-term investments (o)	—	4	—	4
Total investments, excluding investments valued at NAV	<u>\$ 34</u>	<u>6</u>	<u>—</u>	<u>40</u>
Investments valued at NAV				<u>153</u>
Total post-retirement plan assets				<u>\$ 193</u>

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2014. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivable, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2014

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 1,068	1,278	—	\$ 2,346
High yield bonds (b)	—	647	7	654
Emerging market bonds (c)	208	407	—	615
Convertible bonds (d)	—	4	—	4
U.S. stocks (f)	1,389	1	—	1,390
Non-U.S. stocks (g)	1,169	1	—	1,170
Derivatives (n)	2	15	—	17
Cash equivalents and short-term investments (o)	—	626	—	626
Total investments, excluding investments valued at NAV	\$ 3,836	2,979	7	6,822
Investments valued at NAV				5,749
Total pension plan assets				\$ 12,571

**Fair Value of Post-Retirement Plan Assets
at December 31, 2014**

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 5	1	—	\$ 6
High yield bonds (b)	—	1	—	1
U.S. stocks (f)	35	—	—	35
Non-U.S. stocks (g)	33	—	—	33
Emerging market stocks (h)	6	—	—	6
Cash equivalents and short-term investments (o)	—	8	—	8
Total investments, excluding investments valued at NAV	\$ 79	10	—	89
Investments valued at NAV				264
Total post-retirement plan assets				\$ 353

The table below presents the fair value of plan assets valued at NAV by category for our pension and post-retirement plans at December 31, 2015 and 2014. See Note 1 - Basis of Presentation and Summary of Significant Accounting Policies for additional information regarding the 2015 adoption of ASU 2015-07.

	Fair Value of Plan Assets Valued at NAV			
	Pension Plans at December 31,		Post-Retirement Benefit Plans at December 31,	
	2015	2014	2015	2014
	(Dollars in millions)			
Investment grade bonds (a)	\$ 115	148	35	71
High yield bonds (b)	512	860	1	14
Emerging market bonds (c)	9	27	—	—
Convertible bonds (d)	—	10	—	—
Diversified strategies (e)	516	718	54	89
U.S. stocks (f)	70	86	—	—
Non-U.S. stocks (g)	289	384	—	—
Emerging market stocks (h)	64	102	—	—
Private equity (i)	526	673	21	28
Private debt (j)	371	394	2	3
Market neutral hedge funds (k)	825	1,026	17	25
Directional hedge funds (k)	594	558	1	1
Real estate (l)	968	699	20	28
Multi-asset strategies (m)	386	—	—	—
Cash equivalents and short-term investments (o)	48	64	2	5
Total investments valued at NAV	\$ 5,293	5,749	153	264

The plans' assets are invested in various asset categories utilizing multiple strategies and investment managers. For several of the investments in the tables above and discussed below, the plans own units in commingled funds and limited partnerships that invest in various types of assets. Interests in commingled funds are valued using the net asset value ("NAV") per unit of each fund. The NAV reported by the fund manager is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding. Commingled funds can be redeemed at NAV within a year of the financial statement date. Investments in limited partnerships represent long-term commitments with a fixed maturity date, typically ten years and are also valued at NAV. Valuation inputs for these limited partnership interests are generally based on assumptions and other information not observable in the market. The assumptions and valuation methodologies of the pricing vendors, account managers, fund managers and partnerships are monitored and evaluated for reasonableness. Below is an overview of the asset categories, the underlying strategies and valuation inputs used to value the assets in the preceding tables:

(a) *Investment grade bonds* represent investments in fixed income securities as well as commingled bond funds comprised of U.S. Treasury securities, agencies, corporate bonds, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. Treasury securities are valued at the bid price reported in the active market in which the security is traded and are classified as Level 1. The valuation inputs of other investment grade bonds primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. The primary observable inputs include references to the new issue market for similar securities, the secondary trading markets and dealer quotes. Option adjusted spread models are utilized to evaluate securities such as asset backed securities that have early redemption features. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying fixed income securities using the same valuation inputs described above.

(b) *High yield bonds* represent investments in below investment grade fixed income securities as well as commingled high yield bond funds. The valuation inputs for the securities primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. These securities are primarily classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying high yield instruments using the same valuation inputs described above.

(c) *Emerging market bonds* represent investments in securities issued by governments and other entities located in developing countries as well as registered mutual funds and commingled emerging market bond funds. The valuation inputs for the securities utilize observable market information and are primarily based on dealer quotes or a spread relative to the local government bonds. The registered mutual fund is classified as Level 1 while individual securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying emerging market bonds using the same valuation inputs described above.

(d) *Convertible bonds* primarily represent investments in corporate debt securities that have features that allow the debt to be converted into equity securities under certain circumstances. The valuation inputs for the individual convertible bonds primarily utilize observable market information including a spread to U.S. Treasuries and the value and volatility of the underlying equity security. Convertible bonds are classified as Level 2.

(e) *Diversified strategies* represent an investment in a commingled fund that primarily has exposures to global government, corporate and inflation linked bonds, global stocks and commodities. The commingled fund is valued at NAV based on the market value of the underlying investments. The valuation inputs utilize observable market information including published prices for exchange traded securities, bid prices for government bonds, and spreads and yields available for comparable fixed income securities with similar credit ratings.

(f) *U.S. stocks* represent investments in stocks of U.S. based companies as well as commingled U.S. stock funds. The valuation inputs for U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

(g) *Non-U.S. stocks* represent investments in stocks of companies based in developed countries outside the U.S. as well as commingled funds. The valuation inputs for non-U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are primarily classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

(h) *Emerging market stocks* represent investments in a registered mutual fund and commingled funds comprised of stocks of companies located in developing markets. Registered mutual funds trade at the daily NAV, as determined by the market value of the underlying investments, and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described previously for individual stocks.

(i) *Private equity* represents non-public investments in domestic and foreign buy out and venture capital funds. Private equity funds are structured as limited partnerships and are valued according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The partnerships are valued at NAV using valuation methodologies that give consideration to a range of factors, including but not limited to the price at which investments were acquired, the nature of the investments, market conditions, trading values on comparable public securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investments. These valuation methodologies involve a significant degree of judgment.

(j) *Private debt* represents non-public investments in distressed or mezzanine debt funds. Mezzanine debt instruments are debt instruments that are subordinated to other debt issues and may include embedded equity instruments such as warrants. Private debt funds are structured as limited partnerships and are valued at NAV according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The valuation of underlying fund investments are based on factors including the issuer's current and projected credit worthiness, the security's terms, reference to the securities of comparable companies, and other market factors. These valuation methodologies involve a significant degree of judgment.

(k) *Market neutral hedge funds* hold investments in a diversified mix of instruments that are intended in combination to exhibit low correlations to market fluctuations. These investments are typically combined with futures to achieve uncorrelated excess returns over various markets. *Directional hedge funds*—This asset category represents investments that may exhibit somewhat higher correlations to market fluctuations than the market neutral hedge funds. Investments in hedge funds include both direct investments and investments in diversified funds of funds. Hedge Funds are valued at NAV based on the market value of the underlying investments which include publicly traded equity and fixed income securities and privately negotiated debt securities. The hedge funds are valued by third party administrators using the same valuation inputs previously described.

(l) *Real estate* represents investments in commingled funds and limited partnerships that invest in a diversified portfolio of real estate properties. These investments are valued at NAV according to the valuation policy of each fund or partnership, subject to prevailing accounting and other regulatory guidelines. The valuation inputs of the underlying properties are generally based on third-party appraisals that use comparable sales or a projection of future cash flows to determine fair value.

(m) *Multi-asset strategies* is a new allocation in 2015 and represents broadly diversified strategies that have the flexibility to tactically adjust exposures to different asset classes through time. This asset category includes investments in a registered mutual fund which is classified as Level 1 and a commingled fund which is valued at NAV based on the market value of the underlying investments.

(n) *Derivatives* include exchange traded futures contracts which are classified as Level 1, as well as privately negotiated over-the-counter swaps and options that are valued based on the change in interest rates or a specific market index and are classified as Level 2. The market values represent gains or losses that occur due to fluctuations in interest rates, foreign currency exchange rates, security prices, or other factors.

(o) *Cash equivalents and short-term investments* represent investments that are used in conjunction with derivatives positions or are used to provide liquidity for the payment of benefits or other purposes. The valuation inputs of securities are based on a spread to U.S. Treasury Bills, the Federal Funds Rate, or London Interbank Offered Rate and consider yields available on comparable securities of issuers with similar credit ratings and are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

Concentrations of Risk: Investments, in general, are exposed to various risks, such as significant world events, interest rate, credit, foreign currency and overall market volatility risk. These risks are managed by broadly diversifying assets across numerous asset classes and strategies with differing expected returns, volatilities and correlations. Risk is also broadly diversified across numerous market sectors and individual companies. Financial instruments that potentially subject the plans to concentrations of counterparty risk consist principally of investment contracts with high quality financial institutions. These investment contracts are typically collateralized obligations and/or are actively managed, limiting the amount of counterparty exposure to any one financial institution. Although the investments are well diversified, the value of plan assets could change materially depending upon the overall market volatility, which could affect the funded status of the plans.

The table below presents a rollforward of the pension plan assets valued using Level 3 inputs:

	Pension Plan Assets Valued Using Level 3 Inputs		
	High Yield Bonds	Emerging Market Bonds	Total
	(Dollars in millions)		
Balance at December 31, 2013	\$ —	—	—
Net transfers	6	—	6
Acquisitions	1	—	1
Dispositions	(3)	—	(3)
Actual return on plan assets:			
Gains relating to assets sold during the year	4	—	4
(Losses) gains relating to assets still held at year-end	(1)	—	(1)
Balance at December 31, 2014	7	—	7
Net transfers	4	1	5
Acquisitions	4	—	4
Dispositions	(2)	—	(2)
Actual return on plan assets:			
Gains relating to assets sold during the year	—	—	—
(Losses) gains relating to assets still held at year-end	—	—	—
Balance at December 31, 2015	\$ 13	1	14

Certain gains and losses are allocated between assets sold during the year and assets still held at year-end based on transactions and changes in valuations that occurred during the year. These allocations also impact our calculation of net acquisitions and dispositions.

For the year ended December 31, 2015, the investment program produced actual losses on qualified pension and post-retirement plan assets of \$158 million as compared to expected returns of \$919 million for a difference of \$1.077 billion. For the year ended December 31, 2014, the investment program produced actual gains on pension and post-retirement plan assets of \$1.410 billion as compared to the expected returns of \$924 million for a difference of \$486 million. The short-term annual returns on plan assets will almost always be different from the expected long-term returns and the plans could experience net gains or losses, due primarily to the volatility occurring in the financial markets during any given year.

Unfunded Status

The following table presents the unfunded status of the pensions and post-retirement benefit plans:

	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2015	2014	2015	2014
	(Dollars in millions)			
Benefit obligation	\$ (13,349)	(15,042)	(3,567)	(3,830)
Fair value of plan assets	11,072	12,571	193	353
Unfunded status	(2,277)	(2,471)	(3,374)	(3,477)
Current portion of unfunded status	\$ (5)	(6)	(135)	(134)
Non-current portion of unfunded status	\$ (2,272)	(2,465)	(3,239)	(3,343)

The current portion of our post-retirement benefit obligations is recorded on our consolidated balance sheets in accrued expenses and other current liabilities-salaries and benefits.

Accumulated Other Comprehensive Loss-Recognition and Deferrals

The following tables present cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2014, items recognized as a component of net periodic benefits expense in 2015, additional items deferred during 2015 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2015. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

	As of and for the Years Ended December 31,				
		Recognition of Net Periodic Benefits Expense	Deferrals	Net Change in AOCL	
	2014				2015
	(Dollars in millions)				
Accumulated other comprehensive loss:					
Pension plans:					
Net actuarial (loss) gain	\$ (2,760)	161	(258)	(97)	(2,857)
Prior service (cost) benefit	(32)	5	99	104	72
Deferred income tax benefit (expense)	1,072	(63)	61	(2)	1,070
Total pension plans	(1,720)	103	(98)	5	(1,715)
Post-retirement benefit plans:					
Net actuarial (loss) gain	(277)	—	130	130	(147)
Prior service (cost) benefit	(166)	19	—	19	(147)
Deferred income tax benefit (expense)	171	(7)	(50)	(57)	114
Total post-retirement benefit plans	(272)	12	80	92	(180)
Total accumulated other comprehensive loss	\$ (1,992)	115	(18)	97	(1,895)

The following table presents estimated items to be recognized in 2016 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	Pension Plans	Post-Retirement Plans
	(Dollars in millions)	
Estimated recognition of net periodic benefit (cost)/income in 2016:		
Net actuarial loss	\$ (168)	—
Prior service (cost)/income	8	(20)
Deferred income tax benefit	61	8
Estimated net periodic benefit expense to be recorded in 2016 as a component of other comprehensive income (loss)	<u>\$ (99)</u>	<u>(12)</u>

Medicare Prescription Drug, Improvement and Modernization Act of 2003

We sponsor post-retirement health care plans with several benefit options that provide prescription drug benefits that we deem actuarially equivalent to or exceeding Medicare Part D. We recognize the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of our 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 expense for current employees was \$381 million, \$381 million and \$362 million for the years ended December 31, 2015, 2014 and 2013, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$125 million, \$136 million and \$117 million for the years ended December 31, 2015, 2014 and 2013, respectively. Our group basic life insurance plans are fully insured and the premiums are paid by us.

401(k) Plans

We sponsor qualified defined contribution plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of employee contributions in cash. At both December 31, 2015 and 2014, the assets of the plans included approximately 8 million shares of our common stock as a result of the combination of previous employer match and participant directed contributions. We recognized expenses related to these plans of \$83 million, \$81 million and \$89 million and for the years ended December 31, 2015, 2014 and 2013, respectively.

Deferred Compensation Plans

We sponsored non-qualified unfunded deferred compensation plans for various groups that included certain of our current and former highly compensated employees. The value of liabilities related to these plans was not significant.

(8) Share-based Compensation

We maintain equity programs that allow our Board of Directors (through its Compensation Committee or our Chief Executive Officer as its delegate) to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units and market and performance shares. Stock options generally expire ten years from the date of grant. Until June 30, 2014, we offered an employee stock purchase plan, which allowed eligible employees to purchase our common stock at a 15% discount based on the lower of the beginning or ending stock price during recurring six month offering periods.

Stock Options

The following table summarizes activity involving stock option awards for the year ended December 31, 2015:

	Number of Options (in thousands)	Weighted- Average Exercise Price
Outstanding and Exercisable at December 31, 2014	4,106	\$ 37.99
Exercised	(335)	26.00
Forfeited/Expired	(246)	30.33
Outstanding and Exercisable at December 31, 2015	3,525	39.67

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2015 was \$1 million. The weighted average remaining contractual term for such options was 1.9 years.

During 2015, we received net cash proceeds of \$9 million in connection with our option exercises. The tax benefit realized from these exercises was \$1 million. The total intrinsic value of options exercised for the years ended December 31, 2015, 2014 and 2013, was \$4 million, \$9 million and \$11 million, respectively.

Restricted Stock Awards

For equity based awards that contain only service conditions for vesting, we calculate the award fair value based on the closing stock price on the accounting grant date. For equity based restricted stock awards that contain market conditions, the award fair value is calculated through Monte-Carlo simulations.

During the first quarter of 2015, we granted approximately 496 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 198 thousand contained only service conditions and will vest on a straight-line basis on February 23, 2016, 2017 and 2018. The remaining awards contain market and service conditions and are scheduled to vest on February 23, 2018. These shares, with market and service conditions, represent only the target for the award, as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award depending on our total shareholder return versus that of selected peer companies for 2015, 2016 and 2017.

At the end of the first quarter of 2015, we granted approximately 1.2 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 12, 2016, 2017 and 2018. During the third quarter of 2015 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 193 thousand, 423 thousand and 230 thousand shares vesting on August 14, 2018, 2020 and 2022, respectively, and 55 thousand shares vesting equally on August 14, 2017, 2019, and 2021. The remaining awards granted throughout 2015 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

During the first quarter of 2014, we granted approximately 440 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 250 thousand contained only service conditions and will vest on a straight-line basis on February 20, 2015, 2016 and 2017. The remaining awards contain market and service conditions and are scheduled to vest on February 20, 2017. These shares, with market and service conditions, represent only the target for the award, as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award depending on our total shareholder return versus that of selected peer companies for 2014, 2015 and 2016.

During the second quarter of 2014, we granted approximately 1.5 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 26, 2015, 2016 and 2017. During the third quarter of 2014 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 105 thousand, 325 thousand and 220 thousand vesting on August 4, 2017, 2019 and 2021, respectively. The remaining awards granted throughout 2014 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

During the second quarter of 2013, we granted approximately 335 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 223 thousand contained only service conditions and are scheduled to vest on a straight-line basis on May 23, 2014, 2015 and 2016. The remaining awards contain market and service conditions and will vest on May 23, 2016. These shares, with market and service conditions, represent only the target for the award as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award depending on, our total shareholder return versus that of selected peer companies for 2013, 2014 and 2015.

In addition, during the first and second quarter of 2013, we granted approximately 1.2 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions. The remaining awards granted throughout 2013 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2015:

	Number of Shares	Weighted- Average Grant Date Fair Value
	(in thousands)	
Non-vested at December 31, 2014	4,400	\$ 36.59
Granted	2,904	31.83
Vested	(1,724)	35.71
Forfeited	(678)	38.95
Non-vested at December 31, 2015	<u>4,902</u>	<u>33.86</u>

During 2014, we granted 2.9 million shares of restricted stock and restricted stock unit awards at a weighted-average price of \$35.87. The total fair value of restricted stock that vested during 2015, 2014 and 2013, was \$59 million, \$53 million and \$52 million, respectively.

Compensation Expense and Tax Benefit

We recognize compensation expense related to our market and performance share-based awards with graded vesting that only have a service condition on a straight-line basis over the requisite service period for the entire award. Total compensation expense for all share-based payment arrangements for the years ended December 31, 2015, 2014 and 2013, was \$73 million, \$75 million and \$63 million, respectively. Our tax benefit recognized in the consolidated statements of operations for our share-based payment arrangements for the years ended December 31, 2015, 2014 and 2013, was \$28 million, \$29 million and \$25 million, respectively. At December 31, 2015, there was \$113 million of total unrecognized compensation expense related to our share-based payment arrangements, which we expect to recognize over a weighted-average period of 2.5 years.

(9) Earnings (Loss) Per Common Share

Basic and diluted earnings (loss) per common share for the years ended December 31, 2015, 2014 and 2013 were calculated as follows:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions, except per share amounts, shares in thousands)		
Income (Loss) (Numerator):			
Net income (loss)	\$ 878	772	(239)
Earnings applicable to non-vested restricted stock	—	—	—
Net income (loss) applicable to common stock for computing basic earnings (loss) per common share	878	772	(239)
Net income (loss) as adjusted for purposes of computing diluted earnings (loss) per common share	\$ 878	772	(239)
Shares (Denominator):			
Weighted average number of shares:			
Outstanding during period	559,260	572,748	604,404
Non-vested restricted stock	(4,982)	(4,313)	(3,512)
Weighted average shares outstanding for computing basic earnings (loss) per common share	554,278	568,435	600,892
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	10	10	—
Shares issuable under incentive compensation plans	805	1,294	—
Number of shares as adjusted for purposes of computing diluted earnings (loss) per common share	555,093	569,739	600,892
Basic earnings (loss) per common share	\$ 1.58	1.36	(0.40)
Diluted earnings (loss) per common share	\$ 1.58	1.36	(0.40)

Our calculation of diluted earnings (loss) per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are antidilutive as a result of unrecognized compensation cost. Such shares averaged 3.1 million, 2.5 million and 2.7 million for 2015, 2014 and 2013, respectively. For the year ended December 31, 2013, due to the net loss position, we excluded from the calculation of diluted loss per share 1.3 million shares which were potentially issuable under incentive compensation plans or convertible securities, as their effect, if included, would have been anti-dilutive.

(10) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable 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 and accounts payable approximate their fair values.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

		As of December 31, 2015		As of December 31, 2014	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities-Long-term debt excluding capital lease and other obligations	2	\$ 19,800	19,473	19,994	21,255

(11) Income Taxes

	Years Ended December 31,		
	2015	2014	2013
(Dollars in millions)			
Income tax expense was as follows:			
Federal			
Current	\$ 28	18	1
Deferred	329	305	403
State			
Current	40	26	62
Deferred	21	(14)	(8)
Foreign			
Current	16	3	9
Deferred	4	—	(4)
Total income tax expense	\$ 438	338	463

	Years Ended December 31,		
	2015	2014	2013
(Dollars in millions)			
Income tax expense was allocated as follows:			
Income tax expense in the consolidated statements of operations:			
Attributable to income	\$ 438	338	463
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(5)	(5)	(14)
Tax effect of the change in accumulated other comprehensive loss	59	(744)	554

The following is a reconciliation from the statutory federal income tax rate to our effective income tax rate:

	Years Ended December 31,		
	2015	2014	2013
	(Percentage of pre-tax income)		
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	2.6 %	2.7 %	2.8 %
Impairment of goodwill	— %	— %	188.5 %
Change in liability for unrecognized tax position	0.4 %	0.4 %	(24.5)%
Foreign income taxes	0.7 %	0.4 %	2.7 %
Nondeductible accounting adjustment for life insurance	— %	— %	3.1 %
Affiliate debt rationalization	(2.6)%	— %	— %
Release state valuation allowance	— %	— %	(2.3)%
Research and development credits	(2.1)%	— %	— %
Loss on worthless investment in foreign subsidiary	— %	(5.4)%	— %
Other, net	(0.7)%	(2.6)%	1.4 %
Effective income tax rate	33.3 %	30.5 %	206.7 %

The 2015 effective tax rate is 33.3% compared to 30.5% for 2014. The 2015 rate reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015 and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating losses ("NOLs"). The 2014 rate reflects a \$60 million tax benefit associated with a deduction for tax basis for worthless stock in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset and a \$13 million tax decrease due to changes in the state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of NOLs. The 2013 rate reflects the tax effect of a \$1.092 billion non-deductible goodwill impairment charge, a favorable settlement with the Internal Revenue Service of \$33 million, a \$22 million reduction due to the reversal of an uncertain tax position and the tax effect of a \$17 million unfavorable accounting adjustment for non-deductible life insurance costs. Also in 2013, the tax rate was decreased by a \$5 million reduction to the valuation allowance due to the estimated ability to utilize more state NOLs than previously expected.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Deferred tax assets		
Post-retirement and pension benefit costs	\$ 2,154	2,276
Net operating loss carryforwards	487	1,091
Other employee benefits	182	214
Other	458	602
Gross deferred tax assets	3,281	4,183
Less valuation allowance	(380)	(409)
Net deferred tax assets	2,901	3,774
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(3,841)	(3,869)
Goodwill and other intangible assets	(2,588)	(2,908)
Other	(38)	(147)
Gross deferred tax liabilities	(6,467)	(6,924)
Net deferred tax liability	\$ (3,566)	(3,150)

Of the \$3.566 billion and \$3.150 billion net deferred tax liability at December 31, 2015 and 2014, respectively, \$3.569 billion and \$3.154 billion is reflected as a long-term liability and \$3 million and \$4 million is reflected as a net noncurrent deferred tax asset at December 31, 2015 and 2014, respectively.

At December 31, 2015, we had federal NOLs of \$72 million and state NOLs of \$13 billion. If unused, the NOLs will expire between 2016 and 2032; however, no significant amounts expire until 2021. At December 31, 2015, we had federal tax credits of \$28 million. Additionally, we had \$36 million (\$23 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2016 and 2025 if not utilized. In addition, at December 31, 2015, we had \$79 million of federal alternative minimum tax, or AMT, credits. Our acquisitions of Qwest and SAVVIS, Inc. ("Savvis") caused "ownership changes" within the meaning of Section 382 of the Internal Revenue Code ("Section 382"). As a result, our ability to use these NOLs and AMT credits are subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these tax attributes to reduce our future federal tax liabilities, although the timing of that use will depend upon our future earnings and future tax circumstances.

We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2015, a valuation allowance of \$380 million was established as it is more likely than not that this amount of net operating loss and tax credit carryforwards will not be utilized prior to expiration. Our valuation allowance at December 31, 2015 and 2014 is primarily related to state NOL carryforwards. This valuation allowance decreased by \$29 million during 2015.

A reconciliation of the change in our gross unrecognized tax benefits (excluding both interest and any related federal benefit) from January 1 to December 31 for 2015 and 2014 is as follows:

	2015	2014
	(Dollars in millions)	
Unrecognized tax benefits at beginning of year	\$ 17	14
Increase in tax positions taken in the current year	1	—
Increase in tax positions taken in the prior year	7	9
Decrease due to the reversal of tax positions taken in a prior year	(9)	(2)
Decrease from the lapse of statute of limitations	(1)	(1)
Settlements	—	(3)
Unrecognized tax benefits at end of year	<u>\$ 15</u>	<u>17</u>

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$32 million at both December 31, 2015 and 2014.

Our policy is to reflect interest expense associated with unrecognized tax benefits in income tax expense. We had accrued interest (presented before related tax benefits) of approximately \$33 million and \$30 million at December 31, 2015 and 2014, respectively.

We file income tax returns, including returns for our subsidiaries, with federal, state and local jurisdictions. Our uncertain income tax positions are related to tax years that are currently under or remain subject to examination by the relevant taxing authorities.

In 2013, Qwest filed an amended 2009 federal income tax return primarily to report the carryforward impact of prior year settlements. The refund for the 2009 amended return filed in 2013 was received in 2014. In 2014, Qwest filed an amended federal income tax return for 2010. The refund claim filed for 2010 was accepted by the IRS, and the refund was received in 2015. The 2010 amended return released certain general business credits that were required to be carried back to 2009. As a result, a subsequent 2009 federal amended return was filed by Qwest in 2014 to reflect the carrybacks from 2010. The 2009 refund claim filed in 2014 was accepted by the IRS and the refund was received in 2015.

Beginning with the 2012 tax year, our federal consolidated returns are subject to annual examination by the IRS.

Our open income tax years by major jurisdiction are as follows at December 31, 2015:

Jurisdiction	Open Tax Years
Federal	2012—current
State	
Arizona	2010—current
Florida	2010—current
Other states	2011—current

Since the period for assessing additional liability typically begins upon the filing of a return, it is possible that certain jurisdictions could assess tax for years prior to the open tax years disclosed above. Additionally, it is possible that certain jurisdictions in which we do not believe we have an income tax filing responsibility, and accordingly did not file a return, may attempt to assess a liability, or that other jurisdictions to which we pay taxes may attempt to assert that we owe additional taxes.

Based on our current assessment of various factors, including (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, and (iv) the administrative practices of applicable taxing jurisdictions, it is reasonably possible that the related unrecognized tax benefits for uncertain tax positions previously taken may decrease by up to \$11 million within the next 12 months. The actual amount of such decrease, if any, will depend on several future developments and events, many of which are outside our control.

(12) Segment Information

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- *Business Segment.* Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, private line (including special access), Ethernet, high-speed Internet, colocation, managed hosting, cloud hosting and other ancillary services. Our legacy services offered to these customers primarily include switched access and local and long-distance voice services, including the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use all or part of our network to provide voice and data services to their customers. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks; and
- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our high-speed Internet, video (including our Prism TV services) and wireless services. Our legacy services offered to these customers include local and long-distance voice services.

The following table summarizes our segment results for 2015, 2014 and 2013 based on the segment categorization we were operating under at December 31, 2015.

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Total segment revenues	\$ 16,668	17,028	17,095
Total segment expenses	8,459	8,509	8,167
Total segment income	\$ 8,209	8,519	8,928
Total margin percentage	49%	50%	52%
Business segment:			
Revenues	\$ 10,647	11,034	11,091
Expenses	6,034	6,089	5,808
Income	\$ 4,613	4,945	5,283
Margin percentage	43%	45%	48%
Consumer segment:			
Revenues	\$ 6,021	5,994	6,004
Expenses	2,425	2,420	2,359
Income	\$ 3,596	3,574	3,645
Margin percentage	60%	60%	61%

Product and Service Categories

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

- *Strategic services*, which include primarily high-speed Internet, MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video), private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we now offer in 16 markets), VoIP and Verizon Wireless and other ancillary services;
- *Legacy services*, which include primarily local and long-distance voice services, including the sale of UNEs, switched access and Integrated Services Digital Network ("ISDN") services (which use regular telephone lines to support voice, video and data applications);
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our governmental and business customers; and
- *Other operating revenues*, which consist primarily of CAF support payments, USF support payments and USF surcharges. We receive federal support payments from both CAF Phase 1 and CAF Phase 2 programs, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and high-speed Internet infrastructure in high-cost rural areas where we are not able to recover our costs from our customers. USF surcharges are the amounts we collect based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

Our operating revenues for our products and services consisted of the following categories for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Strategic services			
Business high-bandwidth data services (1)	\$ 2,816	2,579	2,230
Business low-bandwidth data services (2)	2,052	2,345	2,577
Business hosting services (3)	1,281	1,316	1,259
Other business strategic services (4)	162	76	60
Consumer high-speed Internet services (5)	2,611	2,469	2,358
Other consumer strategic services (6)	421	381	292
Total strategic services revenues	9,343	9,166	8,776
Legacy services			
Business legacy voice services (7)	2,590	2,780	2,916
Other business legacy services (8)	1,175	1,252	1,398
Consumer legacy voice services (7)	2,676	2,864	3,101
Other consumer legacy services (9)	311	276	248
Total legacy services revenues	6,752	7,172	7,663
Data integration			
Business data integration	571	686	651
Consumer data integration	2	4	5
Total data integration revenues	573	690	656
Other revenues			
High-cost support revenue (10)	732	528	547
Other revenue (11)	500	475	453
Total other revenues	1,232	1,003	1,000
Total revenues	\$ 17,900	18,031	18,095

-
- (1) Includes MPLS and Ethernet revenue
 - (2) Includes private line and high-speed Internet revenue
 - (3) Includes colocation, hosting (including cloud hosting and managed hosting) and hosting area network revenue
 - (4) Includes primarily VoIP, video and IT services revenue
 - (5) Includes high-speed Internet and related services revenue
 - (6) Includes video and Verizon wireless revenue
 - (7) Includes local and long-distance voice revenue
 - (8) Includes UNEs, public access and other ancillary revenue
 - (9) Includes switched access and other ancillary revenue
 - (10) Includes CAF Phase 1, CAF Phase 2 and federal and state USF support revenue
 - (11) Includes USF surcharges

During the first quarter of 2015, we determined that certain products and services associated with our acquisition of Savvis are more closely aligned to legacy services than to strategic services. As a result, these operating revenues are now reflected as legacy services. The revision resulted in a reduction of revenue from strategic services of \$34 million and \$47 million and a corresponding increase in revenue from legacy services for the years ended December 31, 2014 and 2013, respectively.

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the related expense for the amounts we remit to the government agencies. The total amount of such surcharges that we included in revenues aggregated approximately \$544 million, \$526 million and \$489 million for the years ended December 31, 2015, 2014 and 2013, respectively. Those USF surcharges, where we record revenue, are included in "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.

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our strategic, legacy and data integration operations as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. Our segment expenses for our two segments include specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities; and allocated expenses which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses. We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Generally speaking, severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a total company basis and have not allocated assets or debt to specific segments. Other income, net is not monitored as a part of our segment operations and is therefore excluded from our segment results.

The following table reconciles segment income to net income for the years ended December 31, 2015, 2014 and 2013:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Total segment income	\$ 8,209	8,519	8,928
Other operating revenues	1,232	1,003	1,000
Depreciation and amortization	(4,189)	(4,428)	(4,541)
Impairment of goodwill	—	—	(1,092)
Other unassigned operating expenses	(2,647)	(2,684)	(2,842)
Other expenses, net	(1,289)	(1,300)	(1,229)
Income tax expense	(438)	(338)	(463)
Net income (loss)	\$ 878	772	(239)

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

(13) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2015					
Operating revenues	\$ 4,451	4,419	4,554	4,476	17,900
Operating income	649	549	656	751	2,605
Net income	192	143	205	338	878
Basic earnings per common share	0.34	0.26	0.37	0.62	1.58
Diluted earnings per common share	0.34	0.26	0.37	0.62	1.58
2014					
Operating revenues	\$ 4,538	4,541	4,514	4,438	18,031
Operating income	653	655	619	483	2,410
Net income	203	193	188	188	772
Basic earnings per common share	0.35	0.34	0.33	0.33	1.36
Diluted earnings per common share	0.35	0.34	0.33	0.33	1.36

During the third quarter of 2015, we recognized an incremental \$158 million of revenue associated with the FCC's CAF Phase 2 support program, and an additional incremental \$57 million in the fourth quarter of 2015. During the fourth quarter of 2015, we also recognized a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015, and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating losses ("NOLs").

During the fourth quarter of 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset that occurred in the first quarter of 2014. During the fourth quarter of 2014, we also recognized a pension settlement charge of \$63 million.

(14) Commitments and Contingencies

We are vigorously defending against all of the matters described below under the headings "Pending Matters" and "Other Proceedings and Disputes." As a matter of course, we are prepared both to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have established accrued liabilities for these matters described below where losses are deemed probable and reasonably estimable.

Pending Matters

In *William Douglas Fulghum, et al. v. Embarq Corporation, et al.*, filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, was expected to reduce estimated future expenses for the subject benefits by more than \$300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefits plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The Court certified a class on certain of plaintiffs' claims, but rejected class certification as to other claims. On October 14, 2011, the Fulghum lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* In *Abbott*, approximately 1,500 plaintiffs allege breach of fiduciary duty in connection with the changes in retiree benefits that also are at issue in the Fulghum case. The *Abbott* plaintiffs are all members of the class that was certified in Fulghum on claims for allegedly vested benefits (Counts I and III), and the *Abbott* claims are similar to the Fulghum breach of fiduciary duty claim (Count II), on which the Fulghum court denied class certification. The Court has stayed proceedings in *Abbott* indefinitely, except for limited discovery and motion practice as to approximately 80 of the plaintiffs. On February 14, 2013, the Fulghum court dismissed the majority of the plaintiffs' claims in the case. On interlocutory appeal, the United States Court of Appeals for the Tenth Circuit ruled on February 24, 2015, that the plan documents reviewed do not support any claim for vested benefits, and affirmed the district court's dismissal of claims based on those documents. The Tenth Circuit decision allowed a subset of claims for vested benefits to return to the district court for further proceedings. The Tenth Circuit also affirmed the district court's dismissal of all age discrimination claims. The Tenth Circuit reversed the district court's determination that the statute of repose under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), is a time bar to the breach of fiduciary duty claims of fifteen named plaintiffs. On June 10, 2015, the district court in Fulghum granted summary judgment to defendants on an additional group of claims for vested benefits. On July 27, 2015, pursuant to the terms of a stipulation by the parties, the district court in Fulghum granted judgment in favor of defendants on all remaining and unadjudicated vested benefits claims. This judgment is without prejudice to any rights the parties may have to pursue any additional appellate relief. As to any further proceedings that may occur in the district court, defendants will continue to vigorously contest any remaining claims in Fulghum and *Abbott*. We have not accrued a liability for these matters because we believe it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

On July 16, 2013, Comcast MO Group, Inc. ("Comcast") filed a lawsuit in Colorado state court against Qwest Communications International, Inc. ("Qwest"). Comcast alleges Qwest breached the parties' 1998 tax sharing agreement ("TSA") when it refused to partially indemnify Comcast for a tax liability settlement Comcast reached with the Commonwealth of Massachusetts in a dispute to which we were not a party. Comcast seeks approximately \$80 million in damages, excluding interest. Qwest and Comcast are parties to the TSA in their capacities as successors to the TSA's original parties, U S WEST, Inc., a telecommunications company, and MediaOne Group, Inc., a cable television company, respectively. In October 2014, the state court granted summary judgment in Qwest's favor. In December 2015, the Colorado Court of Appeals affirmed the judgment. Comcast has filed a petition with the Colorado Supreme Court to review the Court of Appeals judgment. We have not accrued a liability for this matter because we do not believe that liability is probable.

The local exchange carrier subsidiaries of CenturyLink are among hundreds of defendants nationwide in dozens of lawsuits filed 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. These lawsuits involving our local exchange carriers and many other carriers have been consolidated for pretrial purposes in the United States District Court for the District of Northern Texas. In November 2015, the Court dismissed the plaintiffs' federal law claims and granted them leave to file state law claims, if any. Some of the defendants, including our affiliated carriers, have petitioned the Federal Communications Commission to address these issues on an industry-wide basis.

As both an interexchange carrier and a local exchange carrier, we both pay and assess significant amounts of the access charges in question. 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.

Other Proceedings and Disputes

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.

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

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

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

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:

	Years Ended December 31,		
	2015	2014	2013
	(Dollars in millions)		
Assets acquired through capital leases	\$ 17	37	12
Depreciation expense	96	126	136
Cash payments towards capital leases	89	118	119

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Assets included in property, plant and equipment	\$ 722	850
Accumulated depreciation	352	393

The future annual minimum payments under capital lease arrangements as of December 31, 2015 were as follows:

	Future Minimum Payments	
	(Dollars in millions)	
Capital lease obligations:		
2016	\$	85
2017		78
2018		76
2019		62
2020		47
2021 and thereafter		223
Total minimum payments		571
Less: amount representing interest and executory costs		(153)
Present value of minimum payments		418
Less: current portion		(56)
Long-term portion	\$	362

Operating Leases

CenturyLink leases 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, 2015, 2014 and 2013, our gross rental expense was \$467 million, \$446 million and \$455 million, respectively. We also received sublease rental income for the years ended December 31, 2015, 2014 and 2013 of \$12 million, \$14 million and \$16 million, respectively.

At December 31, 2015, our future rental commitments for operating leases were as follows:

	Future Minimum Payments	
	(Dollars in millions)	
2016	\$	301
2017		289
2018		268
2019		235
2020		209
2021 and thereafter		1,075
Total future minimum payments ⁽¹⁾	\$	2,377

⁽¹⁾ Minimum payments have not been reduced by minimum sublease rentals of \$87 million due in the future under non-cancelable subleases.

Purchase Commitments

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 \$625 million at December 31, 2015. Of this amount, we expect to purchase \$364 million in 2016, \$144 million in 2017 through 2018, \$46 million in 2019 through 2020 and \$71 million in 2021 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, 2015.

(15) Other Financial Information

Other Current Assets

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

	As of December 31,	
	2015	2014
	(Dollars in millions)	
Prepaid expenses	\$ 238	260
Materials, supplies and inventory	144	132
Assets held for sale	8	14
Deferred activation and installation charges	105	103
Other	86	71
Total other current assets	<u>\$ 581</u>	<u>580</u>

Assets held for sale includes several assets that we expect to sell within the next twelve months. During 2014, we sold our remaining 700 MHz A-Block wireless spectrum licenses, which we purchased in 2008 but never placed into service. As a result of changes in market conditions and prevailing spectrum prices, we recorded an impairment charge of \$14 million, which is included in other income, net in our consolidated statements of operations for the for the year ended December 31, 2014. The sale closed on November 3, 2014, and we received \$39 million in cash in the aggregate.

In January 2013, we sold \$43 million of our wireless spectrum assets held for sale. The sale resulted in a gain of \$32 million, which is recorded as other income, net on our consolidated statements of operations.

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable and other current liabilities as follows:

	As of December 31	
	2015	2014
	(Dollars in millions)	
Accounts payable	\$ 968	1,226
Other current liabilities:		
Accrued rent	\$ 32	34
Legal reserves	20	27
Other	168	149
Total other current liabilities	<u>\$ 220</u>	<u>210</u>

Included in accounts payable at December 31, 2015 and 2014, were \$68 million and \$80 million, respectively, representing book overdrafts and \$94 million and \$185 million, respectively, associated with capital expenditures.

(16) Labor Union Contracts

Approximately 37% 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"). As of December 31, 2015, approximately three hundred, or 2%, of our employees are subject to collective bargaining agreements that expired in 2015. We believe that relations with our employees continue to be generally good. We are currently negotiating the terms of new agreements covering these employees. Approximately one thousand, or 6%, of our employees are subject to collective bargaining agreements that expire in 2016.

(17) Repurchase of CenturyLink, Inc. Common Stock

In February 2014, our Board of Directors authorized a 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This 2014 stock repurchase program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. On December 7, 2015, we completed the 2014 stock repurchase program, repurchasing over the course of the program a total of 32.3 million shares in the open market at an average purchase price of \$30.99 per share. During the year ended December 31, 2015, we repurchased 27.1 million shares of our outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$800 million, or an average purchase price of \$29.56 per share. The repurchased common stock has been retired.

(18) Accumulated Other Comprehensive Loss

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2015:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2014	\$ (1,720)	(272)	(25)	(2,017)
Other comprehensive income (loss) before reclassifications	(98)	80	(14)	(32)
Amounts reclassified from accumulated other comprehensive income	103	12	—	115
Net current-period other comprehensive income (loss)	5	92	(14)	83
Balance at December 31, 2015	\$ (1,715)	(180)	(39)	(1,934)

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2015:

Year Ended December 31, 2015	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ 161	See Note 7—Employee Benefits
Prior service cost	24	See Note 7—Employee Benefits
Total before tax	185	
Income tax expense (benefit)	(70)	Income tax expense
Net of tax	\$ 115	

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2014:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2013	\$ (669)	(122)	(11)	(802)
Other comprehensive income (loss) before reclassifications	(1,107)	(162)	(15)	(1,284)
Amounts reclassified from accumulated other comprehensive income	56	12	1	69
Net current-period other comprehensive income (loss)	(1,051)	(150)	(14)	(1,215)
Balance at December 31, 2014	\$ (1,720)	(272)	(25)	(2,017)

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2014:

Year Ended December 31, 2014	Decrease (Increase) in Net Loss	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ 85	See Note 7—Employee Benefits
Prior service cost	25	See Note 7—Employee Benefits
Total before tax	110	
Income tax expense (benefit)	(42)	Income tax expense
Insignificant items	1	
Net of tax	<u>\$ 69</u>	

(19) Dividends

Our Board of Directors declared the following dividends payable in 2015 and 2014:

Date Declared	Record Date	Dividend Per Share	Total Amount (in millions)	Payment Date
November 10, 2015	11/24/2015	\$ 0.540	\$ 293	12/8/2015
August 25, 2015	9/8/2015	0.540	300	9/22/2015
May 20, 2015	6/2/2015	0.540	303	6/16/2015
February 23, 2015	3/6/2015	0.540	303	3/20/2015
November 11, 2014	11/24/2014	0.540	307	12/5/2014
August 19, 2014	8/29/2014	0.540	308	9/12/2014
May 28, 2014	6/9/2014	0.540	307	6/20/2014
February 24, 2014	3/10/2014	0.540	309	3/21/2014

The declaration of dividends is solely at the discretion of our Board of Directors.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2015. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2015, at the reasonable assurance level.

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.

Internal Control Over Financial Reporting

Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), a process designed 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 in the United States. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the COSO. Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective at December 31, 2015. The effectiveness of our internal control over financial reporting at December 31, 2015 has been audited by KPMG LLP, as stated in their report. See the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which is incorporated herein by reference.

Management’s Report on the Consolidated Financial Statements

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements for the year ended December 31, 2015. The consolidated financial statements included in this Annual Report have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

Audit Committee

The Audit Committee of the Board of Directors is composed of independent directors who are not officers or employees. The Committee meets periodically with the external auditors, internal auditors and management. The Committee considers the independence of the external auditors and the audit scope and discusses internal control, financial and reporting matters. Both the external and internal auditors have free access to the Committee.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer, President and Director

/s/ R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.

Executive Vice President, Chief Financial Officer and Assistant Secretary

February 24, 2016

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Equity Compensation Plan Information**

The following table provides information as of December 31, 2015 about our equity compensation plans under which Common Shares are authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	1,731,186 ⁽¹⁾	\$ 44.43 ⁽²⁾	20,759,094
Equity compensation plans not approved by shareholders ⁽³⁾	2,640,563	38.07	—
Totals	4,371,749 ⁽¹⁾	\$ 39.67 ⁽²⁾	20,759,094

⁽¹⁾ These amounts include restricted stock units, which represent the difference between the number of shares of restricted stock subject to market conditions granted at target and the maximum possible payout for these awards. Depending on performance, the actual share payout of these awards may range between 0-200% of target.

⁽²⁾ The amounts in column (a) include restricted stock units, which do not have an exercise price. Consequently, those awards were excluded from the calculation of this exercise price.

⁽³⁾ These amounts represent common shares to be issued upon exercise of options that were assumed in connection with certain acquisitions.

The balance of the information required by Item 12 is incorporated by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the Proxy Statement.

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.

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 30, 2012).
3.2	Bylaws of CenturyLink, Inc., as amended and restated through May 28, 2014 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 2, 2014).
4.2	Instruments relating to CenturyLink, Inc.'s Revolving Credit Facility. <ul style="list-style-type: none"> a. Amended and Restated Credit Agreement, dated as of April 6, 2012, by and among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012, as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.3 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014). b. Guarantee Agreement, dated as of April 6, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the Amendment to Guarantee Agreement and Reaffirmation Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the affiliated guarantors named therein (incorporated by reference to Exhibit 4.4 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).
4.3	Instruments relating to CenturyLink, Inc.'s Term Loan. <ul style="list-style-type: none"> a. Credit Agreement, dated as of April 18, 2012, by and among CenturyLink, Inc., the several banks and other financial institutions or entities from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as amended by the amendment dated as of March 13, 2015. b. Guarantee Agreement, dated as of April 18, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.3(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the amendment dated as of March 13, 2015 (incorporated by reference to Exhibit 4.3(b) of CenturyLink's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (File No. 001-07784) filed with the Securities and Exchange Commission on May 6, 2015).
4.4	Instruments relating to CenturyLink, Inc.'s public senior debt. ⁽¹⁾ <ul style="list-style-type: none"> a. Indenture, dated as of March 31, 1994, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana), as Trustee. <ul style="list-style-type: none"> (i). Form of 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996). (ii). Form of 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 1998).

Exhibit Number	Description
b.	Fourth Supplemental Indenture, dated as of March 26, 2007, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007). (i). Form of 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007).
c.	Fifth Supplemental Indenture, dated as of September 21, 2009, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009). (i). Form of 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
d.	Sixth Supplemental Indenture, dated as of June 16, 2011, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011). (i). Form of 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
e.	Seventh Supplemental Indenture, dated as of March 12, 2012, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012). (i). Form of 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).
f.	Eighth Supplemental Indenture, dated as of March 21, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013). (i). Form of 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).
g.	Ninth Supplemental Indenture, dated as of November 27, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013). (i). Form of 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).
h.	Tenth Supplemental Indenture, dated as of March 19, 2015, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015). (i). Form of 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).

Exhibit Number	Description
4.5	Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries. ⁽¹⁾
a.	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).
(i).	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).
b.	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).
(i).	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).
c.	Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and The First National Bank of Chicago, as trustee (incorporated by reference to Exhibit 4(a) of U S WEST, Inc.'s Current Report on Form 8-K (File No. 001-14087) filed with the Securities and Exchange Commission on November 18, 1998).
(i).	First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.10 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-15577) filed with the Securities and Exchange Commission on August 11, 2000).
d.	Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
(i).	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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on May 18, 2007).
(ii).	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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on April 13, 2009).
(iii).	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).
(iv).	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).
(v).	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).
(vi).	Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).

**Exhibit
Number****Description**

-
- (vii) Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).
 - (viii) 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).
 - (ix) 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).
 - (x) Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).
 - (xi) Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).
 - e. 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.
- 4.6 Instruments relating to indebtedness of Embarq Corporation.⁽¹⁾
- a. Indenture, dated as of May 17, 2006, by and between Embarq Corporation and J.P. Morgan Trust Company, National Association, a national banking association, as trustee (incorporated by reference to Exhibit 4.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on May 18, 2006).
 - b. 7.082% Global Note due 2016 of Embarq Corporation (incorporated by reference to Exhibit 4.3 to Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).
 - c. 7.995% Global Note due 2036 of Embarq Corporation (incorporated by reference to Exhibit 4.4 to Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).
- 4.7 Intercompany debt instruments.
- a. Revolving Promissory Note, dated as of April 2, 2012 pursuant to which Embarq Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$2.5 billion on a revolving basis (incorporated by reference to Exhibit 4.7(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).
 - b. 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 September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).
 - c. Revolving Promissory Note, dated as of September 27, 2012, pursuant to which Qwest Communications International, Inc. may borrow from an affiliate of CenturyLink, Inc. up to \$3.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(c) of CenturyLink Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 001-07844) filed with the Securities and Exchange Commission on March 1, 2013).
- 10.1 Qualified Employee Benefit Plans of CenturyLink, Inc. (excluding several narrow-based qualified plans that cover union employees or other limited groups of employees).

Exhibit Number	Description
a.	<p>CenturyLink Dollars & Sense 401(k) Plan and Trust, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by the First Amendment and the Second Amendment thereto, each dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by the Third Amendment thereto dated as of November 20, 2008 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by the Fourth Amendment thereto dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by the Fifth Amendment thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Sixth Amendment thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Seventh Amendment thereto, effective May 20, 2010 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by the Eighth Amendment thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</p>
b.	<p>CenturyLink Union 401(k) Plan and Trust, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by the First Amendment thereto dated as of May 29, 2007 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008), as amended by the Second Amendment thereto dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by the Third Amendment thereto dated as of November 20, 2008 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by the Fourth Amendment thereto dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by the Fifth Amendment thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Sixth Amendment thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by the Seventh Amendment thereto, effective May 20, 2010 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by the Eighth Amendment thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(b) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</p>

Exhibit Number	Description
c.	CenturyLink Retirement Plan, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2007), as amended by Amendment No. 1 thereto dated as of April 2, 2007 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008), as amended by Amendment No. 2 thereto dated as of December 31, 2007 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008), as amended by Amendment No. 3 thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.1(c) CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009), as amended by Amendment No. 4 dated as of June 30, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009), as amended by Amendment No. 5 thereto dated as of September 15, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by Amendment No. 6 thereto, dated as of December 30, 2009 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010), as amended by Amendment No. 7 thereto, effective at various dates during 2010 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010) and as amended by Amendment No. 8 thereto, effective January 1, 2011 (incorporated by reference to Exhibit 10.1(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.2	Stock-based Incentive Plans and Agreements of CenturyLink.
a.	Amended and Restated 1983 Restricted Stock Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).
b.	Amended and Restated 2000 Incentive Compensation Plan, as amended through May 23, 2000 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-07784) filed with the Securities and Exchange Commission on August 11, 2000) and amendment thereto dated as of May 29, 2003 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2003 (File No. 001-7784) filed with the Securities and Exchange Commission on August 14, 2003). <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of May 21, 2001, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002). (ii) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of February 25, 2002, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(d) (ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2003).
c.	Amended and Restated 2002 Directors Stock Option Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.2(d) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009). <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 10, 2002 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on November 14, 2002).

Exhibit Number	Description
	<ul style="list-style-type: none"> (ii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 9, 2003 (incorporated by reference to Exhibit 10.2(e) (ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004). (iii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. in connection with options granted to the outside directors as of May 7, 2004 (incorporated by reference to Exhibit 10.2(d) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006).
d.	<p>Amended and Restated 2002 Management Incentive Compensation Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).</p> <ul style="list-style-type: none"> (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain of its officers and key employees at various dates during 2002 following May 9, 2002 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on November 14, 2002). (ii) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 24, 2003, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(f) (ii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2003). (iii) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 25, 2004, entered into between CenturyLink, Inc. and its officers (incorporated by reference to Exhibit 10.2(f) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2004). (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 24, 2003, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2003 (File No. 001-07784) filed with the Securities and Exchange Commission on May 14, 2003). (v) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 25, 2004, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(f) (v) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on May 7, 2004). (vi) Form of Stock Option Agreement, pursuant to foregoing plan and dated as of February 17, 2005, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(e) (v) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on March 16, 2005). (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(e) (vi) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2004 (File No. 000-50260) filed with the Securities and Exchange Commission on March 16, 2005).
e.	<p>Amended and Restated 2005 Directors Stock Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).</p> <ul style="list-style-type: none"> (i) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 13, 2005 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 000-50260) filed with the Securities and Exchange Commission on May 13, 2005).

Exhibit Number	Description
(ii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 12, 2006 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on August 3, 2006).
(iii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 11, 2007 (incorporated by reference to Exhibit 10.2(f) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).
(iv)	Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 9, 2008 (incorporated by reference to Exhibit 10.2 (f) (iv) of CenturyLink, Inc.'s Annual Report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).
(v)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors on such date who remained on the Board following July 1, 2009 (incorporated by reference to Exhibit 10.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
(vi)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors who retired on July 1, 2009 (incorporated by reference to Exhibit 10.2(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
(vii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and each of its outside directors named to the Board on July 1, 2009 (incorporated by reference to Exhibit 10.1(d) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
(viii)	Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and William A. Owens in payment of Mr. Owens' 2009 supplemental chairman's fees (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
(ix)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and seven of its outside directors on such date (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010).
f.	Amended and Restated 2005 Management Incentive Compensation Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(g) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).
(i)	Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on November 9, 2005).
(ii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.3 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on November 9, 2005).
(iii)	Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(g) (iii) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006).

Exhibit Number	Description
(iv)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(g) (iv) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006).
(v)	Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on May 9, 2007).
(vi)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on May 9, 2007).
(vii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2008, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008).
(viii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 26, 2009 (incorporated by reference to Exhibit 10.2(g) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on May 1, 2009).
(ix)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of March 8, 2010 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2010).
g.	Amended and Restated CenturyLink Legacy Embarq 2008 Equity Incentive Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(h) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).
(i)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and four of its outside directors as of such date (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010).
(ii)	Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and William A. Owens in payment of Mr. Owens' 2010 supplemental chairman's fees (incorporated by reference to Exhibit 10.3 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010).
(iii)	Form of Restricted Stock Agreement, dated as of September 7, 2010, entered into between CenturyLink, Inc. and Dennis G. Huber (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
h.	Form of Retention Award Agreement, pursuant to the equity incentive plans of CenturyLink or Embarq and dated as of August 23, 2010, entered into between CenturyLink, Inc. and certain officers and key employees as of such date (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
i.	CenturyLink 2011 Equity Incentive Plan (incorporated by reference to Appendix B of CenturyLink, Inc.'s Proxy Statement for its 2011 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2011).
(i)	Form of Restricted Stock Agreement for executive officers used in 2011 and 2012 (incorporated by reference to Exhibit 10.2(a) (i) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).

Exhibit Number	Description
	(ii) Form of Restricted Stock Agreement for non-management directors used since 2011 (incorporated by reference to Exhibit 10.2(a) (ii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).
	(iii) Form of Restricted Stock Agreement for executive officers used since May 2013.
10.3	Key Employee Incentive Compensation Plan, dated as of January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996) and amendment thereto dated as of November 21, 1996 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 001-07784) filed with the Securities and Exchange Commission on March 17, 1997), amendment thereto dated as of February 25, 1997 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on May 8, 1997), amendment thereto dated as of April 25, 2001 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on May 15, 2001), amendment thereto dated as of April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002) and amendment thereto dated as of February 27, 2007 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2007).
10.4	Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2009) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2009) and amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.5	Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.6	Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1991).
10.7	2015 Executive Officer Short-Term Incentive Program (incorporated by reference to Exhibit A of CenturyLink's 2015 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 8, 2015).
10.8	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of July 1, 2009 (incorporated by reference to Exhibit 99.3 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) with the Securities and Exchange Commission on July 1, 2009).
10.9	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of July 1, 2009 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).
10.10	Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated by reference to Exhibit 10.11 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.11	Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive officers (incorporated by reference to Exhibit 10.12 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.12	CenturyLink Executive Severance Plan (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-07784) filed with the Securities and Exchange Commission on February 24, 2015.)

Exhibit Number	Description
10.13	Amended and Restated CenturyLink, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008) and First Amendment thereto (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
10.14	<p>Certain Material Agreements and Plans of Embarq Corporation.</p> <ul style="list-style-type: none"> a. Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) with the Securities and Exchange Commission on July 1, 2009). b. Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on February 27, 2007). c. Form of 2008 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008). d. Form of 2009 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on March 5, 2009). e. Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008). f. Amendment to Outstanding RSUs granted in 2007 and 2008 under the Embarq Corporation 2006 Equity Incentive Plan (incorporated by reference to Exhibit 10.16 of Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009). g. Form of 2006 Award Agreement, entered into between Embarq Corporation and Richard A. Gephardt (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on August 1, 2006), as amended by the amendment thereto dated as of June 26, 2009 (incorporated by reference to Exhibit 10.6 (m) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009). h. Amended and Restated Executive Severance Plan, including Form of Participation Agreement entered into between Embarq Corporation and William E. Cheek (incorporated by reference to Exhibit 10.4 of Embarq Corporation's Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on October 30, 2008). i. Embarq Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.27 of Embarq Corporation's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009), amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.14(o) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011) and second amendment thereto as of dated as of November 15, 2011 (incorporated by reference to Exhibit 10.14(k) of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.15	<p>Certain Material Agreements and Plans of Qwest Communications International Inc. or Savvis, Inc.</p> <ul style="list-style-type: none"> a. Equity Incentive Plan, as amended and restated (incorporated by reference to Annex A of Qwest Communications International Inc.'s Proxy Statement for the 2007 Annual Meeting of Stockholders (File No. 001-15577) filed with the Securities and Exchange Commission on March 29, 2007).

**Exhibit
Number**

Description

- b. Forms of restricted stock, performance share and option agreements used under Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on October 24, 2005; Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on May 3, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on February 8, 2007; Exhibit 10.3 of Qwest Communication International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on September 15, 2008; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on April 30, 2009; and Exhibit 10.2 of Qwest Communication International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-15577) filed with the Securities and Exchange Commission on February 15, 2011).
- c. Deferred Compensation Plan for Nonemployee Directors, as amended and restated, Amendment to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on December 16, 2005 and Exhibit 10.8 to Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-15577) filed with the Securities and Exchange Commission on October 29, 2008) and Amendment No. 2011-1 to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.15(c) of CenturyLink, Inc.'s Annual Report for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
- d. Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2010).
- e. SAVVIS, Inc. Amended and Restated 2003 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on May 5, 2006), as amended by Amendment No. 1 (incorporated by reference to Exhibit 10.6 of SAVVIS, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on February 26, 2007); Amendment No. 2 (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 15, 2007); Amendment No. 3 (incorporated by reference to Exhibit 10.3 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-29375) filed with the Securities and Exchange Commission on July 31, 2007); Amendment No. 4 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009); and Amendment No. 5 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009).

- 12* Ratio of Earnings to Fixed Charges.
- 21* Subsidiaries of CenturyLink, Inc.
- 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.

Exhibit Number	Description
101*	Financial statements from the Annual Report on Form 10-K of CenturyLink, Inc. for the period ended December 31, 2015, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.

* Exhibit filed herewith.

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- (1) Certain of the items in Sections 4.4, 4.5 and 4.6 (i) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 24, 2016

CenturyLink, Inc.

By: /s/ David D. Cole

David D. Cole

Executive Vice President, Controller and Operations
Support
(Chief Accounting Officer)

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

/s/ Glen F. Post, III	Chief Executive Officer, President and Director	February 24, 2016
Glen F. Post, III		
/s/ William A. Owens	Chairman of the Board	February 24, 2016
William A. Owens		
/s/ R. Stewart Ewing, Jr.	Executive Vice President, Chief Financial Officer and Assistant Secretary	February 24, 2016
R. Stewart Ewing, Jr.		
/s/ David D. Cole	Executive Vice President, Controller and Operations Support	February 24, 2016
David D. Cole		
/s/ Martha Bejar	Director	February 24, 2016
Martha Bejar		
/s/ Virginia Boulet	Director	February 24, 2016
Virginia Boulet		
/s/ Peter C. Brown	Director	February 24, 2016
Peter C. Brown		
/s/ Richard A. Gephardt	Director	February 24, 2016
Richard A. Gephardt		
/s/ W. Bruce Hanks	Director	February 24, 2016
W. Bruce Hanks		
/s/ Mary L. Landrieu	Director	February 24, 2016
Mary L. Landrieu		

/s/ Gregory J. McCray	Director	February 24, 2016
Gregory J. McCray		
/s/ C. G. Melville, Jr.	Director	February 24, 2016
C. G. Melville, Jr.		
/s/ Harvey P. Perry	Director	February 24, 2016
Harvey P. Perry		
/s/ Michael J. Roberts	Director	February 24, 2016
Michael J. Roberts		
/s/ Laurie A. Siegel	Director	February 24, 2016
Laurie A. Siegel		

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Section 2: EX-12 (EXHIBIT 12)

Exhibit 12

CENTURYLINK, INC.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in millions)				
Income before income taxes and cumulative effect of change in accounting principle	\$ 1,316	1,110	224	1,250	948
Less: income from equity investee	(25)	(22)	(24)	(15)	(13)
Add: estimated fixed charges	1,516	1,502	1,486	1,504	1,223
Add: estimated amortization of capitalized interest	19	17	16	15	12
Add: distributed income of equity investee	19	22	14	12	14
Less: interest capitalized	(52)	(47)	(41)	(43)	(25)
Total earnings available for fixed charges	\$ 2,793	2,582	1,675	2,723	2,159
Estimate of interest factor on rentals	\$ 152	144	147	142	126
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,312	1,311	1,298	1,319	1,072
Interest capitalized	52	47	41	43	25
Total fixed charges	\$ 1,516	1,502	1,486	1,504	1,223
Ratio of earnings to fixed charges	1.84	1.72	1.13	1.81	1.77

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Section 3: EX-21 (EXHIBIT 21)

Exhibit 21

CENTURYLINK, INC.
SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2015

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
Actel, LLC	Delaware
Bloomington Telephone Company, Inc. (20%)	Michigan
Century Cellunet International, Inc.	Louisiana
Cellunet of India Limited	Mauritius
Century Telephone of West Virginia, Inc.	West Virginia
CenturyLink – Clarke M. Williams Foundation	Colorado
CenturyLink Communications, LLC	Delaware
Cognilytics, Inc.	California
Cognilytics Software and Consulting Private Limited	India
Qwest International Services Corporation	Delaware
Qwest N Limited Partnership (98.5%)	Delaware
Qwest Transoceanic, Inc.	Delaware
Qwest Communications International Ltd.	United Kingdom
Qwest Holdings, BV	Netherlands
CenturyLink Belgium Sprl	Belgium
Qwest France SAS	France
Qwest Germany GmbH	Germany
Qwest Netherlands BV	Netherlands
Qwest Peru S.R.L.	Peru
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Australia Pty Limited	Australia
Qwest Communications Japan Corporation	Japan
Qwest Communications Korea, Limited	Korea
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Singapore Pte Ltd.	Singapore
Qwest Taiwan Telecommunications, Limited	Taiwan
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel Broadband Services, LLC	Louisiana
CenturyTel TeleVideo, Inc.	Wisconsin
CenturyTel/Teleview of Wisconsin, Inc.	Wisconsin
Qwest Broadband Services, Inc.	Delaware
CenturyTel Broadband Wireless, LLC	Louisiana
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Central Louisiana, LLC	Louisiana
CenturyTel of Chatham, LLC	Louisiana
CenturyTel of Chester, Inc.	Iowa
CenturyTel of Claiborne, Inc.	Tennessee
CenturyTel of East Louisiana, LLC	Louisiana
CenturyTel of Evangeline, LLC	Louisiana

<u>Subsidiary</u>	State of incorporation or formation
CenturyTel Holdings, Inc.	Louisiana
Century Marketing Solutions, LLC	Louisiana
CenturyTel Arkansas Holdings, Inc.	Arkansas
CenturyTel of Central Arkansas, LLC	Louisiana
CenturyTel of Northwest Arkansas, LLC	Louisiana
CenturyTel Holdings Alabama, Inc.	Alabama
CenturyTel of Alabama, LLC	Louisiana
CenturyTel Holdings Missouri, Inc.	Missouri
CenturyTel of Missouri, LLC	Louisiana
CenturyTel Investments of Texas, Inc.	Delaware
CenturyTel of the Northwest, Inc.	Washington
Brown Equipment Corp.	Nevada
Carter Company, Inc.	Hawaii
Honomach PR, Inc.	Puerto Rico
Cascade Autovon Company	Washington
CenturyTel/Cable Layers, Inc.	Wisconsin
CenturyTel of Central Wisconsin, LLC	Delaware
CenturyTel of Colorado, Inc.	Colorado
CenturyTel of Eagle, Inc.	Colorado
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel Entertainment, Inc.	Washington
CenturyTel of Fairwater-Brandon-Alto, LLC	Delaware
CenturyTel of Forestville, LLC	Delaware
CenturyTel of the Gem State, Inc. (97%)	Idaho
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Larsen-Readfield, LLC	Delaware
CenturyTel of the Midwest-Kendall, LLC	Delaware
CenturyTel of the Midwest-Wisconsin, LLC	Delaware
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Monroe County, LLC	Delaware
CenturyTel of Montana, Inc. (99%)	Oregon
CenturyTel of Northern Wisconsin, LLC	Delaware
CenturyTel of Northwest Wisconsin, LLC	Delaware
CenturyTel of Oregon, Inc.	Oregon
CenturyTel of Paradise, Inc.	Washington
CenturyTel of Cowiche, Inc.	Washington
CenturyTel of Postville, Inc.	Iowa
CenturyTel of Southern Wisconsin, LLC	Delaware
CenturyTel of the Southwest, Inc.	New Mexico
CenturyTel Telecom Service, Inc.	Washington
CenturyTel Telephone Utilities, Inc.	Washington
CenturyTel of Upper Michigan, Inc.	Michigan
CenturyTel of Washington, Inc.	Washington
CenturyTel/WORLDDVOX, Inc.	Oregon

<u>Subsidiary</u>	State of incorporation or formation
CenturyTel of Wyoming, Inc.	Wyoming
Eagle Valley Communications Corporation	Colorado
International Communications Holdings, Inc.	Delaware
Pacific Telecom, Inc. (Shell)	Oregon
PTI Communications of Ketchikan, Inc.	Alaska
PTI Communications of Minnesota, Inc.	Minnesota
PTI Transponders, Inc.	Oregon
Universal Manufacturing Corp.	Wisconsin
CenturyTel of Idaho, Inc.	Delaware
CenturyTel Internet Holdings, Inc.	Louisiana
centurytel.com, LLC	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel of Michigan, Inc.	Michigan
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel Mobile Communications, Inc.	Louisiana
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Louisiana, LLC	Louisiana
CenturyTel of North Mississippi, Inc.	Mississippi
CenturyTel of Northern Michigan, Inc.	Michigan
CenturyTel of Northwest Louisiana, Inc.	Louisiana
CenturyTel of Odon, Inc.	Indiana
CenturyTel of Ohio, Inc.	Ohio
CenturyTel of Ooltewah-Collegedale, Inc.	Tennessee
CenturyTel of Port Aransas, Inc.	Texas
CenturyTel of Redfield, Inc.	Arkansas
CenturyTel of Ringgold, LLC	Louisiana
CenturyTel SM Telecorp, Inc.	Texas
CenturyTel Telecommunications, Inc.	Texas
CenturyTel of San Marcos, Inc.	Texas
CenturyTel San Marcos Investments, LLC	Delaware
CenturyTel Security Systems, Inc.	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel of South Arkansas, Inc.	Arkansas
CenturyTel of Southeast Louisiana, LLC	Louisiana
CenturyTel of Southwest Louisiana, LLC	Louisiana
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel/Tele-Max, Inc.	Texas
CenturyTel of Lake Dallas, Inc.	Texas
CenturyTel Web Solutions, LLC	Louisiana
CenturyTel of Wisconsin, LLC	Louisiana
Embarq Corporation	Delaware
Carolina Telephone and Telegraph Company LLC	North Carolina
NOCUTS, Inc.	Pennsylvania
SC One Company	Kansas

<u>Subsidiary</u>	State of incorporation or formation
Centel Corporation	Kansas
Centel Capital Corporation	Delaware
Centel-Texas, Inc.	Texas
Central Telephone Company of Texas	Texas
EQ Central Texas Equipment LLC	Texas
Central Telephone Company	Delaware
Central Telephone Company of Virginia	Virginia
Embarq Florida, Inc.	Florida
The Winter Park Telephone Company	Florida
CenturyLink Intellectual Property LLC	Delaware
Embarq Directory Trademark Company, LLC	Delaware
CenturyLink Public Communications, Inc.	Florida
CenturyLink Sales Solutions, Inc.	Delaware
Embarq, Inc.	Kansas
Embarq Capital Corporation	Delaware
SC Seven Company	Kansas
Embarq Interactive Holdings LLC	Delaware
Embarq Interactive Markets LLC	Delaware
Embarq Management Company	Delaware
EQ Management Equipment LP	Nevada
Embarq Mid-Atlantic Management Services Company	North Carolina
Embarq Minnesota, Inc.	Minnesota
Embarq Missouri, Inc.	Missouri
SC Eight Company	Kansas
Embarq Network Company LLC	Delaware
EQ Equipment Leasing, Inc.	Delaware
United Telephone Company of the Carolinas LLC	South Carolina
SC Two Company	Kansas
United Telephone Company of Eastern Kansas	Delaware
United Telephone Company of Florida	Florida
United Telephone Company of Indiana, Inc.	Indiana
SC Four Company	Kansas
United Telephone Company of Kansas	Kansas
Embarq Midwest Management Services Company	Kansas
United Teleservices, Inc.	Kansas
United Telephone Company of New Jersey, Inc.	New Jersey
United Telephone Company of the Northwest	Oregon
United Telephone Company of Ohio	Ohio
SC Five Company	Kansas
United Telephone Company of Pennsylvania LLC, The	Pennsylvania
SC Six Company	Kansas
Valley Network Partnership (40% aggregate)	Virginia
United Telephone Company of Southcentral Kansas	Arkansas
United Telephone Company of Texas, Inc.	Texas

<u>Subsidiary</u>	State of incorporation or formation
EQ United Texas Equipment LLC	Texas
United Telephone Company of the West	Delaware
United Telephone Southeast LLC	Virginia
SC Three Company	Kansas
Hillsboro Telephone Company, Inc. (20%)	Wisconsin
Lafayette MSA Limited Partnership (49%)	Delaware
Madison River Communications Corp.	Delaware
Gallatin River Holdings L.L.C.	Delaware
Gallatin River Communications L.L.C.	Delaware
Madison River Finance Corp.	Delaware
Madison River Holdings LLC	Delaware
Madison River LTD Funding LLC	Delaware
Coastal Utilities, Inc.	Georgia
Gulf Coast Services, LLC	Alabama
Gulf Telephone Company, LLC	Alabama
Madison River Management LLC	Delaware
Mehtel, Inc.	North Carolina
Pacific Telecom Cellular of Alaska RSA #1, Inc.	Alaska
Qwest Communications International, Inc.	Delaware
EUnet International Limited	United Kingdom
EUnet International B.V.	Netherlands
Qwest B.V.	Netherlands
KPNQwest N.V. (44.34%)	Netherlands
Qwest Capital Funding, Inc.	Colorado
Qwest Europe LLC	Delaware
Qwest Services Corporation	Colorado
CenturyLink Investment Management Company	Colorado
Qwest Corporation	Colorado
1200 Landmark Center Condominium Association, Inc.	Nebraska
Block 142 Parking Garage Association	Colorado
Qwest Database Services, Inc.	Colorado
SMS/800, Inc. (33.3%)	District of Columbia
Qwest India Holdings, LLC	Delaware
CenturyLink Technologies India Private Limited	India
The El Paso County Telephone Company	Colorado
MoveARoo, LLC (33.3%)	Delaware
Qwest Dex Holdings, Inc.	Delaware
Qwest Government Services, Inc.	Colorado
Qwest Wireless, L.L.C.	Delaware
SAVVIS, Inc.	Delaware
AppFog, Inc.	Delaware
CenturyLink Australia Pty. Ltd.	Australia
CenturyLink do Brasil Participações Ltda.	Brazil
CenturyLink Comunicações Ltda.	Brazil

<u>Subsidiary</u>	State of incorporation or formation
CenturyLink Europe B.V.	Netherlands
CenturyLink Europe B.V., The Netherlands, filial Sweden	Sweden
SAVVIS Europe BV Sucursal en España	Spain
CenturyLink France S.A.S.	France
CenturyLink Germany GmbH	Germany
CenturyLink Italia S.r.l.	Italy
CenturyLink Japan, Ltd	Japan
CenturyLink New Zealand Limited	New Zealand
CenturyLink Philippines, Inc.	Philippines
CenturyLink Poland Sp Zo.o.	Poland
CenturyLink Singapore Pte. Ltd.	Singapore
CenturyLink Switzerland A.G.	Switzerland
CenturyLink Taiwan Limited	Taiwan
CenturyLink Technology Hong Kong Limited	Hong Kong
CenturyLink IT Consulting (Shanghai) Co., Ltd.	China
CenturyLink Technology Malaysia Sdn. Bhd.	Malaysia
CenturyLink Technology UK Limited	United Kingdom
CenturyLink Austria GmbH	Austria
CenturyLink Limited	United Kingdom
CenturyLink (Thailand) Limited	Thailand
DataGardens, Inc.	Canada
Digital Savvis HK JV	British VI
Digital Savvis HK Holding 1 Limited	British VI
Digital Savvis Investment Management HK Limited	Hong Kong
Digital Savvis Management Subsidiary Limited	Hong Kong
SAVVIS Canada, Inc.	Delaware
SAVVIS Communications Canada, Inc.	Canada
SAVVIS Communications Chile, S.A.	Chile
SAVVIS Communications Corporation	Missouri
SAVVIS Federal Systems, Inc.	Delaware
SAVVIS Communications International, Inc.	Delaware
CenturyLink Korea Limited	Korea
SAVVIS Communications Private Limited	India
SAVVIS do Brasil Ltda.	Brazil
SAVVIS Telecomunicações Ltda.	Brazil
SAVVIS Hungary Telecommunications KFT	Hungary
SAVVIS Mexico, S.A. de C.V.	Mexico
Tier 3, Inc.	Washington
SkyComm Technologies Corporation (50.0%)	Delaware
Spectra Communications Group, LLC	Delaware
TelUSA Holdings, LLC (89%)	Delaware
Telephone USA of Wisconsin, LLC	Delaware
Western Re, Inc.	Louisiana

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Section 4: EX-23 (EXHIBIT 23)

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CenturyLink, Inc.:

We consent to the incorporation by reference in the Registration Statements (No. 333-202411 and No. 333-187366) on Form S-3, the Registration Statements (No. 33-60061, No. 333-160391, No. 333-37148, No. 333-60806, No. 333-150157, No. 333-124854, No. 333-150188, and No. 333-174571) on Form S-8, and the Registration Statements (No. 33-48956, No. 333-17015, No. 333-167339, No. 333-174291, No. 333-155521, and No. 333-206725) on Form S-4 of CenturyLink, Inc. of our reports dated February 24, 2016, with respect to the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2015, and the effectiveness of internal control over financial reporting as of December 31, 2015, which reports appear in the December 31, 2015 annual report on Form 10-K of CenturyLink, Inc.

Our report on the consolidated financial statements dated February 24, 2016 refers to a change in accounting for debt issuance costs and accounting for deferred income taxes.

/s/ KPMG LLP

Shreveport, Louisiana
February 24, 2016

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Section 5: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of CenturyLink, Inc.;
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 24, 2016

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and President

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Section 6: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this annual report on Form 10-K of CenturyLink, Inc.;
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 24, 2016

/s/ R. Stewart Ewing, Jr.

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

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Section 7: EX-32 (EXHIBIT 32)

Exhibit 32

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of CenturyLink, Inc. ("CenturyLink"), certifies that, to his knowledge, the Annual Report on Form 10-K for the year ended December 31, 2015 of CenturyLink 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 CenturyLink as of the dates and for the periods covered by such report.

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

Date: February 24, 2016

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer and
President

/s/ R. Stewart Ewing, Jr.

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

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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, 2016
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. 001-7784



CENTURYLINK, INC.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)
100 CenturyLink Drive, Monroe, Louisiana
(Address of principal executive offices)

72-0651161
(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
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Stock Options

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 ☐ Smaller reporting company ☐
(Do not check if a 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 16, 2017, 546,575,404 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2016 was \$15.7 billion.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2017 annual meeting of shareholders are incorporated by reference in Part III of this annual report.

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Unless the context requires otherwise, references in this annual report on Form 10-K, for all periods presented, to "CenturyLink," "we," "us" and "our" refer to 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 services to our residential and business customers. Our communications services include local and long-distance voice, broadband, Multi-Protocol Label Switching ("MPLS"), private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, Voice over Internet Protocol ("VoIP"), information technology and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

Based on our approximately 11.1 million total access lines at December 31, 2016, we believe we are the third largest wireline telecommunications company in the United States. We operate 74% of our total access lines in portions of Colorado, Arizona, Washington, Minnesota, Florida, North Carolina, Oregon, Iowa, Utah, New Mexico, Missouri, and Idaho. We also provide local service in portions of Nevada, Wisconsin, Ohio, Virginia, Texas, Nebraska, Pennsylvania, Alabama, Montana, Indiana, Arkansas, Wyoming, Tennessee, New Jersey, South Dakota, North Dakota, Kansas, South Carolina, Louisiana, Michigan, Illinois, Georgia, Mississippi, Oklahoma, and California. In the portion of these 37 states where we have access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2016, we served approximately 5.9 million broadband subscribers and 325 thousand Prism TV subscribers. We also operate 58 data centers throughout North America, Europe and Asia.

We were incorporated under the laws of the State of Louisiana in 1968. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

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.

Pending Transactions

Pending Acquisition of Level 3

On October 31, 2016, we entered into a definitive merger agreement under which we propose to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. Under the terms of the agreement, Level 3 shareholders will receive \$26.50 per share in cash and 1.4286 of CenturyLink shares for each share of Level 3 common stock they own at closing. CenturyLink shareholders are expected to own approximately 51% and Level 3 shareholders are expected to own approximately 49% of the combined company at closing. On December 31, 2016, Level 3 had outstanding \$10.9 billion of long-term debt.

Completion of the transaction is subject to the receipt of regulatory approvals, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as well as approvals from the Federal Communications Commission ("FCC") and certain state regulatory authorities. The transaction is also subject to the approval of CenturyLink and Level 3 shareholders at meetings scheduled to be held on March 16, 2017, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction by the end of the third quarter 2017. If the merger agreement is terminated under certain circumstances, we may be obligated to pay Level 3 a termination fee of \$472 million, or Level 3 may be obligated to pay CenturyLink a termination fee of \$738 million.

See "Risk Factors—Risks Relating to Our Pending Acquisition of Level 3" in Item 1A of Part I of this annual report, for additional information concerning our pending acquisition of Level 3. Additional information about Level 3 is included in documents filed by it with the Securities and Exchange Commission ("SEC").

The foregoing description of the pending Level 3 acquisition is not complete, and is qualified in its entirety by reference to the definitive joint proxy statement/prospectus filed with the SEC by us on February 13, 2017.

Pending Sale of Colocation Business and Data Centers

On November 3, 2016, we entered into a definitive stock purchase agreement to sell our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for cash and a minority stake in the consortium's newly-formed global secure infrastructure company. During 2016, as a result of the pending sale, the assets to be sold to the Purchaser have been reclassified as assets held for sale in other current assets on our consolidated balance sheet. Additionally, the liabilities to be assumed by the Purchaser have been reclassified and presented as current liabilities associated with assets held for sale on our consolidated balance sheet. The sale is subject to regulatory approvals, including a review by the Committee of Foreign Investments in the United States, as well as other customary closing conditions. This transaction will result in the Purchaser acquiring 57 data centers. This business generated revenues of \$622 million, \$626 million and \$643 million (excluding revenue with affiliates) for the years ended December 31, 2016, 2015 and 2014, respectively (a small portion of which will be retained by us). Based on certain estimates and assumptions regarding the closing date and various tax matters, we currently project that the net cash proceeds from the divestiture will be approximately \$1.5 billion to \$1.7 billion. We plan to use a portion of these net cash proceeds to partly fund our acquisition of Level 3.

See Note 3—Pending Sale of Colocation Business and Data Centers to our consolidated financial statements in Item 8 of Part II of this annual report for additional information on this pending sale.

The foregoing description of the pending sale of our data centers and colocation business is not complete, and is qualified in its entirety by reference to our current report on Form 8-K filed with the SEC on November 7, 2016.

Financial and Operational Highlights

The following table summarizes the results of our consolidated operations:

	Years Ended December 31,		
	2016 ⁽¹⁾⁽²⁾	2015 ⁽¹⁾	2014 ⁽³⁾
	(Dollars in millions)		
Consolidated statements of operations summary results:			
Operating revenues	\$ 17,470	17,900	18,031
Operating expenses	15,139	15,295	15,621
Operating income	<u>\$ 2,331</u>	<u>2,605</u>	<u>2,410</u>
Net income	\$ 626	878	772

- (1) During 2016 and 2015, we recognized an incremental \$201 million and \$215 million, respectively, of revenue associated with the FCC's Connect America Fund Phase 2 support program as compared to the interstate USF program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this annual report.
- (2) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions and \$52 million of expenses related to our pending acquisition of Level 3.
- (3) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge.

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

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Consolidated balance sheets summary information:		
Total assets	\$ 47,017	47,604
Total long-term debt ⁽¹⁾	19,993	20,225
Total stockholders' equity	13,399	14,060

- (1) Total long-term debt is the sum of current maturities of long-term debt, capital lease obligations of \$305 million (associated with the pending sale of colocation business and data centers) included in current liabilities associated with assets held for sale and long-term debt on our consolidated balance sheets. For additional information on our total long-term debt, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report. For information on our total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—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,		
	2016	2015	2014
	(in thousands except for data centers, which are actuals)		
Operational metrics:			
Total access lines ⁽¹⁾	11,090	11,748	12,394
Total broadband subscribers ⁽¹⁾	5,945	6,048	6,082
Total Prism TV subscribers	325	285	242
Total data centers ⁽²⁾	58	59	58

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

(2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

Our methodology for counting access lines, broadband subscribers, Prism TV subscribers and data centers 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 total consolidated operating revenues are from customers located in the United States. We estimate that approximately 1% of our consolidated revenues is derived from providing telecommunications, colocation and hosting services outside the United States.

Operations

Segments

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- *Business Segment.* Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, Ethernet, colocation, hosting (including cloud hosting and managed hosting), broadband, VoIP, information technology and other ancillary services. Our legacy services offered to these customers primarily include local and long-distance voice, including the sale of unbundled network elements ("UNEs"), private line (including special access), switched access and other ancillary services. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related products and professional services, all of which are described further below under the heading "Products and Services"; and
- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, video (including our Prism TV services) and other ancillary services. Our legacy services offered to these customers include local and long-distance voice and other ancillary services.

The following table shows the composition of our operating revenues by segment under our current segment categorization for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,			Percent Change	
	2016	2015	2014	2016 vs 2015	2015 vs 2014
Percentage of revenues:					
Business segment	59%	59%	61%	—%	(2)%
Consumer segment	34%	34%	33%	—%	1 %
Other operating revenues	7%	7%	6%	—%	1 %
Total operating revenues.	100%	100%	100%		

For additional information on our segment data, including information on certain centrally-managed assets and expenses not reflected in our segment results, see Note 14—Segment Information to our consolidated financial statements in Item 8 of Part II of this annual report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this annual report.

In January 2017, we announced to our employees an organizational change designed to better align our customer-facing organizations into three business units: consumer; enterprise and IT and managed services. These organizations will be fully integrated with sales, marketing and service delivery support teams to enable faster decision-making, market responsiveness and deeper accountability. We implemented this organization change to create greater focus on the customer experience in each business unit and accelerate strategic revenue growth.

Products and Services

From time to time, we change the categorization of our products and services, and we may make similar changes in the future. During the second quarter of 2016, we determined that because of declines due to customer migration to other strategic products and services, certain of our business low-bandwidth data services, specifically our private line (including special access) services in our business segment, are more closely aligned with our legacy services than with our strategic services. As described in greater detail in Note 14—Segment Information, these operating revenues are now reflected as legacy services.

Our products and services include local and long-distance voice, broadband, MPLS, private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, VoIP, information technology and other ancillary services.

We offer our customers the ability to bundle together several products and services. For example, we offer integrated and unlimited local and long-distance voice services. Our customers can also bundle two or more services such as broadband, video (including DIRECTV through our strategic partnership), voice and Verizon Wireless (through our 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 11.1 million access lines and forms a portion of the public switched telephone network, or PSTN. For more information on our network, see "Business—Network Architecture" below.

Described in greater detail below are our key products and services.

Strategic Services

We primarily focus our marketing and sales efforts on our “strategic” services, which are those services for which demand generally remains strong and that we believe are most important to our future performance. Generally speaking, our strategic services enable our customers to access the Internet, connect to private networks and transmit data, and enhance the security, reliability and efficiency of our customers’ communications. Our strategic services are comprised of the following:

- *Broadband.* Our broadband services allow customers to connect at high speeds to the Internet through their existing telephone lines or fiber-optic cables. Substantially all of our broadband subscribers are located within the local service area of our wireline telephone operations;
- *MPLS.* Multi-Protocol Label Switching is a standards-approved data networking technology that we provide to support real-time voice and video transmission services. This technology allows network operators flexibility to divert and route traffic around link failures, congestion and bottlenecks;
- *Ethernet.* Ethernet services include point-to-point and multi-point equipment 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;
- *Colocation.* Colocation services enable our customers to install their own IT equipment in our data centers;
- *Managed Hosting.* Managed hosting includes provision of centralized IT infrastructure and a variety of managed services including cloud and traditional computing, application management, back-up, storage, and other advanced services including planning, design, implementation and support services;
- *Video.* Our video services include our facilities-based video, marketed as CenturyLink Prism TV, which is a premium entertainment service that allows our customers to watch hundreds of television or cable channels and record up to four shows on one home digital video recorder. We also offer satellite digital television under an arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name;
- *VoIP.* Voice over Internet Protocol, or VoIP, is a real-time, two-way voice communication service (similar to our traditional voice services) that originates over a broadband connection and often terminates on the PSTN; and
- *Managed Services.* Managed services represents a blend of network, hosting, cloud, and IT services that typically require ongoing support from our staff. These services frequently involve equipment or networks owned, acquired or controlled by the customer and often include consulting or software development.

Legacy Services

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

- *Local Voice Services.* 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 UNEs, which allow our wholesale customers to use all or part of our network 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;
- *Long-distance Voice Services.* We offer our residential and business customers domestic and international long-distance services and toll-free services. Our international long-distance services include voice calls that either terminate or originate with our customers in the United States;
- *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 wireless backhaul transmissions;
- *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;

- *ISDN*. We offer integrated services digital network ("ISDN") services, which use regular telephone lines to support voice, video and data applications; and
- *WAN*. We offer wide area network ("WAN") services, which allow a local communications network to link to networks in remote locations.

Data Integration

Data integration includes the sale of telecommunications equipment located on customers' premises and related products and professional services. These services include network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for our governmental and business customers.

Other Operating Revenues

Other operating revenues consist primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the Federal Communications Commission's ("FCC") universal service programs. We also generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

Additional Information

From time to time, we also make investments in other communications or technology companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this annual report.

Patents, Trade Names, Trademarks and Copyrights

Either directly or through our subsidiaries, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business, such as our CenturyLink® and Prism® brand names. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others as we deem appropriate.

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 Affecting Our Business" in Item 1A of Part I of this annual report, and Note 16—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 and a variety of channel partners to promote sales of services that meet the needs of our customers. Our sales and marketing strategy is to enhance our sales by offering solutions tailored to the needs of our various customers and promoting our brands. Our offerings include both stand-alone services and bundled services designed to meet the needs of different customer segments.

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. Our switched digital television service offering is branded under the name "Prism TV." The wireless service that we offer under our agency agreement with Verizon Wireless is marketed under the "Verizon Wireless" brand name.

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

Similarly, our sales and marketing approach to our business customers includes a commitment to provide comprehensive communications and IT solutions for business, wholesale and governmental customers of all sizes, ranging from small offices to select enterprise customers. We strive to offer our business customers stable, reliable, secure and trusted solutions. Our marketing plans include marketing our products and services primarily through digital advertising, direct sales representatives, inbound call centers, telemarketing and third parties, including telecommunications agents, system integrators, value-added resellers and other telecommunications firms. We support our distribution through digital advertising, events, television advertising, website promotions and public relations.

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, 2016, we maintained approximately 1 million miles of copper plant and approximately 265 thousand miles of domestic fiber-optic plant.

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. The FCC's definition of "broadband service" could create additional requirements for higher capital spending to address marketing and competitive issues. 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. 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 constant target of cyber-attacks of varying degrees, which has caused us to spend increasingly more time and money to deal with increasingly sophisticated attacks. Some of the attacks result in security breaches, and we periodically notify our customers, our employees or the public of these breaches when necessary or appropriate. None of these resulting security breaches to date have materially adversely affected our business, results of operations or financial condition.

We rely on several other communications companies to provide our offerings. We lease a significant portion of our core fiber network from our competitors and other third parties. Many of these leases will lapse in future years. All of our satellite television and wireless voice services are provided by other carriers under agency agreements, and some of our other services are reliant upon reselling arrangements with other carriers. Our future ability to provide services on the terms of our current offerings will depend in part upon our ability to renew or replace these leases, agreements and arrangements on terms substantially similar to those currently in effect.

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

Regulation

Overview

As discussed further below, our operations are subject to significant local, state, federal and foreign laws and regulations.

We are subject to significant regulation by the 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 developed and administered support programs designed to subsidize the provision of services to high-cost rural 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. Many acquisitions and divestitures require approval by the FCC and some state commissions. These agencies typically have the authority to withhold their approval, or to request or impose substantial conditions upon the transacting parties in connection with granting their approvals.

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.

The laws and regulations governing our affairs are quite complex and occasionally in conflict with each other. From time to time, we are fined for failing to meet applicable regulations or service requirements.

Federal Regulation

General

We are required to comply with the Communications Act of 1934. Among other things, this law requires our incumbent local exchange carriers ("ILECs") to offer various of our legacy services at just and reasonable rates and on non-discriminatory terms. The Telecommunications Act of 1996 materially 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 our access to and use of local telephone numbers and our provision of emergency 911 services. The FCC has responsibility for maintaining and administering support programs designed to expand nationwide access to communications services (which are described further below), as well as other programs supporting service to low-income households, schools and libraries, and rural health care providers. Changes in the composition of the five members of the FCC or its Chairman can have significant impacts on the regulation of our business.

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 voice and 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. In addition, the FCC has heightened its focus on the reliability of emergency 911 services. The FCC has imposed fines on us and other companies for 911 outages and has adopted new compliance requirements for providing 911 service. We are incurring capital and operating expenses designed to comply with the FCC's new requirements and minimize future outages. All of these laws and regulations may cause us to incur additional costs and could impact our ability to compete effectively against companies not subject to the same regulations.

Over the past several years, the FCC has taken various actions and initiated certain proceedings designed to comprehensively evaluate the proper regulation of the provisions of data services to businesses. As part of its evaluation, the FCC has reviewed the rates, terms and conditions under which these services are provided. The FCC's proceedings remain pending, and their ultimate impact on us is currently unknown.

In 2015, the FCC issued an order regulating the manner in which ILECs can discontinue or reduce certain copper-based services. This order requires ILECs to provide prior notice to certain customers of their proposed change in services, and in certain cases to provide replacement offerings on reasonably comparable terms and conditions. We expect that this order will limit our flexibility to react to changing conditions in the communications industry.

Intercarrier Compensation and Universal Service

For decades, the FCC has regularly 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. The FCC has also traditionally administered support programs designed to promote the deployment of voice and broadband services in high-cost rural areas of the country.

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 to 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 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.

In late 2011, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the 2011 order. 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. Rulemaking designed to implement the order is not complete, and several FCC proceedings relating to the 2011 order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

As a result of the 2011 order, a new Universal Service program was created to deploy broadband to unserved and underserved rural areas utilizing the Connect America Fund or "CAF". The CAF substantially replaces interstate USF funding, that we previously utilized to support voice services in high-cost rural markets. There are two phases to the CAF program, CAF Phase 1, a one-time broadband grant program, and CAF Phase 2, which is a multi-year recurring subsidy program for more extensive broadband deployment in price-cap ILEC territories.

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses in 33 states of the 37 states in which we are an ILEC under the CAF Phase 2 high-cost support program. The funding from the CAF Phase 2 support program in these 33 states has substantially replaced the funding from the interstate USF high-cost program that we previously utilized to support voice services in high-cost rural markets in these 33 states. In late 2015, we began receiving these support payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly support payments at a higher rate than under the interstate USF support program and (ii) a substantial one-time transitional payment, designed to align the prior USF payments with the new CAF Phase 2 payments for the full year 2015. For additional information on the payments we have thus far received under this program, see "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in Item 7 of Part II of this annual report.

As a result of accepting CAF Phase 2 support payments for 33 states, we will be obligated to make substantial capital expenditures to build infrastructure by certain specified milestone deadlines. Future funding is contingent upon our compliance with these infrastructure buildout commitments and certain other service requirements, including certain minimum upload and download transmission speed requirements. In addition, if we are not in compliance with FCC measures at the end of the six-year CAF Phase 2 period, we will have 12 months to attain full compliance. If we are not in full compliance after the additional 12 months, we would incur a penalty equal to 1.89 times the average amount of support per location received in the state over the six-year term, plus a potential penalty of 10% of the total CAF Phase 2 support over the six-year term for the state. For information on the risks associated with participating in this program, see "Risk Factors—Risks Relating to Legal and Regulatory Matters" in Item 1A of Part I of this annual report.

For additional information about the potential financial impact of the CAF Phase 2 program, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this annual report.

Broadband Regulation

In February 2015, the FCC adopted new regulations that regulate Internet services as a public utility under Title II of the Communications Act of 1934. In 2016, that order was upheld by a court of appeals. We anticipate that these regulations and any related rules may be reviewed by Congress. In addition, the newly-constituted FCC may reconsider these regulations. At this time, we cannot estimate the impact this may have on our business.

In 2015, the FCC adopted a broadband standard of 25 megabits per second download speed and 3 megabits per second 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, and our failure to attain these speeds in certain markets could place us at a marketing disadvantage.

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, our telephone operating subsidiaries 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 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.

Other Regulations

We are subject to federal and state regulations of customer service standards related to Prism TV. The FCC adopted customer service standards that we must meet in all of our Prism TV markets. The FCC has largely delegated its enforcement powers to local franchise authorities, who have the ability to adopt more stringent standards. We are subject to penalties in many of our local franchise agreements if we fail to meet applicable customer service standards.

Certain of our telecommunications, colocation and hosting services conducted in foreign countries are or may become subject to various foreign laws. Some of the legal requirements governing our foreign operations are more restrictive than or conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks.

Various foreign, federal and state laws govern our storage, maintenance and use of customer data, including a wide range of consumer protection, data protection, privacy, intellectual property and similar laws. The application, interpretation and enforcement of these laws are often uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction. Various foreign, federal and state legislative or regulatory bodies have recently adopted increasingly restrictive laws or regulations governing the protection or retention of data, and others are contemplating similar actions.

For additional information about these matters, see “Risk Factors—Risks Affecting Our Business” and “Risk Factors—Risks Relating to Legal and Regulatory Matters” in item 1A of Part I of this annual report.

Competition

General

We compete in a rapidly evolving and highly competitive market, and we expect intense competition to continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from several other sources, including cable and satellite companies, wireless providers, technology companies, cloud 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. 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. In addition, the communications industry has, in recent years, experienced substantial consolidation, and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

Wireless telephone services are a significant source of competition with our legacy ILEC services. It is increasingly common for customers to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly as our older customers are replaced over time with younger customers who are less accustomed to using traditional wireline voice services. Technological and regulatory developments in wireless services, Wi-Fi, and other wired and wireless technologies have contributed to the development of alternatives to traditional landline voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services. These factors have led to a long-term systemic decline in the number of our wireline voice service customers.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through reselling an ILEC's local services, through use of an ILEC's unbundled network elements or through their own facilities.

Technological developments have led to the development of new products and services that have reduced the demand for our traditional services, as noted above, or that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively marketed these services. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services. In addition, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster average broadband transmission speeds than ours.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Such activities will continue to place downward pressure on the demand for and pricing of our services.

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 must continue to invest in our networks to ensure that they can deliver competitive services that meet these increasing bandwidth and speed requirements. In addition, network reliability and security are increasingly important competitive factors in our business.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers, municipalities or alternative access vendors. These systems are capable of originating or terminating calls without use of an ILEC's networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of an ILEC's access lines. We anticipate that all these trends will continue and lead to decreased billable use of our networks.

Additional information about competitive pressures is located (i) under the heading "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this annual report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our segments.

Business Segment

Strategic Services

In connection with providing strategic services to our business customers, which includes our small, medium and enterprise business, wholesale and governmental customers, we compete against other telecommunication providers, as well as other regional and national carriers, other data transport providers, cable companies, CLECs and other enterprises, some of whom are substantially larger than us. Competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. In providing broadband services, we compete primarily with cable companies, wireless providers, technology companies and other broadband service providers. We face competition in Ethernet based services in the wholesale market from cable companies and fiber based providers.

Our competitors for providing integrated data, broadband, voice services and other IT services to our business customers range from mid-sized businesses to large enterprises. Due to the size and capacity of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing sophisticated, secure and performance-driven services to our business customers through our global infrastructure.

The number of companies providing business services has grown and increased competition for these services, particularly with respect to smaller business customers. Many of our competitors for 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.

Our competitors for cloud, hosting, colocation and other IT services include telecommunications companies, technology companies, cloud companies, colocation companies, hardware manufacturers and system integrators that support the in-house IT operations for a business or offer outsourcing solutions. Due to the size, capacity and strategically low pricing tactics of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. The increase in recent years in the number of companies providing these services has placed substantial downward pressure on pricing for a wide range of cloud, hosting, colocation and other IT services. We believe, however, that our hybrid IT services capabilities, which offer multiple products and services (including network services), could help differentiate our products and services from those offered by competitors with a narrower range of products and services. We have remained focused on expanding our hybrid cloud capabilities through internal product development and strategic acquisitions of select startup businesses.

Legacy Services

We face intense competition with respect to our legacy services and continue to see customers migrating away from these services and into strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by product substitution, technological migration and price competition. For our wholesale customers, we will continue to be adversely affected by product substitution, technological migration, industry consolidation and mandated rate reductions. Competition for private line services is based on price, network reach and reliability, service, promotions and bundled offerings. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers as well as some of our own wholesale markets customers, many of which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce revenue producing traffic on our network.

Data Integration

In providing data integration to our business customers, we compete primarily with large integrators, equipment providers and national telecommunication providers. Competition is based on package offerings, and as such we focus on providing these customers individualized and customizable packages. Our strategy is to provide our data integration through packages that include other strategic and legacy services. As such, in providing data integration we often face many of the same competitive pressures as we face in providing strategic and legacy services, as discussed above.

We expect data integration revenues to continue to fluctuate from quarter to quarter as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our governmental customers. We further expect the profit margins on our data integration offerings to continue to be lower than those of our strategic and legacy services.

Consumer Segment

Strategic Services

With respect to providing our strategic services to residential customers, competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. Wireless carriers' latest generation technologies are allowing them to more directly compete with our strategic services. The manner in which we compete for broadband customers in this segment is substantially similar to the manner in which we compete for business customers, as described in the above section. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Our Prism TV residential video service faces substantial competition from a variety of competitors, including well-established cable companies, satellite companies and several national companies that deliver content over the Internet and on mobile devices. Many of our competitors for these strategic services are not subject to the same regulatory requirements as we are, and therefore are able to avoid significant regulatory costs and obligations.

Our strategy for maintaining and increasing our base of broadband customers is based on pricing, packaging of services and features and quality of service. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our network, which allows for the delivery of higher speed broadband services. We also continue to expand our marketing and product bundling efforts by offering a variety of bundled products and services with various pricing discounts, as we compete in a maturing market in which a significant portion of consumers already have broadband services. We offer these bundled products and services through various sales and marketing opportunities as further described above under the heading "Sales and Marketing."

Legacy Services

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 and long-distance voice services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Our strategy to manage access line loss is based primarily on our pricing, packaging of services and features and quality of service. While bundle price discounts have resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention.

Acquisitions and Dispositions

We regularly evaluate the possibility of acquiring additional assets or disposing of assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions or dispositions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement.

During 2016, we acquired all of the outstanding stock of three companies for total consideration of \$53 million, including future deferred or contingent cash payments of \$14 million, of which \$49 million has initially been attributed to goodwill. These acquisitions were consummated to expand the product offerings of our then business segment, and therefore, the goodwill was assigned to that segment. The majority of the goodwill is attributed primarily to expected future increases in revenue from the sale of new products. The majority of the goodwill from these acquisitions is expected to be deductible for tax purposes. See Note 4—Goodwill, Customer Relationships and Other Intangible Assets for additional information on these acquisitions.

Environmental Compliance

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating prior industrial sites or operating 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. For additional information, see "Risk Factors—Risks Relating to Legal and Regulatory Matters—Risks posed by other regulation" in Item 1A of Part I of this annual report and Note 16—Commitments and Contingencies included in Item 8 of Part II of this annual report.

Seasonality

Overall, our business is not materially impacted by seasonality. Our network-related operating expenses are, however, generally higher in the second and third quarters of the year. 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, but have generally been highest during the third quarter and have been related to damage from severe storms, including hurricanes, tropical storms and tornadoes in our markets along the Atlantic and Gulf of Mexico coastlines.

Employees

At December 31, 2016, we had approximately 40,000 employees, of which approximately 15,000 are members of either the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). 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 and see Note 18—Labor Union Contracts to our consolidated financial statements in Item 8 of Part II of this annual report for additional information on the timing of certain contract expirations.

Over the last several years, we have reduced our workforce primarily due to (i) increased competitive pressures, (ii) the loss of access lines and related legacy revenues, (iii) cost reduction initiatives, (iv) process improvements through automation and (v) integration efforts from our acquisitions.

Website Access and Important Investor Information

Our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this 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 amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. From time to time we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

We have adopted a written code of conduct that serves 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 we make any changes (other than by a technical, administrative or non-substantive amendment) to, or provide any waivers from, the provisions of our code of conduct applicable to our directors or executive officers, we intend to disclose these events on our website or in a report on Form 8-K filed with the SEC. The code of conduct, as well as copies of our guidelines on significant governance issues and the charters of our key board committees, are also available in the "Corporate Governance" section of our website at 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 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 its related regulations. In addition, during 2016, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

We typically disclose material non-public information by disseminating press releases, making public filings with the SEC, or disclosing information during publicly accessible meetings or conference calls. Nonetheless, from time to time we have used, and intend to continue to use, our website and social media accounts to augment our disclosures.

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 constitute "forward-looking" statements as defined by, and are subject to the "safe harbor" protections under, the federal securities laws. These statements include, among others:

- forecasts of our anticipated future results of operations or financial position;
- statements concerning the impact of our transactions, investments, product development and other initiatives, including our pending acquisitions and dispositions and our participation in government programs;
- statements about our liquidity, tax position, tax rates, asset values, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, business strategies, dividend and stock repurchase plans, capital allocation plans, 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, (i) are not guarantees of future results, (ii) are inherently speculative and (iii) are subject to a number of risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our legacy offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, access charges, universal service, broadband deployment, data protection and net neutrality;
- our ability to (i) successfully complete our pending acquisition of Level 3, including the timely receipt of all requisite financing and all shareholder and regulatory approvals free of any detrimental conditions, and (ii) timely realize the anticipated benefits of the transaction, including our ability after the closing to attain anticipated cost savings, to use Level 3's net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions.
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers and to introduce new offerings on a timely and cost-effective basis;
- the adverse impact on our business and network from possible equipment failures, service outages, security breaches or similar events impacting our network;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, periodic share repurchases, dividends, pension contributions and other benefits payments, and debt repayments;

- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and our other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us;
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including potential future impairment charges;
- the effects of adverse weather or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
- other risks referenced in "Risk Factors" in Item 1A or elsewhere in this annual report or other of our filings with the SEC.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or other capital allocation 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, answer questions raised by 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.

ITEM 1A. RISK FACTORS

The following discussion identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with the other portions of this annual report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of Part II and our consolidated financial statements and related notes in Item 8 of Part II. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- an increased focus on selling a broader range of higher-growth strategic services, which are described in detail elsewhere in this annual report;
- an increased focus on serving a broader range of business, governmental and wholesale customers;
- greater use of service bundles; and
- acquisitions to increase our scale, enhance our business segment and strengthen our product offerings.

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

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

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

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

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

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

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

Our revenues and cash flows may not be adequate to fund all of our current objectives.

As noted in the risk factor disclosures appearing above and below, changes in competition, technology, regulation and demand for our legacy services continue to place downward pressure on our consolidated revenues and cash flows. During each of 2016, 2015, 2014 and 2013, we experienced declines in revenues and net cash provided by operating activities as compared to prior periods. Our cash flows will be further impacted by other changes discussed herein, including anticipated increases in our cash tax payments prior to the pending Level 3 acquisition and additional post-retirement health care payments as a result of the depletion in 2016 of substantially all of the post-retirement benefit plan trust assets.

We rely upon our consolidated revenues and cash flows to fund our commitments and business objectives, including without limitation, funding our capital expenditures, operating costs, debt repayments, dividends, periodic share repurchases, periodic pension contributions and other benefits payments. We cannot assure you that our future cash flows will be sufficient to fund all of our cash requirements in the manner currently contemplated. Our inability to fund certain of these payments could have an adverse impact on our business, operations or competitive position or on the value of our securities.

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

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

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

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

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

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

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

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

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

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

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

Our ability to expand and update our systems and information technology infrastructure in response to our growth and changing business needs is important to our ability to maintain and develop attractive product and service offerings. As discussed further under "Business—Network Architecture" in Item 1 of Part I of 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 the networks of companies we have acquired in the past. Unanticipated delays in the completion of these projects may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions, and the diversion of development resources.

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

Negative publicity may adversely impact us.

Outages or other service failures of networks operated by us or other operators could cause substantial adverse publicity affecting us specifically or our industry generally. In either case, media coverage and public statements that insinuate improper actions by us or other operators, regardless of their factual accuracy or truthfulness, may result in negative publicity, litigation, governmental investigations or additional regulations. Addressing negative publicity and any resulting litigation or investigations may distract management, increase costs and divert resources. Negative publicity may have an adverse impact on our reputation and the morale of our employees, which could adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

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

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

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

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

We may not be successful in protecting and enforcing our intellectual property rights.

We rely on various patents, copyrights, trade names, trademarks, service marks, trade secrets and other similar intellectual property rights, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe on our intellectual property. We may be unable to prevent competitors from acquiring proprietary rights that are similar to or infringe upon our proprietary rights, or to prevent our current or former employees from using or disclosing to others our proprietary information. Enforcement of our intellectual property rights may depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.

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

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

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

We also rely on reseller and sales agency arrangements with other communications companies to provide some of the services that we offer 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 contractual arrangements; or
- are otherwise unable or unwilling to make payments or provide services to us.

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

Reliance on utility providers and landlords. Pending the sale of our colocation business, we operate a substantial number of data center facilities, which are susceptible to electrical power shortages or outages. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers. Due to the increasing sophistication of equipment and our products, our demand or our customers' demand for power may exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers.

Pending the sale of our colocation business, we lease most of our data centers. Although the majority of these leases provide us with the opportunity to renew the lease, many of these renewal options provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. Any resulting increases in our rent costs could have a negative impact on our financial results. We cannot assure you that our data centers in the future will have access to sufficient space or power on attractive terms, or at all.

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

Reliance on financial institutions. We rely on a number of financial institutions to provide us with short-term liquidity under our credit facility. If one or more of these lenders default on their funding commitments, our access to revolving credit could be adversely affected.

Rising costs, changes in consumer behaviors and other industry changes may adversely impact our video business.

The costs of purchasing video programming have risen significantly in recent years and continue to rise. Moreover, an increasing number of consumers are receiving access to video content through video streaming or other services pursuant to new technologies for a nominal or no fee, which will likely reduce demand for more traditional video products, such as the satellite TV services that we resell and our Prism TV services.

New technologies are also affecting consumer behavior in ways that are changing how content is delivered and viewed. Increased access to various media through wireless devices has the potential to reduce the viewing of our content through traditional distribution outlets. These new technologies have increased the number of entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. Some of these newer technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis. All of these changes, coupled with changing consumer preferences and other related developments, could reduce demand for our video products and services.

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, 2016, approximately 38% 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. Approximately 11,000, or 28%, of our employees are subject to collective bargaining agreements that are scheduled to expire October 7, 2017. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

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

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

Our business customers may seek to shift risk to us.

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

Our international operations expose us to various regulatory, currency, tax, legal and other risks.

Our international operations are subject to U.S. and other laws and regulations regarding operations in foreign jurisdictions in which we provide services. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, anti-competition laws, trade restrictions, tax laws, immigration laws, privacy laws and accounting requirements. Many of these laws are complex and change frequently. Regulations that require the awarding of contracts to local contractors or the employment of local citizens may adversely affect our flexibility or competitiveness in these jurisdictions. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. There is a risk that these laws or regulations may materially restrict our ability to deliver services in various foreign jurisdictions or could be breached through inadvertence or mistake, fraudulent or negligent behavior of our employees or agents, failure to comply with certain formal documentation or technical requirements, or otherwise. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us or our personnel, or prohibitions on the conduct of our business or our ability to operate in one or more countries, any of which could have a material adverse effect on our business, reputation, results of operations, financial condition or prospects.

Many foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to privacy rights and data retention. For example, all 28 member states of the European Union have adopted new European data protection laws that we believe could impact our operations in Europe and could potentially expose us to an increased risk of litigation or significant regulatory fines. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products and services we seek to offer.

In addition to these international regulatory risks, some of the other risks inherent in conducting business internationally include:

- tax, licensing, political or other business restrictions or requirements;
- uncertainty concerning import and export restrictions, including the risk of fines or penalties assessed for violations;
- longer payment cycles and problems collecting accounts receivable;
- domestic and foreign regulation of overseas operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- currency and exchange controls, repatriation restrictions and fluctuations in currency exchange rates;
- challenges in securing and maintaining the necessary physical and telecommunications infrastructure;
- the inability in certain jurisdictions to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;

- the inability in certain jurisdictions to adequately protect intellectual property rights;
- laws, policies or practices that restrict with whom we can contract or otherwise limit the scope of operations that can legally or practicably be conducted within any particular country;
- potential submission of disputes to the jurisdiction of a foreign court or arbitration panel;
- reliance on third parties, including those with which we have limited experience;
- limitations in the availability, amount or terms of insurance coverage;
- the imposition of unanticipated or increased taxes, increased communications or privacy regulations or other forms of public or governmental regulation that increase our operating expenses; and
- challenges in staffing and managing foreign operations.

Many of these risks are beyond our control, and we cannot predict the nature or the likelihood of the occurrence or corresponding effect of any such events, each of which could have an adverse effect on our financial condition and results of operations.

We do business and may in the future do additional business in certain countries or regions in which corruption is a serious problem. Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. In certain instances, these local operators, partners or agents may have interests that are not always aligned with ours. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products, or being held liable under the FCPA or other anti-corruption laws for actions taken by our strategic or local partners or agents even though these partners or agents may not themselves be subject to the FCPA or other applicable anti-corruption laws. Any determination that we have violated the FCPA or other anti-corruption laws could have a material adverse effect on our business, results of operations, reputation or prospects.

We may not be able in the future to acquire new businesses on attractive terms.

Historically, much of our growth has been attributable to acquisitions. Our future ability to grow through additional acquisitions could be limited by several factors, including our leverage, debt covenants and inability to identify attractively-priced target companies. Moreover, we generally must devote significant management attention and resources to evaluate acquisition opportunities, which could preclude us from evaluating acquisition opportunities during periods when management is committed to other opportunities, tasks or activities. Accordingly, we cannot assure you that we will be able to attain future growth through acquisitions. See "Risks Relating to Our Pending Acquisition of Level 3" for a discussion of certain specific risks raised by our pending acquisition of Level 3 and see the next risk factor immediately below for a discussion of certain general risks raised by acquisitions.

Any additional future acquisitions by us would subject us to additional business, operating and financial risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure or financial position.

In an effort to implement our business strategies, we may from time to time in the future pursue other acquisition or expansion opportunities, including strategic investments. These transactions could involve acquisitions of entire businesses or investments in start-up or established companies, and could take several forms, including mergers, joint ventures, investments in new lines of business, or the purchase of equity interests or assets. These types of transactions may present significant risks and uncertainties, including the difficulty of identifying appropriate companies to acquire or invest in on acceptable terms, distraction of management from current operations, insufficient revenue acquired to offset liabilities assumed, unexpected expenses, inadequate return of capital, regulatory or compliance issues, potential infringements, potential violations of covenants in our debt instruments and other unidentified issues not discovered in due diligence. To the extent we acquire part or all of a business that is financially unstable or is otherwise subject to a high level of risk, we may be affected by currently unascertainable risks of that business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular business or assets that we may acquire. Moreover, we cannot guarantee that any such transaction will ultimately result in the realization of the benefits of the transaction originally anticipated by us or that any such transaction will not have a material adverse impact on our financial condition or results of operations. In particular, we can provide no assurances that we will be able to successfully integrate the technology systems, billing systems, accounting processes, sales force, cost structure, product development and service delivery processes, standards, controls, policies, strategies and culture of the acquired company with ours. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional securities or the borrowing of additional funds.

Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

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

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

For additional information about our business and operations, see "Business" in Item 1 of Part I of this annual report.

Risks Relating to Our Pending Acquisition of Level 3

The completion of the Level 3 acquisition is subject to several conditions, including the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on the combined company or could cause the proposed transaction to be abandoned.

The completion of the Level 3 acquisition is subject to a number of conditions, including, among others, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and the receipt of approvals from the FCC and certain other governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the transaction is in the public interest. We cannot provide any assurance that the necessary approvals will be obtained.

In addition, regulatory entities may impose certain requirements or obligations as conditions for their approval or in connection with their review. The merger agreement may require CenturyLink or Level 3 to accept conditions from these regulators that could adversely affect the combined company without either of CenturyLink or Level 3 having the right to refuse to close the acquisition on the basis of those regulatory conditions. While we are not required to accept conditions that would or would reasonably be likely to have a material adverse effect on the combined company (assuming for these purposes that the combined company is the size of CenturyLink), this assessment will be made at or prior to the closing and we cannot provide any assurance that any required conditions will not have a material adverse effect on the combined company following the proposed acquisition. In addition, we cannot provide any assurance that these conditions will not result in the abandonment of the acquisition.

It could take longer to receive the requisite governmental consents and approvals than currently anticipated. Any delay in completing the acquisition, whether caused by regulatory delays or otherwise, could cause us, Level 3, as well as the combined company, to incur extra transaction expenses or to delay or fail to realize fully the benefits that we currently expect to receive if the acquisition is successfully completed within the expected time frame.

Failure to complete the acquisition could negatively affect our stock price and our future business and financial results.

If the Level 3 acquisition is not completed, our ongoing businesses may be adversely affected and we will be subject to several risks, including the following:

- the possibility that we could be required to pay Level 3 a substantial termination fee and, in some cases, certain expenses of Level 3 if the acquisition is terminated under certain qualifying circumstances;
- the incurrence of costs and expenses relating to the proposed acquisition, such as financing, legal, accounting, financial advisor, filing, printing and mailing fees and expenses, including the potential expense reimbursement obligations described above;
- the possibility of a change in the trading price of our common stock to the extent current trading prices reflect a market assumption that the acquisition will be completed;
- the possibility that we could suffer potential negative reactions from our employees, customers or vendors; and
- the possibility that we could suffer adverse consequences associated with our management's focus on the acquisition instead of on pursuing other opportunities that could have been beneficial to us, without realizing any of the benefits contemplated by the acquisition.

In addition, if the acquisition is not completed, we could be subject to litigation related to any failure to complete the acquisition or to perform our obligations under the merger agreement.

If the acquisition is not completed, we cannot assure you that these risks will not materialize and will not materially affect our business financial results and stock price.

Our merger agreement with Level 3 contains provisions that could discourage a potential competing acquirer of us or could result in any competing proposal being at a lower price than it might otherwise be.

Our merger agreement with Level 3 contains "no-shop" provisions that, subject to limited exceptions, restrict our ability to solicit, encourage, facilitate or discuss competing third-party proposals to acquire all or a significant part of CenturyLink. In some circumstances on termination of the merger agreement, we may be required to pay a termination fee or expenses to Level 3. These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of us from considering or proposing that acquisition, even if it were prepared to pay an attractive purchase price, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee or expenses that may become payable in certain circumstances. If the merger agreement is terminated and we attempt to seek another business acquisition, we may not be able to negotiate a transaction with another party on terms comparable or better than the terms of the Level 3 acquisition.

The pendency of the Level 3 acquisition could adversely affect the business and operations of CenturyLink or Level 3.

In connection with the pending Level 3 acquisition, some of the customers or vendors of CenturyLink or Level 3 may delay or defer decisions or reduce their level of business with either or both of the companies, any of which could negatively affect the revenues, earnings, cash flows and expenses of CenturyLink or Level 3, regardless of whether the acquisition is completed. Similarly, current and prospective employees of CenturyLink and Level 3 may experience uncertainty about their future roles with the combined company following the acquisition, which may materially adversely affect the ability of each of CenturyLink or Level 3 to attract and retain key management, sales, marketing, operational and technical personnel during the pendency of the acquisition. In addition, due to operating covenants in the merger agreement, each of CenturyLink and Level 3 may be unable, during the pendency of the acquisition, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial. Any of these effects could have an adverse effect on the ability to generate revenue at anticipated levels prior to the completion of the acquisition. Moreover, the pursuit of the acquisition and the preparation for the integration of the companies may place a significant burden on the management and personnel of both companies. The diversion of management's attention away from operating the companies in the ordinary course could adversely affect CenturyLink's and Level 3's financial results.

Current CenturyLink shareholders may have a reduced ownership and voting interest in the combined company after the Level 3 acquisition.

CenturyLink expects to issue or reserve for issuance approximately 538 million shares of CenturyLink common stock to Level 3 stockholders in connection with the acquisition (including shares of CenturyLink common stock to be issued in connection with outstanding Level 3 equity awards). Upon completion of the Level 3 acquisition, each CenturyLink shareholder will remain a shareholder of CenturyLink with a percentage ownership of the combined company that may be smaller than the shareholder's percentage of CenturyLink prior to the transaction, depending upon such shareholder's current ownership of Level 3 shares. As a result of these potentially reduced ownership percentages, CenturyLink shareholders may have less voting power in the combined company than they now have with respect to CenturyLink.

We expect to incur substantial expenses related to the Level 3 acquisition.

We expect to incur substantial expenses in connection with completing the acquisition and integrating our business, operations, networks, systems, technologies, policies and procedures with those of Level 3. There are a large number of systems that will likely be integrated, including management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance systems. While we have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and integration expenses associated with the acquisition are likely in the near term to exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses following the completion of the acquisition. As a result of these expenses, we expect to take charges against our earnings before and after the completion of the acquisition. The charges taken after the acquisition are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

Following the Level 3 acquisition, the combined company may be unable to integrate successfully our business and Level 3's business and realize the anticipated benefits of the acquisition.

The proposed transaction involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Level 3. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine our business and Level 3's business in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisition, which would result in the anticipated benefits of the acquisition not being realized in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding to terminate or reduce their business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to (i) provide consistent, high quality products and services under a unified culture and (ii) focus on other on-going transactions, including the pending divestiture of our data centers and colocation business and related transactions;
- the additional complexities of combining two companies with different histories, regulatory restrictions, operating structures and markets;
- the failure to retain key employees of either of the two companies;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the acquisition; and
- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations.

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

Following the Level 3 acquisition, we may be unable to retain key employees.

The success of the combined company after the acquisition will depend in part upon its ability to retain key Level 3 and CenturyLink employees. Key employees may depart either before or after the acquisition because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the acquisition. Accordingly, no assurance can be given that we, Level 3 and, following the acquisition, the combined company will be able to retain key employees to the same extent as in the past.

In connection with the Level 3 acquisition, we will incur and assume a substantial amount of indebtedness and the agreements that will govern the indebtedness to be incurred or assumed by us are expected to contain various covenants and other provisions that impose restrictions on our ability to operate.

As a result of incurring the debt financing for the Level 3 acquisition and assuming Level 3's existing consolidated indebtedness in connection with the acquisition, we will become more leveraged. This could have material adverse consequences for us, including those listed below under the heading "Risks Affecting Our Liquidity and Capital Resources—Our high debt levels expose us to a broad range of risks."

The agreements that will govern the indebtedness to be incurred or assumed by us in connection with the acquisition are expected to contain certain affiliate guarantees and pledges of stock of certain affiliates and various affirmative and negative covenants that may, subject to certain significant exceptions, restrict the ability of us and certain of our subsidiaries to, among other things, pledge property, incur additional indebtedness, enter into sale and lease-back transactions, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interest, merge or consolidate with any other person or sell or convey certain assets to any one person, among various other things. In particular, certain covenants contained in Level 3's indebtedness to be assumed by us may restrict our ability to distribute cash from Level 3 to other of our affiliated entities, or enter into other transactions among our wholly owned subsidiaries. In addition, some of the agreements that govern the debt financing are expected to contain financial covenants that will require us to maintain certain financial ratios. The ability of us and our subsidiaries to comply with these provisions may be affected by events beyond our and their control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. For additional information, see "Risks Affecting Our Liquidity and Capital Resources."

Following the Level 3 acquisition, we plan to conduct rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.

Prior to the Level 3 acquisition, CenturyLink and Level 3 will each continue to market their respective products and services using the "CenturyLink" and "Level 3" brand names and logos. Following the acquisition, "CenturyLink" will be the brand name of the combined company. As a result, we expect to incur substantial costs in rebranding the combined company's products and services in those markets that previously used the "Level 3" name, and may incur write-offs associated with the discontinued use of Level 3's brand names. We cannot assure you that customers will be receptive to our proposed rebranding efforts. The failure of any of these initiatives could adversely affect our ability to attract and retain customers after the acquisition, resulting in reduced revenues.

Consummation of the Level 3 acquisition will increase our exposure to the risk of operating internationally.

CenturyLink and, to a greater extent, Level 3 conduct international operations, which expose each of them to the risks described under the heading "Risks Effecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks." Consummation of the Level 3 acquisition will generally increase our exposure to these risks. In particular, our acquisition of Level 3 will increase our exposure to currency exchange rate risks and currency transfer restrictions. Moreover, the acquisition of Level 3's Latin American operations will expose CenturyLink to the economic and political risks of operating in those markets.

Level 3 has only recently generated net income, and has generated substantial net losses in the past.

As indicated in Level 3's consolidated financial statements included in its reports filed with the SEC, Level 3 has only generated net income for its three most recently completed full fiscal years, and generated substantial losses prior to then.

Counterparties to certain significant agreements with Level 3 may exercise contractual rights to terminate such agreements following the Level 3 acquisition.

Level 3 is a party to certain agreements that give the counterparty a right under certain conditions to terminate the agreement following a "change in control" of Level 3. Under most such agreements, the Level 3 acquisition will constitute a change in control and therefore the counterparty may terminate the agreement upon the closing of the acquisition, subject to the terms and conditions specified in such agreements. Level 3 has agreements subject to such termination provisions with significant customers, major suppliers and providers of services where Level 3 has acted as reseller or sales agent. In addition, certain Level 3 customer contracts, including those with state or federal government agencies, allow the customer to terminate the contract at any time for convenience, which would allow the customer to terminate its contract before, at or after the closing of the acquisition. Any such counterparty may request modifications of their respective agreements as a condition to foregoing exercise of their termination rights. There is no assurance that such agreements will not be terminated, that any such terminations will not result in a material adverse effect, or that any modifications of such agreements to avoid termination will not result in a material adverse effect.

We may be unable to obtain security clearances necessary to perform certain Level 3 government contracts.

Certain Level 3 legal entities and officers have security clearances required for Level 3's performance of customer contracts with various government entities. Following the acquisition, it may be necessary for us to obtain comparable security clearances. If we or our officers are unable to qualify for such security clearances, we may not be able to continue to perform such contracts.

We cannot assure you whether, when or in what amounts we will be able to use Level 3's net operating loss carryforwards following the Level 3 acquisition.

As of December 31, 2016, Level 3 had approximately \$9.0 billion of net operating loss carryforwards, ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income, subject to certain limitations under Section 382 of the Code and related Treasury regulations. Our ability to use these NOLs following the Level 3 acquisition would likely be further limited by Section 382 if Level 3 is deemed to undergo an ownership change as a result of the acquisition or CenturyLink is deemed to undergo an ownership change following the acquisition, either of which could restrict use of a material portion of the NOLs. Determining the limitations under Section 382 is technical and highly complex. Although the parties, based on their review to date, currently believe that Level 3 will undergo an ownership change as a result of the acquisition, neither company has definitively completed the analysis necessary to confirm this. Moreover, issuances or sales of our stock following the acquisition (including certain transactions outside of our control) could result in an ownership change of CenturyLink under Section 382, which may further limit its use of the NOLs. For these and other reasons, we cannot assure you that we will be able to use the NOLs after the acquisition in the amounts we project.

Our pending acquisition of Level 3 raises other risks.

Our pending acquisition of Level 3 and, upon completion thereof, our ownership of Level 3 raise additional risks not described above. For additional information, see (i) the definitive joint proxy statement/prospectus filed with the SEC by us on February 13, 2017 and (ii) Level 3's most recently filed annual report on Form 10-K, as updated by its subsequent quarterly reports on Form 10-Q.

Risks Relating to Legal and Regulatory Matters

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

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

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

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

Risks associated with recent changes in regulation. Changes in regulation can have a material impact on our business, revenues or financial performance. Recent changes in federal regulations have substantially impacted our operations. In October 2011, the FCC adopted an order providing for a multi-year transition to a regulatory structure that reduces intercarrier compensation charges, redeploys universal service funding to newer technologies, and increases certain end-user charges. These changes, coupled with our participation in the new FCC support programs, has significantly impacted various aspects of our operations, financial results and capital expenditures, including the amount of revenues we collect from our wholesale customers and our receipt of federal support payments. We expect these impacts will continue in the future. For more information, see "Business—Regulation" in Item 1 of Part I of this annual report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this annual report.

In addition, during the last few years Congress or the FCC has initiated various other changes, including various broadband and Internet regulation initiatives including "network neutrality" regulations (as discussed further below) and actions that will restrict our ability to discontinue or reduce certain services, even if unprofitable. In 2016, the FCC initiated rulemaking regarding the regulation of business data services. This rulemaking, which remains pending, could adversely affect our operations or financial results. Many of the FCC's regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

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

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

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

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

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

Risks posed by other regulations. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. We monitor our compliance with federal, state and local regulations governing the management, discharge and disposal of hazardous and environmentally sensitive materials. Although we believe that we are in compliance with these regulations in all material respects, our management, discharge or disposal of hazardous and environmentally sensitive materials might expose us to claims or actions that could potentially have a material adverse effect on our business, financial condition and operating results. For a discussion of regulatory risks associated with our international operations, see "Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks."

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

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

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

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

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

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

Any adverse outcome in any of our pending key legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets.

There are several material proceedings pending against us, as described in Note 16—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this annual report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. Any of the proceedings described in Note 16, as well as current litigation not described therein or future litigation, 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 or result in potential fines or penalties.

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

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

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

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

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

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

Risks Affecting Our Liquidity and Capital Resources

Our high debt levels expose us to a broad range of risks.

We continue to carry significant debt. As of December 31, 2016, the aggregate principal amount of our consolidated long-term debt, excluding unamortized discounts, net, unamortized debt issuance costs and capital lease and other obligations, was \$19.879 billion. As of the date of this annual report, \$2.715 billion aggregate principal amount of this long-term debt is scheduled to mature prior to December 31, 2019. While we currently believe we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of the credit markets or the economy generally.

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

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, refinancings or other general corporate purposes, particularly if, as discussed further in the risk factor disclosure below, (i) the ratings assigned to our debt securities by nationally recognized credit rating organizations are revised downward or (ii) we seek capital during periods of turbulent or unsettled market conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal on our debt, thereby reducing the funds available to us for other purposes, including acquisitions, capital expenditures, strategic initiatives, dividends, stock repurchases, marketing and other potential growth initiatives;
- hindering our ability to capitalize on business opportunities and to plan for or react to changing market, industry, competitive or economic conditions;
- increasing our future borrowing costs;
- increasing the risk that third parties will be unwilling or unable to engage in hedging or other financial or commercial arrangements with us;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;

- increasing the risk that we will need to sell securities or assets, possibly on unfavorable terms, or take other unfavorable actions to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments, either of which could result in the acceleration of some or all of our outstanding indebtedness.

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

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

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

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

We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities of CenturyLink, Inc., Qwest Corporation or both. Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Global financial markets continue to be volatile. Prevailing market conditions could be adversely affected by (i) general market conditions, such as disruptions in domestic or overseas sovereign or corporate debt markets, geo-political instabilities, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad and (ii) specific conditions in the communications industry. Volatility in the global markets could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce our debt obligations.

We may also need to obtain additional financing under a variety of other circumstances, including if:

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;
- we engage in additional acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal income taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements, including in connection with one or more of the matters discussed in Note 16—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this annual report.

For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us, or at all.

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

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

Any downgrade in the credit ratings of us or our affiliates 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.

Nationally recognized credit rating organizations have issued credit ratings relating to CenturyLink, Inc.'s long-term debt and the long-term debt of several of its subsidiaries. Most of these ratings are below "investment grade", which results in higher borrowing costs than "investment grade" debt as well as reduced marketability of our debt securities. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt or equity securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

Under certain circumstances upon a change of control, we will be obligated to offer to repurchase certain of our outstanding debt securities, which could have certain adverse ramifications.

If the credit ratings relating to certain of our currently outstanding long-term debt securities are downgraded in the manner specified thereunder in connection with a "change of control" of CenturyLink, Inc., then we will be required to offer to repurchase such debt securities. If, due to lack of cash, legal or contractual impediments, or otherwise, we fail to offer to repurchase such debt securities, such failure could constitute an event of default under such debt securities, which could in turn constitute a default under other of our agreements relating to our indebtedness outstanding at that time. Moreover, the existence of these repurchase covenants may in certain circumstances render it more difficult or discourage a sale or takeover of us, or the removal of our incumbent directors.

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

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

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

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

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

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

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

Our senior notes are unsecured and will be effectively subordinated to any secured indebtedness.

Our currently outstanding senior notes are unsecured and are effectively subordinated to any of our existing or future secured indebtedness, to the extent of the value of the assets securing such indebtedness, including, upon consummation of the Level 3 acquisition, any newly-incurred acquisition financing secured by subsidiary guarantees or pledges of stock of selected subsidiaries. In the event of a bankruptcy or similar proceeding, the stock that serve as collateral for any secured indebtedness would generally be available to satisfy our obligations under such secured indebtedness, and would not be expected to be available to satisfy other claims.

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and their distribution of those earnings to us in the form of dividends, loans or other payments. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing or cash management purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. State law applicable to each of our subsidiaries restricts the amount of dividends that they may pay. Restrictions that have been or may be imposed by state regulators (either in connection with obtaining necessary approvals for our acquisitions or in connection with our regulated operations), and restrictions imposed by credit instruments or other agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included elsewhere in this annual report for further discussion of these matters.

We cannot assure you that we will continue paying dividends at the current rates, or at all.

For the reasons noted below, we cannot assure you that we will continue periodic dividends on our capital stock at the current rates, or at all.

As noted in the immediately preceding risk factor, because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on the earnings and cash flow of our subsidiaries and their ability to furnish funds to us in the form of dividends, loans or other payments.

Any quarterly dividends on our common stock and our outstanding shares of preferred stock will be paid from funds legally available for such purpose when, as and if declared by our Board of Directors. Decisions on whether, when and in which amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason without prior notice, including without limitation any of the following:

- our supply of cash or other liquid assets is anticipated to remain under pressure due to declining cash flows from operating activities, increased payments of post-retirement benefits and our projected payment of higher cash taxes prior to the pending Level 3 acquisition and might be further negatively impacted by any of the potential adverse events or developments described in this annual report, including (i) changes in competition, regulation, federal and state support, technology, taxes, capital markets, operating costs or litigation costs, or (ii) the impact of any liquidity shortfalls caused by the below-described restrictions on the ability of our subsidiaries to lawfully transfer cash to us;

- our cash requirements or plans might change for a wide variety of reasons, including changes in our capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding payments, or financial position;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and restrictions imposed by our existing or future credit facilities, debt securities, outstanding preferred stock securities, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions described in the immediately preceding risk factor.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock or our outstanding shares of preferred stock for any period for any reason without prior notice, regardless of whether we have funds legally available for such purposes. Holders of our equity securities should be aware that they have no contractual or other legal right to receive dividends.

Similarly, holders of our common stock should be aware that repurchases of our common stock under any repurchase plan then in effect are completely discretionary, and may be suspended or discontinued at any time for any reason regardless of our financial position.

Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.

The current practice of our Board of Directors to pay common share dividends reflects a current intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending may depend more than it otherwise would on our ability to obtain third party financing.

We cannot assure you whether, when or in what amounts we will be able to use our net operating loss carryforwards, or when they will be depleted.

At December 31, 2016, we had state NOL carryforwards of approximately \$11.9 billion. A significant portion of the state NOL carryforwards are generated in states where separate company income tax returns are filed and our subsidiaries that generated the losses may not have the ability to generate income in sufficient amounts to realize these losses. In addition, certain of these state NOL carryforwards will be limited by state laws related to ownership changes. As a result, we expect to utilize only a small portion of the state NOL carryforwards, and consequently have determined that as of December 31, 2016, these state NOL carryforwards, net of federal benefit, had a net tax benefit (after valuation allowance) of \$131 million.

Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.

With approximately 36,000 active employees, approximately 72,000 active and retired employees and surviving spouses eligible for post-retirement benefits, approximately 68,000 pension retirees and approximately 14,000 former employees with vested pension benefits participating in our benefit plans as of December 31, 2016, the costs of pension and healthcare benefits for our active and retired employees have a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and discount rates or other factors used to calculate the funding status of our pension and other post-retirement plans;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- increasing longevity of our employees and retirees;
- the impact of the continuing implementation, modification or potential repeal of current federal healthcare legislation and regulations promulgated thereunder;

- increases in the number of retirees who elect to receive lump sum benefit payments;
- increases in insurance premiums we are required to pay to the Pension Benefit Guaranty Corporation, an independent agency of the United States government that must cover its own underfunded status by collecting premiums from an ever shrinking population of pension plans that are qualified under the U.S. tax code;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows available for other purposes. Similarly, depletion of assets placed in trust by us to fund these benefits, such as those discussed elsewhere herein, will similarly reduce our liquidity by reducing our cash flows available for other purposes.

As of December 31, 2016, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 9—Employee Benefits to our consolidated financial statements included in Item 8 of this annual report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations” included in Item 7 of this annual report.

For additional information concerning our liquidity and capital resources, see Item 7 of this annual report. For a discussion of certain currency and liquidity risks associated with our international operations, see “Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks.”

Other Risks

We face risks from natural disasters, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.

A substantial number of our facilities are located in Florida, Alabama, Louisiana, Texas, North Carolina, South Carolina and other coastal states, which subjects them to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our property (excluding our above ground outside plant) and may, under certain circumstances, be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for catastrophic hazard-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles, retentions and coverage exclusions, and the premiums to be based on our loss experience. For all these reasons, any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

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.

While frequently presented with numeric specificity, the guidance and other forward-looking statements that we disseminate from time to time is based on numerous variables and assumptions (including, but not limited to, those related to industry performance and competition and general business, economic, market and financial conditions and additional matters specific to our business, as applicable) that are inherently subjective and uncertain and are largely beyond our control. As a result, actual results may differ materially from our guidance or other forward-looking statements. For additional information, see “Special Note Regarding Forward-Looking Statements and Related Matters” in Item 1 of Part I of this annual report.

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

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

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, 2016, approximately 51% of our total consolidated assets reflected on the consolidated balance sheet included in this annual report consisted of goodwill (excluding goodwill assigned to the colocation business and included in assets held for sale), customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time (most recently for the third quarter of 2013), we have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred. Any such charges could, in turn, have a material adverse effect on our results of operation, financial condition or ability to comply with financial covenants in our debt instruments.

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

Like all large businesses, we are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

We believe that we have adequately provided for tax contingencies. However, our 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.

Our agreements and organizational documents and applicable law could limit another party's ability to acquire us.

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. These provisions could deprive our shareholders of any related takeover premium. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC on March 2, 2015.

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,	
	2016	2015
Land	2%	2%
Fiber, conduit and other outside plant ⁽¹⁾	43%	42%
Central office and other network electronics ⁽²⁾	35%	36%
Support assets ⁽³⁾	17%	18%
Construction in progress ⁽⁴⁾	3%	2%
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, data centers, 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 both in the United States and internationally. 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 or in connection with legal challenges to our rights under such agreements.

Our net property, plant and equipment was approximately \$17.0 billion and \$18.1 billion at December 31, 2016 and 2015, respectively. Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. For additional information, see Note 7—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 the subheadings "Pending Matters" and "Other Proceedings and Disputes" in Note 16—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

Our common stock is listed on the New York Stock Exchange ("NYSE") and the Berlin Stock Exchange and is traded under the symbol CTL and CYT, respectively. The following table sets forth the high and low reported sales prices on the NYSE along with the quarterly dividends, for each of the quarters indicated.

	Sales Price		Cash Dividend per Common Share
	High	Low	
2016			
First quarter	\$ 32.49	21.94	0.540
Second quarter	32.94	26.35	0.540
Third quarter	31.56	26.51	0.540
Fourth quarter.	33.45	22.86	0.540
2015			
First quarter	\$ 40.59	34.04	0.540
Second quarter	37.00	29.28	0.540
Third quarter	31.13	24.29	0.540
Fourth quarter.	29.37	24.11	0.540

Dividends on common stock during 2016 and 2015 were paid each quarter. On February 21, 2017, our Board of Directors declared a common stock dividend of \$0.54 per share.

As described in greater detail in "Risk Factors" in Item 1A of Part I of this annual report, the declaration and payment of dividends is at the discretion of our Board of Directors, and will depend upon our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

At February 16, 2017, there were approximately 122,000 stockholders of record, although there were significantly more beneficial holders of our common stock. At February 16, 2017, the closing stock price of our common stock was \$24.28.

Issuer Purchases of Equity Securities

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the fourth quarter of 2016 to satisfy the related minimum tax withholding obligations:

Period	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
October 2016	5,123	\$ 27.48
November 2016	24,858	26.94
December 2016	834	23.93
Total.	<u>30,815</u>	

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 tables of 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:

	Years Ended December 31, ⁽¹⁾				
	2016 ⁽²⁾⁽³⁾	2015 ⁽²⁾	2014 ⁽⁴⁾	2013 ⁽⁵⁾	2012
	(Dollars in millions, except per share amounts and shares in thousands)				
Operating revenues	\$ 17,470	17,900	18,031	18,095	18,376
Operating expenses	15,139	15,295	15,621	16,642	15,663
Operating income	\$ 2,331	2,605	2,410	1,453	2,713
Income before income tax expense	1,020	1,316	1,110	224	1,250
Net income (loss)	626	878	772	(239)	777
Basic earnings (loss) per common share	1.16	1.58	1.36	(0.40)	1.25
Diluted earnings (loss) per common share	1.16	1.58	1.36	(0.40)	1.25
Dividends declared per common share	2.16	2.16	2.16	2.16	2.90
Weighted average basic common shares outstanding	539,549	554,278	568,435	600,892	620,205
Weighted average diluted common shares outstanding	540,679	555,093	569,739	600,892	622,285

- (1) 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 years ended December 31, 2016, 2015 and 2014.
- (2) During 2016 and 2015, we recognized an incremental \$201 million and \$215 million, respectively, of revenue associated with the Federal Communications Commission ("FCC") Connect America Fund Phase 2 support program as compared to the interstate USF program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this annual report.
- (3) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions and \$52 million of expenses related to our pending acquisition of Level 3.
- (4) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge.
- (5) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments and a litigation settlement charge of \$235 million.

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

As of December 31,					
	2016	2015	2014	2013	2012
	(Dollars in millions)				
Net property, plant and equipment ⁽¹⁾	\$ 17,039	18,069	18,433	18,646	18,909
Goodwill ⁽¹⁾⁽²⁾	19,650	20,742	20,755	20,674	21,627
Total assets ⁽³⁾	47,017	47,604	49,103	50,471	52,901
Total long-term debt ⁽³⁾⁽⁴⁾	19,993	20,225	20,503	20,809	20,481
Total stockholders' equity ⁽²⁾	13,399	14,060	15,023	17,191	19,289

- (1) During 2016, as a result of the pending sale of our colocation business and data centers, we reclassified \$1.071 billion in net property, plant and equipment and \$1.141 billion of goodwill to assets held for sale which is included in other current assets on our consolidated balance sheet. See Note 3—Pending Sale of Colocation Business and Data Centers to our consolidated financial statements in Item 8 of Part II of this annual report, for additional information.
- (2) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments.
- (3) In 2015, we adopted both ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" by retrospectively applying the requirements of the ASUs to our previously issued consolidated financial statements. The adoption of both ASU 2015-03 and ASU 2015-17 reduced total assets by \$1.044 billion, \$1.316 billion and \$1.039 billion in each year for the three years ended December 31, 2014, respectively, and ASU 2015-03 reduced total long-term debt by \$168 million, \$157 million and \$124 million in each year for the three years ended December 31, 2014, respectively.
- (4) Total long-term debt is the sum of current maturities of long-term debt, capital lease obligations of \$305 million (associated with the pending sale of colocation business and data centers) included in current liabilities associated with assets held for sale and long-term debt on our consolidated balance sheets. For additional information on our total long-term debt, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report. 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:

Years Ended December 31,					
	2016	2015	2014	2013	2012
	(Dollars in millions)				
Net cash provided by operating activities	\$ 4,608	5,152	5,188	5,559	6,065
Net cash used in investing activities	(2,994)	(2,853)	(3,077)	(3,148)	(2,690)
Net cash used in financing activities	(1,518)	(2,301)	(2,151)	(2,454)	(3,295)
Payments for property, plant and equipment and capitalized software	(2,981)	(2,872)	(3,047)	(3,048)	(2,919)

The following table presents certain of our selected operational metrics:

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands except for data centers, which are actuals)				
Operational metrics:					
Total access lines ⁽¹⁾	11,090	11,748	12,394	13,002	13,751
Total broadband subscribers ⁽¹⁾	5,945	6,048	6,082	5,991	5,851
Prism TV subscribers	325	285	242	175	106
Total data centers ⁽²⁾	58	59	58	55	54

- (1) Access lines are lines reaching from the customers' premises to a connection with the public network and broadband subscribers are customers that purchase broadband connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our access lines and broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. We count lines when we install the service.
- (2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

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 services to our residential and business customers. Our communications services include local and long-distance voice, broadband, Multi-Protocol Label Switching ("MPLS"), private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, Voice over Internet Protocol ("VoIP"), information technology and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

At December 31, 2016, we operated approximately 11.1 million access lines in 37 states and served approximately 5.9 million broadband subscribers and 325 thousand Prism TV subscribers. We also operated 58 data centers throughout North America, Europe and Asia. Our methodology for counting access lines, broadband subscribers and data centers, which is described further in the operational metrics table below under "Results of Operations", and our methodology for counting Prism TV subscribers may not be comparable to those of other companies.

Pending Acquisition of Level 3

On October 31, 2016, we entered into a definitive merger agreement under which we propose to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. Under the terms of the agreement, Level 3 shareholders will receive \$26.50 per share in cash and 1.4286 of CenturyLink shares for each share of Level 3 common stock they own at closing. CenturyLink shareholders are expected to own approximately 51% and Level 3 shareholders are expected to own approximately 49% of the combined company at closing. On December 31, 2016, Level 3 had outstanding \$10.9 billion of long-term debt.

Completion of the transaction is subject to the receipt of regulatory approvals, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as well as approvals from the Federal Communications Commission (the "FCC") and certain state regulatory authorities. The transaction is also subject to the approval of CenturyLink and Level 3 shareholders at meetings scheduled to be held on March 16, 2017, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction by the end of the third quarter 2017. If the merger agreement is terminated under certain circumstances, we may be obligated to pay Level 3 a termination fee of \$472 million, or Level 3 may be obligated to pay CenturyLink a termination fee of \$738 million.

As of December 31, 2016, we had recognized \$52 million of expenses associated with our activities related to the pending Level 3 acquisition. We have not recognized certain other expenses that are contingent on completion of the acquisition. These expenses include financial advisory fees and compensation expense comprised of retention bonuses, severance and stock-based compensation for stock-based awards that will vest in connection with the acquisition. Most of these contingent expenses will be recognized in our consolidated financial statements in the period in which the acquisition occurs, with the remainder recognized thereafter. The final amount of compensation expense to be recognized is partially dependent upon personnel decisions that will be made as part of integration planning. These amounts may be material.

Upon completion of the acquisition, Level 3's assets and liabilities will be revalued and recorded at fair value. The assignment of fair value will require a significant amount of judgment. The use of fair value measures will affect the comparability of our post-acquisition financial information and may make it more difficult to predict earnings in future periods. For example, Level 3 has certain deferred costs and deferred revenues on its balance sheet associated with capacity leases. Based on the accounting guidance for business combinations, these existing deferred costs and deferred revenues are expected to be assigned little or no value in the purchase price allocation process and will thus be eliminated.

For unaudited pro forma condensed combined financial information relating to the acquisition, see the definitive joint proxy statement/prospectus filed with the SEC by us on February 13, 2017. This pro forma financial information is based upon preliminary purchase price allocations and various assumptions and estimates, all of which we urge you to carefully consider in connection with your review of such information.

Pending Sale of Colocation Business and Data Centers

On November 3, 2016, we entered into a definitive stock purchase agreement to sell our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for cash and a minority stake in the consortium's newly-formed global secure infrastructure company. During 2016, as a result of the pending sale, the assets to be sold to the Purchaser have been reclassified as assets held for sale in other current assets on our consolidated balance sheet. Additionally, the liabilities to be assumed by the Purchaser have been reclassified and presented as current liabilities associated with assets held for sale on our consolidated balance sheet. As part of the transaction, the Purchaser will assume our capital lease obligations, which amounted to \$305 million as of December 31, 2016, related to the properties that we will sell. The sale is subject to regulatory approvals, including a review by the Committee of Foreign Investments in the United States, as well as other customary closing conditions.

Upon being completed, this transaction will result in the Purchaser acquiring 57 data centers. This business generated revenues of \$622 million, \$626 million and \$643 million (excluding revenue with affiliates) for the years ended December 31, 2016, 2015 and 2014, respectively (a small portion of which will be retained by us). Based on certain estimates and assumptions regarding the closing date and various tax matters, we currently project that the net cash proceeds from the divestiture will be approximately \$1.5 billion to \$1.7 billion. We plan to use a portion of these net cash proceeds to partly fund our acquisition of Level 3.

The following tables present additional metrics related to our data centers:

	As of December 31,		Increase / (Decrease)	% Change
	2016	2015		
Hosting data center metrics:				
Number of data centers ⁽¹⁾	58	59	(1)	(2)%
Sellable square feet, million sq ft	1.54	1.58	(0.04)	(3)%
Billed square feet, million sq ft.	1.04	0.99	0.05	5 %
Utilization	67%	63%	4%	6 %

	As of December 31,		Increase / (Decrease)	% Change
	2015	2014		
Hosting data center metrics:				
Number of data centers ⁽¹⁾	59	58	1	2%
Sellable square feet, million sq ft	1.58	1.46	0.12	8%
Billed square feet, million sq ft.	0.99	0.92	0.07	8%
Utilization	63%	63%	—%	—%

(1) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

See Note 3—Pending Sale of Colocation Business and Data Centers to our consolidated financial statements in Item 8 of Part II of this annual report for additional information on the pending sale.

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- Business Segment.** Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, Ethernet, colocation, hosting (including cloud hosting and managed hosting), broadband, VoIP, information technology and other ancillary services. Our legacy services offered to these customers primarily include local and long-distance voice, including the sale of unbundled network elements ("UNEs"), private line (including special access), switched access and other ancillary services. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related products and professional services, all of which are described further below under the heading "Operating Revenues"; and

- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, video (including our Prism TV services) and other ancillary services. Our legacy services offered to these customers include local and long-distance voice and other ancillary services.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016 ⁽¹⁾⁽²⁾	2015 ⁽¹⁾	2014 ⁽³⁾
	(Dollars in millions except per share amounts)		
Operating revenues	\$ 17,470	17,900	18,031
Operating expenses	15,139	15,295	15,621
Operating income	2,331	2,605	2,410
Other expense, net	1,311	1,289	1,300
Income tax expense	394	438	338
Net income	\$ 626	878	772
Basic earnings per common share	\$ 1.16	1.58	1.36
Diluted earnings per common share	\$ 1.16	1.58	1.36

- (1) During 2016 and 2015, we recognized an incremental \$201 million and \$215 million, respectively, of revenue associated with the FCC's Connect America Fund Phase 2 support program as compared to the interstate USF program. For additional information, see Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of Part II of this annual report.
- (2) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions and \$52 million of expenses related to our pending acquisition of Level 3.
- (3) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge.

The following table summarizes our access lines, broadband subscribers, Prism TV subscribers, data centers and number of employees:

	As of December 31,		
	2016	2015	2014
	(in thousands except for data centers, which are actuals)		
Operational metrics:			
Total access lines ⁽¹⁾	11,090	11,748	12,394
Total broadband subscribers ⁽¹⁾	5,945	6,048	6,082
Total Prism TV subscribers	325	285	242
Total data centers ⁽²⁾	58	59	58
Total employees	40	43	45

- (1) Access lines are lines reaching from the customers' premises to a connection with the public network and broadband subscribers are customers that purchase broadband connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our access lines and broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. We count lines when we install the service.
- (2) We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both. Our data centers are located in North America, Europe and Asia.

During the last decade, we have experienced revenue declines primarily due to declines in access lines, private line customers, switched access rates and minutes of use. To mitigate these revenue declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our broadband and premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable;
- increase the capacity, speed and usage of our networks; and
- market our products and services to new customers.

Operating Revenues

From time to time, we change the categorization of our products and services, and we may make similar changes in the future. During the second quarter of 2016, we determined that because of declines due to customer migration to other strategic products and services, certain of our business low-bandwidth data services, specifically our private line (including special access) services in our business segment, are more closely aligned with our legacy services than with our strategic services. As described in greater detail in Note 14—Segment Information in our Notes, these operating revenues are now reflected as legacy services.

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

- *Strategic services*, which include primarily broadband, MPLS, Ethernet, colocation, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we offer in 16 markets), VoIP, information technology and other ancillary services;
- *Legacy services*, which include primarily local and long-distance voice services, including the sale of UNEs, private line (including special access), Integrated Services Digital Network ("ISDN") (which use regular telephone lines to support voice, video and data applications), switched access and other ancillary services;
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related products and professional services, such as network management, installation and maintenance of data equipment and the building of proprietary fiber-optic broadband networks for our governmental and business customers; and
- *Other operating revenues*, which consists primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We also generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Strategic services	\$ 8,050	7,753	297	4 %
Legacy services	7,672	8,338	(666)	(8)%
Data integration	533	577	(44)	(8)%
Other	1,215	1,232	(17)	(1)%
Total operating revenues	<u>\$ 17,470</u>	<u>17,900</u>	<u>(430)</u>	<u>(2)%</u>

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Strategic services	\$ 7,753	7,303	450	6 %
Legacy services	8,338	9,033	(695)	(8)%
Data integration	577	692	(115)	(17)%
Other	1,232	1,003	229	23 %
Total operating revenues	<u>\$ 17,900</u>	<u>18,031</u>	<u>(131)</u>	<u>(1)%</u>

Our total operating revenues decreased by \$430 million, or 2%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 and decreased by \$131 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decline in operating revenues for both periods was primarily due to lower legacy services revenues, which decreased by \$666 million, or 8%, and \$695 million, or 8%, for the respective periods.

The decline in legacy services revenues for both periods reflects the continuing loss of access lines, loss of long-distance revenues primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including data and wireless communication services, and reductions in the volume of our private line (including special access) services. At December 31, 2016, we had approximately 11.1 million access lines, or approximately 5.6% less than the number of access lines we operated at December 31, 2015. At December 31, 2015, we had approximately 11.7 million access lines, or approximately 5.2% less than the number of access lines we operated at December 31, 2014. We estimate that the rate of our access lines losses will be between 4% and 6% over the full year of 2017.

For 2016, the growth in our strategic services revenues was primarily due to increased demand for our Ethernet, MPLS, facilities-based video and VoIP services and from rate increases on various services, which were partially offset by declines in our hosting services and losses of broadband customers. For 2015, the growth in our strategic services revenues was primarily due to increased demand for our Ethernet, MPLS, facilities-based video and IT Services and from rate increases on various services, which were partially offset by declines in our colocation and hosting services.

Data integration revenues, which are typically more volatile than our other sources of revenues, decreased by \$44 million, or 8%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decline in data integration revenues was primarily due to declines in governmental and business sales and professional and maintenance services. Data integration revenues decreased by \$115 million, or 17%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decline in data integration revenues was primarily due to declines in governmental sales and professional services, which were partially offset by an increase in maintenance services.

Other operating revenues decreased by \$17 million, or 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in other operating revenues was primarily due to lower high-cost support revenues. These declines were partially offset by higher USF surcharge revenues related to increased universal service fund contribution factors. Other operating revenues increased by \$229 million, or 23%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in other operating revenues was primarily due to additional revenue recorded under the CAF Phase 2 support program. For additional information about the CAF Phase 2 support program, see the discussion below in "Liquidity and Capital Resources—Connect America Fund."

We are aggressively marketing our strategic services in an effort to partially offset the continuing declines in our legacy services.

Further analysis of our segment operating revenues and trends impacting our performance are provided below in "Segment Results."

Operating Expenses

Our current definitions of operating expenses are as follows:

- *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 data integration and modem expenses); payments to 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); certain litigation expenses associated with our operations; and other expenses directly related to our operations; and
- *Selling, general and administrative expenses* are 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.

These expense classifications may not be comparable to those of other companies.

The following tables summarize our operating expenses:

	Years Ended December 31,		Increase /	
	2016	2015	(Decrease)	% Change
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,774	7,778	(4)	— %
Selling, general and administrative	3,449	3,328	121	4 %
Depreciation and amortization	3,916	4,189	(273)	(7)%
Total operating expenses	<u>\$ 15,139</u>	<u>15,295</u>	<u>(156)</u>	<u>(1)%</u>

	Years Ended December 31,		Increase /	
	2015	2014	(Decrease)	% Change
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,778	7,846	(68)	(1)%
Selling, general and administrative	3,328	3,347	(19)	(1)%
Depreciation and amortization	4,189	4,428	(239)	(5)%
Total operating expenses	<u>\$ 15,295</u>	<u>15,621</u>	<u>(326)</u>	<u>(2)%</u>

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

Cost of services and products (exclusive of depreciation and amortization) decreased by \$4 million, or less than 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in costs of services and products (exclusive of depreciation and amortization) was primarily due to reductions in salaries and wages from lower headcount, professional fees, payment processing fees and customer premises equipment costs, which were substantially offset by increases in content costs for Prism TV (resulting from higher content volume and rates), network expense and USF rates. Cost of services and products (exclusive of depreciation and amortization) decreased by \$68 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. Excluding the lower customer premises equipment costs, cost of services and products increased by \$56 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in costs of services and products was primarily due to increases in pension and postretirement costs, USF rate increases, higher network expenses and increases in content costs for Prism TV. These increases were partially offset by decreases in salaries and wages from lower headcount, professional fees and contract labor costs.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$121 million, or 4%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in selling, general and administrative expenses was primarily due to increases in severance expenses associated with our recent workforce reduction, higher payments of employee health care claims, bad debt and other expenses (including fees related to the Level 3 acquisition), which were partially offset by reductions in professional fees and property and other taxes. Selling, general and administrative expenses decreased by \$19 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in selling, general and administrative expenses was primarily due to lower benefit expenses, insurance costs and asset impairment charges. These decreases were partially offset by increases in bad debt expense, external commissions and regulatory fines of \$15 million associated with a 911 system outage.

Pension Lump Sum Offer

Our pension plan contains provisions that allow us, from time to time, to offer lump sum payment options to certain former employees in settlement of their future retirement benefits. These lump sum payments are paid from the trust that holds the plan's assets. Under pension settlement accounting, we record an accounting settlement charge associated with these lump sum payments only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit cost. There were no pension lump sum offerings in 2016, other than those to eligible employees who terminated during 2016. For the year ended December 31, 2015, we made cash settlement payments to former employees for lump sum offers of approximately \$356 million, but pension settlement accounting was not triggered in 2015. For the year ended December 31, 2014, we made cash settlement payments to former employees for lump sum offers of approximately \$460 million, which triggered pension settlement accounting and resulted in us recording additional pension expense of \$63 million. Pension expense is allocated to cost of services and products (exclusive of depreciation and amortization), selling, general and administrative and to capital projects. See Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this annual report, for additional information on the pension lump sum offers.

Depreciation and Amortization

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Depreciation	\$ 2,691	2,836	(145)	(5)%
Amortization	1,225	1,353	(128)	(9)%
Total depreciation and amortization	<u>\$ 3,916</u>	<u>4,189</u>	<u>(273)</u>	<u>(7)%</u>
	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Depreciation	\$ 2,836	2,958	(122)	(4)%
Amortization	1,353	1,470	(117)	(8)%
Total depreciation and amortization	<u>\$ 4,189</u>	<u>4,428</u>	<u>(239)</u>	<u>(5)%</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 network assets, the addition of new plant and our entry into an agreement to sell our data centers and colocation business. Depreciation expense decreased by \$145 million, or 5%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 and decreased by \$122 million, or 4%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The depreciation expense related to our plant was lower for both periods due to full depreciation and retirement of certain plant placed in service prior to 2016 and 2015. Additionally, we ceased depreciating property, plant and equipment assets of our colocation business when we entered into the agreement to sell that business. We estimate that we would have recorded additional depreciation expense during 2016 of \$30 million if we had not agreed to sell the colocation business. The decrease in both periods was partially offset by an increase in depreciation expense attributable to new plant placed in service during the respective years.

Additionally, in 2015, the lower depreciation expense was further offset by the impact of changes in the estimated lives of certain property, plant and equipment which resulted in additional depreciation. The changes in the estimated lives of certain property, plant and equipment resulted in an increase in depreciation expense of approximately \$48 million for 2015, which was more than fully offset by the decrease in depreciation expense noted above. In addition, we developed a plan to migrate customers from one of our networks to another, which began in late 2014 and ended in late 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. The impact from the above-noted changes in estimates and network migration resulted in an increase in depreciation expense of approximately \$90 million for the year ended December 31, 2014.

Amortization expense decreased by \$128 million, or 9%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 and decreased by \$117 million, or 8%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in amortization expense for both periods was primarily due to the use of accelerated amortization for a portion of our customer relationship assets and our entry into an agreement to sell our data centers and colocation business. The effect of using an accelerated amortization method results in an incremental decline in expense each period as the intangible assets amortize. We ceased amortizing the intangible assets of our colocation business when we entered into the agreement to sell that business. We estimate that we would have recorded additional amortization expense during 2016 of \$6 million if we had not agreed to sell the colocation business. In addition, amortization of capitalized software was lower in both periods due to software becoming fully amortized faster than new software was acquired or developed.

Other Consolidated Results

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Interest expense	\$ (1,318)	(1,312)	6	— %
Other income, net	7	23	(16)	(70)%
Total other expense, net.	<u>\$ (1,311)</u>	<u>(1,289)</u>	22	2 %
Income tax expense	\$ 394	438	(44)	(10)%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Interest expense	\$ (1,312)	(1,311)	1	— %
Other income, net	23	11	12	109 %
Total other expense, net.	<u>\$ (1,289)</u>	<u>(1,300)</u>	(11)	(1)%
Income tax expense	\$ 438	338	100	30 %

Interest Expense

Interest expense increased by \$6 million, or less than 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in interest expense was substantially due to a reduction in the amount of net premium amortization recorded at acquisition due to the early retirement of several issuances of debt during the period, which has the effect of increasing interest expense and an increase in interest expense on unsecured notes related to the issuance of \$1.0 billion of new debt in April, 2016 in advance of a debt maturity in June, 2016. Interest expense increased by \$1 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in interest expense was primarily due to a reduction in the amortization of debt premiums, which was substantially offset by higher capitalized interest, lower bond coupon rates and lower interest under our Credit Facility. See Note 5—Long-Term Debt and Credit Facilities 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.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from non-operating asset dispositions and foreign currency gains and losses. Other income, net decreased by \$16 million, or 70%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This decrease in other income, net was primarily due to losses on early retirement of debt, which was partially offset by the impact of nonrecurring funding from a state economic development program. Other income, net increased by \$12 million, or 109%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase in other income, net was primarily due to the impact of a 2014 impairment charge of \$14 million recorded in connection with the sale of our 700 MHz A-Block Wireless Spectrum licenses, which was partially offset by a net loss on early retirement of debt in 2015.

Income Tax Expense

Income tax expense decreased by \$44 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. Our income tax expense for the year ended December 31, 2015 increased by \$100 million from the amounts for the comparable prior year. For the years ended December 31, 2016, 2015 and 2014, our effective income tax rate was 38.6%, 33.3% and 30.5%, respectively. The effective tax rate for the year ended December 31, 2016 reflects a tax impact of \$18 million from an intercompany dividend payment from one of our foreign subsidiaries to its domestic parent company that was made as part of our corporate restructuring in preparation for the sale of our colocation business. The effective tax rate for the year ended December 31, 2015 reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015, and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating loss carryforwards ("NOLs"). The effective tax rate for the year ended December 31, 2014 reflects a \$60 million tax benefit associated with a worthless stock deduction for the tax basis in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset, an indirect investment in KPNQwest, N.V. The subsidiary was acquired as part of the acquisition of Qwest and we assigned it no fair value in the acquisition due to the bankruptcy proceedings, which were then ongoing. The effective tax rate for the year ended December 31, 2014 also reflects a \$13 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of NOLs. The rate also reflects the absence of tax benefits from the impairment and disposition of our 700 MHz A-Block wireless spectrum licenses in 2014, because we are not likely to generate income of a character required to realize a tax benefit from the loss on disposition during the period permitted by law for utilization of that loss. See Note 13—Income Taxes to our consolidated financial statements in Item 8 of Part II of this annual report and "Critical Accounting Policies and Estimates—Income Taxes" below for additional information.

Segment Results

The results for our business and consumer segments are summarized below for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Total segment revenues	\$ 16,255	16,668	17,028
Total segment expenses	8,492	8,461	8,502
Total segment income	<u>\$ 7,763</u>	<u>8,207</u>	<u>8,526</u>
Total margin percentage	48%	49%	50%
Business segment:			
Revenues	\$ 10,352	10,646	11,030
Expenses	5,930	5,967	6,019
Income	<u>\$ 4,422</u>	<u>4,679</u>	<u>5,011</u>
Margin percentage	43%	44%	45%
Consumer segment:			
Revenues	\$ 5,903	6,022	5,998
Expenses	2,562	2,494	2,483
Income	<u>\$ 3,341</u>	<u>3,528</u>	<u>3,515</u>
Margin percentage	57%	59%	59%

The following table reconciles our total segment revenues and total segment income presented above to consolidated operating revenues and consolidated operating income reported in our consolidated statements of operations.

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Total segment revenues	\$ 16,255	16,668	17,028
Other operating revenues	1,215	1,232	1,003
Operating revenues reported in our consolidated statements of operations . .	<u>\$ 17,470</u>	<u>17,900</u>	<u>18,031</u>
Total segment income	<u>\$ 7,763</u>	<u>8,207</u>	<u>8,526</u>
Other operating revenues	1,215	1,232	1,003
Depreciation and amortization	(3,916)	(4,189)	(4,428)
Other unassigned operating expenses	(2,731)	(2,645)	(2,691)
Operating income reported in our consolidated statements of operations . . .	<u>\$ 2,331</u>	<u>2,605</u>	<u>2,410</u>

Changes in Segment Reporting

During the first half of 2016, we implemented several changes with respect to the assignment of certain expenses to our reportable segments, including changes that increased our consumer segment expenses and decreased our business segment expenses in prior periods. We have recast our previously reported segment results for the years ended December 31, 2015 and 2014 to conform to the current presentation. See Note 14—Segment Information to our consolidated financial statements in Item 8 of Part II of this annual report for additional information on our changes in segment reporting.

Allocation of Revenues and Expenses

Our segment revenues include all revenues from our strategic services, legacy services and data integration as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. For information on how we allocate expenses to our segments, as well as other additional information about our segments, see Note 14—Segment Information.

Business Segment

The operations of our business segment have been impacted by several significant trends, including those described below:

- *Strategic services.* Our mix of total business segment revenues continues to migrate from legacy services to strategic services as our small, medium and enterprise business, wholesale and governmental customers increasingly demand integrated data, broadband, hosting and voice services. Our Ethernet-based services in the wholesale market face competition from cable companies and competitive fiber-based telecommunications providers. We anticipate continued pricing pressure for our colocation services as vendors continue to expand their enterprise colocation operations. In recent years, our competitors, as well as several large, diversified technology companies, have made substantial investments in cloud computing. This expansion in competitive cloud computing offerings has led to increased pricing pressure, a migration towards lower-priced cloud-based services and enhanced competition for contracts, and we expect these trends to continue. Customers' demand for new technology has also increased the number of competitors offering strategic services similar to ours. Price compression from each of these above-mentioned competitive pressures has negatively impacted the operating margins of our strategic services, and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services, but to a lesser extent than price compression and customer disconnects. These operating costs include employee costs, sales commissions, software costs on selected services, installation costs and third-party facility costs. We believe increases in operating costs have generally had a greater impact on the operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed support functions;
- *Legacy services.* We continue to experience customers migrating away from our higher margin legacy services into lower margin strategic services. Our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. In particular, our access, local services and long-distance revenues have been, and we expect will continue to be, adversely affected by customer migration to more technologically advanced services, an increase in the use of non-voice communications and a related decrease in the demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, many of our business segment customers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. Demand for our private line services (including special access) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. Although our legacy services generally face fewer direct competitors than certain of our strategic services, customer migration and, to a lesser degree, price compression from competitive pressures have negatively impacted our legacy revenues and the operating margins of our legacy services. We expect this trend to continue. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer loss, customer migration and price compression. Operating costs also tend to impact our legacy services to a lesser extent than our strategic services as noted above;
- *Data integration.* We expect both data integration revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have experienced substantial budget cuts over the past several years, with the possibility of additional future budget cuts. Our data integration operating margins are typically smaller than most of our other offerings; and
- *Operating efficiencies.* We continue to evaluate our segment 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, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our business segment:

Business Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
(Dollars in millions)				
Segment revenues:				
Strategic services				
High-bandwidth data services (1)	\$ 2,990	2,816	174	6 %
Hosting services (2)	1,210	1,281	(71)	(6)%
Other strategic services (3)	703	624	79	13 %
Total strategic services revenues	4,903	4,721	182	4 %
Legacy services				
Voice services (4)	2,413	2,588	(175)	(7)%
Low-bandwidth data services (5)	1,382	1,594	(212)	(13)%
Other legacy services (6)	1,123	1,168	(45)	(4)%
Total legacy services revenues	4,918	5,350	(432)	(8)%
Data integration	531	575	(44)	(8)%
Total revenues	10,352	10,646	(294)	(3)%
Segment expenses:				
Total expenses	5,930	5,967	(37)	(1)%
Segment income	\$ 4,422	4,679	(257)	(5)%
Segment margin percentage	43%	44%		

(1) Includes MPLS and Ethernet revenue

(2) Includes colocation, hosting (including cloud hosting and managed hosting) and hosting area network revenue

(3) Includes primarily broadband, VoIP, video and IT services revenue

(4) Includes local and long-distance voice revenue

(5) Includes private line (including special access) revenue

(6) Includes UNEs, public access, switched access and other ancillary revenue

	Business Segment			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Segment revenues:				
Strategic services				
High-bandwidth data services (1)	\$ 2,816	2,579	237	9 %
Hosting services (2)	1,281	1,316	(35)	(3)%
Other strategic services (3)	624	558	66	12 %
Total strategic services revenues	4,721	4,453	268	6 %
Legacy services				
Voice services (4)	2,588	2,777	(189)	(7)%
Low-bandwidth data services (5)	1,594	1,893	(299)	(16)%
Other legacy services (6)	1,168	1,219	(51)	(4)%
Total legacy services revenues	5,350	5,889	(539)	(9)%
Data integration	575	688	(113)	(16)%
Total revenues	10,646	11,030	(384)	(3)%
Segment expenses:				
Total expenses	5,967	6,019	(52)	(1)%
Segment income	\$ 4,679	5,011	(332)	(7)%
Segment margin percentage	44%	45%		

(1) Includes MPLS and Ethernet revenue

(2) Includes colocation, hosting (including cloud hosting and managed hosting) and hosting area network revenue

(3) Includes primarily broadband, VoIP, video and IT services revenue

(4) Includes local and long-distance voice revenue

(5) Includes private line (including special access) revenue

(6) Includes UNEs, public access, switched access and other ancillary revenue

Segment Revenues

Business segment revenues decreased by \$294 million, or 3%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in business segment revenues was primarily due to declines in our legacy services revenues. The decline in legacy services revenues was attributable to a reduction in local service access lines and lower volumes of long-distance and access services for the reasons noted above and to reductions in the volume of private line (including special access) services. The increase in our strategic services revenues was primarily due to increases in MPLS unit growth and higher Ethernet and VOIP volumes, which were partially offset by declines in our hosting services. The decrease in our data integration revenues was primarily due to lower sales of customer premises equipment to governmental and business customers and to declines in maintenance services. Business segment revenues decreased by \$384 million, or 3%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in business segment revenues was primarily due to declines in legacy services revenues and data integration revenues, which were partially offset by the growth in our strategic services revenues. The decline in legacy services revenues was attributable to a reduction in local service access lines and lower volumes of long-distance, access and traditional WAN services for the reasons noted above and a reduction in private line (including special access) volumes, as well as a pricing reduction on private line services for a large wholesale customer in exchange for a longer term commitment. The growth in our strategic services revenues was primarily due to MPLS unit growth and higher Ethernet volumes, which were partially offset by a reduction in hosting services. The decrease in data integration revenues was primarily due to lower sales of customer premises equipment to governmental and business customers during the period.

Segment Expenses

Business segment expenses decreased by \$37 million, or 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in our business segment expenses was primarily due to decreases in salaries and wages, professional fees and payment processing fees, which were partially offset by increases in facility costs, network expense and real estate and power costs. Business segment expenses decreased by \$52 million, or 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease was primarily due to lower customer premises equipment costs resulting from the lower sales noted above in segment revenues. Excluding the lower customer premises equipment costs, business expenses increased by \$62 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase is primarily due to increases in salaries and wages, benefits expense, external commissions, network expense and facility costs, which were partially offset by decreases in professional fees, materials and supplies and fleet expenses.

Segment Income

Business segment income decreased by \$257 million, or 5%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015 and decreased by \$332 million, or 7%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The decrease in business segment income for both periods was due predominantly to the loss of customers and lower service volumes in our legacy services.

Consumer Segment

The operations of our consumer segment have been impacted by several significant trends, including those described below:

- *Strategic services.* In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. 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 consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in Item 1A of Part I of this annual report, certain of our competitors continue to provide broadband services at higher average transmission speeds than ours or through advanced wireless data service offerings, both of which we believe have impacted the competitiveness of certain of our broadband offerings. The offering of our facilities-based video services in our markets requires us to incur substantial start-up expenses in advance of marketing and selling the service. Also, our associated content costs continue to increase and the video business has become more competitive as more options become available to customers to access video services through new technologies. The demand for new technology has increased the number of competitors offering strategic services similar to ours. Price compression and new technology from our competitors have negatively impacted the operating margins of our strategic services and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services. These operating costs include employee costs, marketing and advertising expenses, sales commissions, Prism TV content costs and installation costs. We believe increases in operating costs have generally had a greater impact on our operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed costs;
- *Legacy services.* Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses and lower long-distance voice service volumes. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of higher margin services associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below. Customer migration and price compression from competitive pressures have not only negatively impacted our legacy revenues, but they have also negatively impacted the operating margins of our legacy services and we expect this trend to continue. Operating costs, such as installation costs and facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer migration and price compression. Operating costs also tend to impact our legacy services margins to a lesser extent than our strategic services as noted above;
- *Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle broadband services with other services such as local voice, video, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment due to the related discounts; and

- *Operating efficiencies.* We continue to evaluate our segment 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. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

	Consumer Segment			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Segment revenues:				
Strategic services				
Broadband services (1)	\$ 2,689	2,611	78	3 %
Other strategic services (2)	458	421	37	9 %
Total strategic services revenues	3,147	3,032	115	4 %
Legacy services				
Voice services (3)	2,442	2,676	(234)	(9)%
Other legacy services (4)	312	312	—	— %
Total legacy services revenues	2,754	2,988	(234)	(8)%
Data integration	2	2	—	— %
Total revenues	5,903	6,022	(119)	(2)%
Segment expenses:				
Total expenses	2,562	2,494	68	3 %
Segment income	\$ 3,341	3,528	(187)	(5)%
Segment income margin percentage	57%	59%		

(1) Includes broadband and related services revenue

(2) Includes video and other revenue

(3) Includes local and long-distance voice revenue

(4) Includes other ancillary revenue

	Consumer Segment			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2015	2014		
	(Dollars in millions)			
Segment revenues:				
Strategic services				
Broadband services (1)	\$ 2,611	2,469	142	6 %
Other strategic services (2)	421	381	40	10 %
Total strategic services revenues	3,032	2,850	182	6 %
Legacy services				
Voice services (3)	2,676	2,865	(189)	(7)%
Other legacy services (4)	312	279	33	12 %
Total legacy services revenues	2,988	3,144	(156)	(5)%
Data integration	2	4	(2)	(50)%
Total revenues	6,022	5,998	24	— %
Segment expenses:				
Total expenses	2,494	2,483	11	— %
Segment income	\$ 3,528	3,515	13	— %
Segment income margin percentage	59%	59%		

- (1) Includes broadband and related services revenue
(2) Includes video and other revenue
(3) Includes local and long-distance voice revenue
(4) Includes other ancillary revenue

Segment Revenues

Consumer segment revenues decreased by \$119 million, or 2%, for year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in our consumer segment revenues was primarily due to the declines in our legacy services revenues, which were partially offset by increases in our strategic revenues. The decline in our legacy services revenues for both periods was primarily due to lower local and long-distance voice service volumes associated with access line losses resulting from the competitive and technological factors noted above. The increase in our strategic services revenues was primarily due to 2016 rate increases resulting from various pricing initiatives on broadband, Prism TV and other strategic products and services, and increases in the number of our Prism TV customers, which were partially offset by a decline in broadband customers. Consumer segment revenues increased by \$24 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. The increase in strategic services revenues was primarily due to increases in the number of Prism TV customers, as well as from 2015 price increases on various services. The decline in legacy services revenues was primarily due to declines in local and long-distance services volumes associated with access line losses resulting from the competitive and technological factors as further described above.

Segment Expenses

Consumer segment expenses increased by \$68 million, or 3%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in our consumer segment expenses was primarily due to increases in costs related to Prism TV (resulting from higher content volume and rates), professional fees, sales commissions, bad debt expense and network costs, which were partially offset by reductions in salaries and wages from lower headcount and payment processing fees. Consumer segment expenses increased by \$11 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase was primarily due to increases in Prism TV content costs (resulting from higher volume and rates) and bad debt expense, which were partially offset by reductions in employee-related costs, facility costs, fleet expenses and network expenses.

Segment Income

Consumer segment income decreased by \$187 million, or 5%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This decrease was primarily due to loss of customers from legacy services and increases in the costs related to the growth in Prism TV. Consumer segment income increased by \$13 million, or less than 1%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014. This increase was primarily due to price increases on various services.

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) loss contingencies and litigation reserves; (v) Connect America Fund; and (vi) 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 were made. However, there can be no assurance that actual results will not differ from those estimates.

Goodwill, Customer Relationships and Other Intangible Assets

We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We annually review the estimated lives and methods used to amortize our other intangible assets, primarily capitalized software. The amount of future amortization expense may differ materially from current amounts, depending on the results of our annual reviews.

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. We assign goodwill to the reporting units using a relative fair value approach. We utilize the trailing twelve months earnings before interest, taxes, depreciation and amortization as our allocation methodology as we believe that it represents a reasonable proxy for the fair value of the operations being reorganized. The use of other fair value assignment methods could result in materially different results. For additional information on our segments, see Note 14—Segment Information to our consolidated financial statements in Item 8 of Part II of this annual report.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of our reporting units. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment test. Our annual assessment date for testing goodwill impairment is October 31.

As of October 31, 2016, we assessed goodwill for impairment for our three reporting units, which we determined to be business (excluding wholesale), consumer and wholesale and determined that the estimated fair value of our wholesale reporting unit was substantially in excess of our carrying value of equity and the estimated fair value of our business and consumer reporting units exceeded our carrying value of equity by 28% and 18%, respectively.

For additional information on our goodwill balances by segment, see Note 4—Goodwill, Customer Relationships and Other Intangible Assets in Item 8 of Part II of this annual report.

We may be required to assess our goodwill for impairment before our next required assessment date of October 31, 2017 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 stock price and resulting market capitalization as a result of an adverse change to our overall business operations; (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 one or more of our subsidiaries that are a component of our segments. 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, 2017.

Property, Plant and Equipment

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date, plus the estimated value of any associated legally or contractually required asset retirement obligation. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required asset retirement obligation. 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 3 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 and equipment 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 \$390 million annually or increased depreciation expense by approximately \$550 million annually, respectively.

Pension and Post-retirement Benefits

We sponsor a noncontributory qualified defined benefit pension plan (referred to as our qualified pension plan) for a substantial portion of our employees. In addition to this tax-qualified pension plan, we also maintain several non-qualified pension plans for certain eligible highly compensated employees. We also maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees.

In 2016, approximately 53% of the qualified pension plan's January 1, 2016 net actuarial loss balance of \$2.843 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 9 to 10 years for the plan. The other 47% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2016. The entire beginning net actuarial loss of \$147 million for the post-retirement benefit plans was treated as indefinitely deferred during 2016.

In 2015, approximately 45% of the qualified pension plan's January 1, 2015 net actuarial loss balance of \$2.740 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plan. The other 55% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2015. The entire beginning net actuarial loss of \$277 million for the post-retirement benefit plans was treated as indefinitely deferred during 2015.

In 2014, approximately 16% of the qualified pension plans' January 1, 2014 net actuarial loss balance of \$1.048 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plans. The other 84% of the pension plans' beginning net actuarial loss balance was treated as indefinitely deferred during 2014. The entire beginning net actuarial loss of \$37 million for the post-retirement benefit plans was treated as indefinitely deferred during 2014.

In computing our pension and post-retirement health care and life insurance benefit obligations, our most significant assumptions are the discount rate and mortality rates. In computing our periodic pension and post-retirement benefit expense, our most significant assumptions are the discount rate and the expected rate of return on plan assets.

The discount rate for each plan is the rate at which we believe we could effectively settle the plan's benefit obligations as of the end of the year. We selected each plan's discount rate based on a cash flow matching analysis using hypothetical yield curves from U.S. corporate bonds rated high quality and projections of the future benefit payments that constitute the projected benefit obligation for the plans. This process establishes the uniform discount rate that produces the same present value of the estimated future benefit payments as is generated by discounting each year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 60th to 90th percentile of U.S. high quality bonds.

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by approximately \$149 million in 2016. This change was treated as a change in accounting estimate and, accordingly, we did not adjust the amounts recorded in 2015 or 2014.

Mortality rates help predict the expected life of plan participants and are based on historical demographic studies by the Society of Actuaries. In 2016, we adopted the revised mortality table and projection scale released by the Society of Actuaries ("SOA"), which decreased the projected benefit obligation of our benefit plans by \$268 million. The 2015 revised mortality table and projection scale decreased the 2015 projected benefit obligation of our benefit plans by \$379 million. In 2014, the SOA published new mortality rate tables reflecting increases in the projected life expectancies of North Americans since its publications of earlier tables. We adopted the new tables immediately. This resulted in an increase to the projected benefit obligation of approximately \$1.3 billion for our pension and post-retirement benefit plans. The change in the projected benefit obligation of our benefit plans was recognized as part of the net actuarial loss and is included in accumulated other comprehensive loss, a portion of which is subject to amortization over the remaining estimated life of plan participants, which was approximately 9 to 10 years as of December 31, 2016.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets in the future, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations to which we then add a factor of 50 basis points to reflect the benefit we expect to result from our active management of the assets. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

To compute the expected return on pension and post-retirement benefit plan assets, we apply an expected rate of return to the fair value of the pension plan assets and to the fair value of the post-retirement benefit plan assets adjusted for contribution timing and for projected benefit payments to be made from the plan assets. Annual market volatility for these assets (higher or lower than expected return) is reflected in the net actuarial losses.

Changes in any of the above factors could significantly impact operating expenses in the consolidated statements of operations and other comprehensive (loss) income in the consolidated statements of comprehensive income (loss) as well as the value of the liability and accumulated other comprehensive loss of stockholders' equity on our consolidated balance sheets. The expected return on plan assets is reflected as a reduction to our pension and post-retirement benefit expense. If our assumed expected rates of return for 2016 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2016 would have increased by \$92 million. If our assumed discount rates for 2016 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2016 would have increased by \$46 million and our projected benefit obligation for 2016 would have increased by approximately \$1.753 billion.

Loss Contingencies and Litigation Reserves

We are involved in several material legal proceedings, as described in more detail in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report. We assess potential losses in relation to these and other pending or threatened tax and legal matters. 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. To the extent these estimates are more or less than the actual liability resulting from the resolution of these matters, our earnings will be increased or decreased accordingly. If the differences are material, our consolidated financial statements could be materially impacted.

For matters related to income taxes, if we determine in our judgment 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 in our financial statements 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 we determine in our judgment that the position has less than a 50% likelihood of being sustained. Though the validity of any tax position is a matter of tax law, the body of statutory, regulatory and interpretive guidance on the application of the law is complex and often ambiguous. Because of this, whether a tax position will ultimately be sustained may be uncertain.

Connect America Fund

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses (living units) in 33 states under the CAF Phase 2 high-cost support program. This program provides a monthly high-cost subsidy similar to the support provided by the FCC's previous cost reimbursement programs. Although we believe that there is no specific authoritative U.S. GAAP guidance for the treatment of government assistance, we identified three acceptable methods to account for these funds: (1) recognize revenue when entitled to receive cash, (2) defer cash received until the living units are enabled to receive the service at the FCC specified level, or (3) record the cash received as contra capital. After assessing these alternatives, we have determined that we will recognize CAF Phase 2 funds each month as revenue when we are entitled to receive the cash less a deferred amount. The amount of revenue deferred in 2016 was approximately \$12 million. We believe our recognition methodology is consistent with other companies in our industry in the United States, but may not necessarily be consistent with companies outside the United States that receive similar government funding, and we cannot provide assurances to this effect.

In computing the amount of revenue to recognize, we assume that we will not be able to economically enable 100% of the required living units in every state with voice and broadband capabilities under the CAF Phase 2 program. We defer recognition of the funds related to potential living units that we estimate we will not enable until we can with reasonable assurance determine that we can fully meet the enablement targets. As disclosed elsewhere herein, in some limited instances, a portion of the funds must be returned if enablement targets are not attained. Based on estimated enablement, the effect of a hypothetical 1% decrease in our estimate of living units we will not enable with voice and broadband capabilities under the CAF Phase 2 program would have increased our revenue by \$3 million in 2016 and a 1% increase would have decreased our revenue by \$9 million in 2016.

For additional information about the CAF Phase 2 support program, see the discussion below in "Liquidity and Capital Resources—Connect America Fund."

Income Taxes

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, differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities and tax net operating loss carryforwards, or NOLs. 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. 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.

In connection with recording deferred income tax assets and liabilities, we establish valuation allowances when necessary to reduce deferred income tax assets to amounts that we believe are more likely than not to be realized. We evaluate our deferred tax assets quarterly to determine whether adjustments to our valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. In making this evaluation, we rely on our recent history of pre-tax earnings. We also rely on our forecasts of future earnings and the nature and timing of future deductions and benefits represented by the deferred tax assets, all which involve the exercise of significant judgment. At December 31, 2016, we established a valuation allowance of \$375 million primarily related to state NOLs, as it is more likely than not that these NOLs will expire unused. If forecasts of future earnings and the nature and estimated timing of future deductions and benefits change in the future, we may determine that a valuation allowance for certain deferred tax assets is appropriate, which could materially impact our financial condition or results of operations. See Note 13—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

At December 31, 2016, we held cash and cash equivalents of \$222 million and we had \$1.630 billion of borrowing capacity available under our \$2 billion amended and restated revolving credit facility (referred to as our "Credit Facility", which is described further below). At December 31, 2016, cash and cash equivalents of \$44 million were held in foreign bank accounts for the purpose of funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

Our executive officers and our Board of Directors periodically review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from operating activities, and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic stock repurchases, periodic pension contributions and other benefits payments. As discussed below, the amount we pay for income taxes is expected to increase for most of 2017, and the amount we pay for retiree healthcare benefits is expected to increase substantially in 2017. The potential impact of the pending sale of our colocation business and data centers and the potential impact of the pending acquisition of Level 3 are further described below.

Based on our current capital allocation objectives, during 2017 we anticipate expending approximately \$2.6 billion of cash for capital investment in property, plant and equipment and up to \$1.176 billion for dividends on our common stock, based on the current annual common stock dividend rate of \$2.16 and the current number of outstanding common shares, assuming solely for these purposes no impact from the Level 3 acquisition. During 2017, we have debt maturities of \$1.421 billion, scheduled debt principal payments of \$22 million and capital lease and other fixed payments of approximately \$100 million (including \$41 million of capital lease obligations related to the colocation operations), excluding liabilities that we expect to assume later in 2017 in connection with consummating the Level 3 acquisition. Each of the expenditures are described further below.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our revolving credit facility as a source of liquidity for operating activities and our other cash requirements.

Potential Impact of the Sale of Our Colocation Business and Data Centers

If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3—Pending Sale of Colocation Business and Data Centers to our consolidated financial statements in Item 8 of Part II of this annual report, we expect to receive net cash proceeds of approximately \$1.5 billion to \$1.7 billion from the sale, which is net of tax payments relating to the sale of approximately \$100 million to \$200 million, which we anticipate will be triggered by certain corporate restructuring actions we are taking in the first quarter of 2017 regarding certain subsidiaries involved in the colocation business. We also expect ongoing cash flows from operating activities will be negatively impacted by approximately \$30 million to \$45 million per quarter.

Potential Impact of the Pending Acquisition of Level 3

If, as anticipated, we complete the acquisition of Level 3 by the end of third quarter of 2017 in the manner discussed in Note 2—Pending Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this annual report, we expect our operations, financial position and cash flows to be significantly impacted following the closing of the transaction. We expect to issue a significant amount of new debt to finance the Level 3 acquisition, and we would assume approximately \$10.9 billion of Level 3's outstanding debt upon consummating the acquisition. With this additional debt, we would expect our cash paid for interest payments to be significantly higher following the closing of the transaction. We project that our capital expenditures would increase significantly; we anticipate, based on information included in Level 3's annual guidance regarding its estimated 2017 capital expenditures, that Level 3 will spend approximately \$100 million to \$125 million per month on average, in the period prior to closing, but that amount could be significantly different than amounts that we expect to spend in the months following the closing of the transaction. In connection with consummating the acquisition, we would expect to issue approximately 538 million shares of our common stock to Level 3 stockholders (including shares of CenturyLink common stock expected to be issued in exchange for outstanding Level 3 equity awards), based on the number of Level 3 shares held of record on January 27, 2017. Based on our current quarterly common stock dividend rate of \$0.54 per share, this issuance of additional shares would result in an additional incremental dividend payment of approximately \$290 million per quarter. Also, we expect our upcoming cash payments for transaction costs, integration costs and debt financing costs to be material primarily following the closing of the transaction. These above factors are expected to result in a net cash outflow for the period of 2017 following the closing. However, we expect we will have sufficient liquidity to more than offset the impact of the net cash outflows.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase 2 infrastructure buildout requirements). Based on current circumstances, we estimate that our total capital expenditures for 2017 will be approximately \$2.6 billion, inclusive of CAF Phase 2 related capital expenditures, but exclusive of additional capital expenditures with respect to the Level 3 operations that we expect to acquire later this year.

Our capital expenditures continue to be focused on our strategic services. For more information on our capital spending, see "Business" and "Risk Factors" in Items 1 and 1A, respectively, of Part I of this annual report.

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation debt securities to refinance its maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us and Qwest Corporation by credit rating agencies, among other factors. For further information on our debt maturities, see "Future Contractual Obligations" below.

As of the date of this annual report, the credit ratings for the senior unsecured debt of CenturyLink, Inc. and Qwest Corporation were as follows:

Agency	CenturyLink, Inc.	Qwest Corporation
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc. ⁽¹⁾ . . .	Ba3	Ba1
Fitch Ratings	BB+	BBB-

⁽¹⁾ On March 15, 2016, Moody's Investors Service, Inc. downgraded CenturyLink, Inc.'s rating from Ba2 to Ba3 and downgraded Qwest Corporation's rating from Baa3 to Ba1.

Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades of CenturyLink, Inc.'s senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of our borrowing under the Credit Facility. Moreover, any additional downgrades of CenturyLink, Inc.'s or Qwest Corporation's senior unsecured debt ratings could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of this annual report.

Following the announcement of our pending acquisition of Level 3, Standard & Poor's indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB has been placed on watch with negative implications, Moody's Investor Service, Inc. indicated that CenturyLink, Inc.'s current senior unsecured debt rating of Ba3 has been placed on review for downgrade and Fitch Ratings indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB+ has been placed on negative watch. Additionally, Qwest Corporation's current unsecured senior debt rating of Ba1 has been placed on review for downgrade by Moody's Investor Service, Inc. and its current unsecured senior debt rating of BBB- has been placed on negative watch by Fitch Ratings. It is expected that any downgrades would be made only following the completion of the Level 3 acquisition.

Net Operating Loss Carryforwards

In recent years, we have been using Net Operating Loss ("NOL") carryforwards to offset a large portion of our federal taxable income. As of December 31, 2016, we have substantially utilized our federal NOL carryforwards. A portion of these remaining NOL carryforwards are subject to the limitations imposed by section 382 of the Internal Revenue Code ("Code"). As a result of the substantial utilization of the NOL carryforwards in prior years and the limitations imposed on portions of the remaining NOL carryforward balance, the amounts of our cash flows dedicated to or required for the payment of federal taxes has increased and is expected to continue to increase substantially during 2017 prior to our anticipated acquisition of additional NOLs later this year, as described further below. The amounts of our near-term tax payments will depend upon many factors, including our future earnings and tax circumstances. Based on current laws (including the extension of bonus depreciation) and our current estimates of 2017 earnings, we estimate our cash income tax liability related to 2017 will be between \$500 million to \$600 million, exclusive of (i) tax payments relating to the sale of our data centers and colocation business of approximately \$100 million to \$200 million, which we anticipate will be triggered by certain corporate restructuring actions we are taking in the first quarter of 2017 regarding certain subsidiaries involved in the colocation business and (ii) the impact of acquiring Level 3.

Based on information provided to us by Level 3, as of December 31, 2016, Level 3 had approximately \$9.0 billion of NOL carryforwards that we expect to acquire in connection with the Level 3 transaction. We cannot assure you that we will be able to use these NOL carryforwards fully, or at all. See "Risk Factors—Risk Relating to Our Pending Acquisition of Level 3—We cannot assure you, whether, when or in what amounts we will be able to use Level 3's net operating loss carryforwards following the Level 3 acquisition" in Item 1A of Part I of this annual report.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.54 per share, as approved by our Board of Directors, which we believe is a dividend rate per share that gives us the flexibility to balance our multiple objectives of managing our business, paying our fixed commitments and returning cash to our shareholders. Assuming continued payment during 2017 at this rate of \$0.54 per share, our average total dividends paid each quarter prior to the Level 3 acquisition would be approximately \$294 million based on our current number of outstanding shares (which does not reflect shares that we expect to issue in connection with the Level 3 acquisition or any other shares that we might issue or repurchase in future periods). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this annual report.

Credit Facility

Our \$2 billion Credit Facility matures on December 3, 2019 and has 16 lenders, each with commitments ranging from \$3.5 million to \$198.5 million. The Credit Facility allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduces the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries. At December 31, 2016, we had \$370 million in borrowings and no amounts of letters of credit outstanding under the Credit Facility.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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. Our debt to EBITDA ratios could be adversely affected by a wide variety of events, including unforeseen expenses or contingencies. 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.

Term Loans and Revolving Letter of Credit

At December 31, 2016, CenturyLink, Inc. owed \$336 million under a term loan maturing in 2019 and Qwest Corporation owed \$100 million under a term loan maturing in 2025. Both of these term loans include covenants substantially similar to those set forth in the Credit Facility.

We have a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2016, our outstanding letters of credit totaled \$105 million under this facility.

For information on our outstanding debt securities, see immediately below "Future Contractual Obligations" and Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report.

Level 3 Financing Commitment Letter

In connection with entering into our merger agreement with Level 3, we obtained a debt commitment letter from a group of lenders. See Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report, for additional information on the financing commitment letter.

Future Contractual Obligations

The following table summarizes our estimated future contractual obligations as of December 31, 2016:

	2017	2018	2019	2020	2021	2022 and thereafter	Total
(Dollars in millions)							
Long-term debt ⁽¹⁾⁽²⁾	\$ 1,544	280	1,131	1,032	2,329	14,003	20,319
Interest on long-term debt and capital leases ⁽²⁾	1,202	1,164	1,137	1,069	893	15,434	20,899
Operating leases ⁽³⁾	295	276	249	226	162	1,049	2,257
Purchase commitments ⁽⁴⁾	166	109	44	26	15	67	427
Post-retirement benefit obligation ⁽⁵⁾	97	94	90	87	83	775	1,226
Non-qualified pension obligations ⁽⁵⁾	6	5	5	5	4	20	45
Unrecognized tax benefits ⁽⁶⁾	—	—	—	—	—	51	51
Other	6	7	7	6	8	60	94
Total future contractual obligations ⁽⁷⁾	<u>\$ 3,316</u>	<u>1,935</u>	<u>2,663</u>	<u>2,451</u>	<u>3,494</u>	<u>31,459</u>	<u>45,318</u>

- (1) Includes current maturities and capital lease obligations, but excludes unamortized discounts, net and unamortized debt issuance costs. Also, includes \$305 million of capital lease obligations related to our colocation operations. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report for additional information regarding the future commitments for capital leases related to our colocation operations.
- (2) Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt. Interest on our floating rate debt was calculated for all years using the rates effective at December 31, 2016. Also, includes interest and executory costs of \$93 million associated with our capital lease obligations related to our colocation operations. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report for additional information regarding the future commitments for capital leases related to our colocation operations.
- (3) Includes \$750 million of operating lease future rental commitments related to our colocation operations. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report for additional information regarding the future commitments for operating leases related to our colocation operations.
- (4) 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 purchase commitments with third-party vendors for operating, installation and maintenance services for facilities. In addition, we 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. Includes \$80 million of purchase commitments related to our colocation operations. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report for additional information regarding the purchase commitments related to our colocation operations.
- (5) Reflects only the portion of total obligation that is contractual in nature. See Note 7 below.
- (6) Represents the amount of tax and interest we would pay for our unrecognized tax benefits. The \$51 million is composed of unrecognized tax benefits of \$16 million and related estimated interest of \$35 million, which would result in future cash payments if our tax positions were not upheld. See Note 13—Income Taxes to our consolidated financial statements in Item 8 of Part II of this annual report for additional information. The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "2022 and thereafter" column in the above table.
- (7) The table is limited solely to contractual payment obligations and does not include:
- contingent liabilities;
 - our open purchase orders as of December 31, 2016. 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;
 - cash funding requirements for qualified pension benefits payable to certain eligible current and future retirees. Benefits paid by our qualified pension plan are paid through a trust. Cash funding requirements for this trust are not included in this table as we are not able to reliably estimate required contributions to this trust. Our funding projections are discussed further below;
 - certain post-retirement benefits payable to certain eligible current and future retirees. Not all of our post-retirement benefit obligation amount is a contractual obligation and only the portion that we believe is a contractual obligation is reported in the table. See additional information on our benefits plans in Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this annual report;

- 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 use the network facilities of other carriers and to purchase other goods and services. Our contracts to use other carriers' network facilities generally have no minimum volume requirements and pricing is based upon volumes and usage. Assuming we terminate these contracts in 2017, the contract termination fees would be \$359 million. Under the same assumption, we estimate that our termination fees for these contracts to purchase goods and services would be \$165 million. In the normal course of business, we do not believe payment of these fees is likely;
- service level commitments to our customers, the violation of which typically results in service credits rather than cash payments; 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.

For information on debt that we expect to assume or incur in connection with consummating the Level 3 acquisition, see "Risk Factors" in Item 1A of Part I of this annual report and Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2016, the accounting unfunded status of our qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$2.409 billion and \$3.360 billion, respectively. See Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this annual report for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during 2017. The amount of required contributions to our qualified pension plan in 2018 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions to the trust in addition to required contributions, including voluntary contributions in the amount of \$100 million made in the third quarter of both 2016 and 2015. We currently expect to make a voluntary contribution of \$100 million to the trust in 2017.

Substantially all of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. Assets in the post-retirement trusts have been substantially depleted as of December 31, 2016; however, we will continue to pay certain benefits through the trusts. The fair value of these trust assets was approximately \$53 million at December 31, 2016, with a portion comprised of investments with restricted liquidity. Benefits not paid through the trusts will be paid directly by us. As described further in Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this annual report, aggregate benefits paid by us under these plans (net of participant contributions and direct subsidy receipts) were \$129 million, \$116 million and \$88 million for the years ended December 31, 2016, 2015 and 2014, respectively, while the amounts paid from the trust were \$145 million, \$163 million and \$219 million, respectively. For additional information on our expected future benefits payments for our post-retirement benefit plans, please see Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II in this annual report.

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

Workforce Reductions

In response to the continued decline of our legacy services revenues and to better align our workforce with our workload requirements, we periodically implement workforce reduction programs. In the third quarter of 2016, we announced plans to reduce our workforce, initially through voluntary severance packages and the balance through involuntary reductions. We recognized in the fourth quarter of 2016 a charge for severance expenses and other one-time termination benefits of \$164 million, \$98 million of which remained to be paid as of December 31, 2016.

Connect America Fund

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses in 33 states under the CAF Phase 2 high-cost support program. The funding from the CAF Phase 2 support program has substantially replaced the funding from the interstate USF program that we previously utilized to support voice services in high-cost rural markets in these 33 states. In late 2015, we began receiving these monthly support payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly support payments at a higher rate than under the interstate USF support program and (ii) a substantial one-time transitional payment, designed to align the prior USF payments with the new CAF Phase 2 payments for the full year 2015. For 2016, we continued to receive monthly support payments at the higher rate than under the interstate USF support program. We received \$214 million and \$209 million more cash from the CAF Phase 2 program for the years ended December 31, 2016 and 2015, respectively, than the projected amounts we would have otherwise received during the same periods under the interstate USF support program.

As a result of accepting CAF Phase 2 support payments for 33 states, we will be obligated to make substantial capital expenditures to build broadband infrastructure over the next several years. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of this annual report and see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of this annual report.

In 2013, under the CAF Phase 1 Round 2 program, we received \$40 million in funding for deployment of broadband services in rural areas. In compliance with program terms, during the second half of 2016 we returned \$23 million for failing to meet interim buildout milestones within the FCC specified time frames. As of December 31, 2016, we have included the remaining \$17 million of funding in deferred credits and other liabilities - other on our consolidated balance sheet. At the conclusion of the CAF 1 Round 2 program in the first quarter 2017, we will have an opportunity to reclaim a majority of the interim refund if we ultimately meet the CAF 1 Round 2 buildout targets.

Historical Information

The following tables summarize our consolidated cash flow activities:

	Years Ended December 31,		Increase /
	2016	2015	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 4,608	5,152	(544)
Net cash used in investing activities	(2,994)	(2,853)	141
Net cash used in financing activities	(1,518)	(2,301)	(783)

	Years Ended December 31,		Increase /
	2015	2014	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 5,152	5,188	(36)
Net cash used in investing activities	(2,853)	(3,077)	(224)
Net cash used in financing activities	(2,301)	(2,151)	150

Operating Activities

Net cash provided by operating activities decreased by \$544 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily due to a significant negative variance in net income adjusted for non-cash items (attributable to higher cash taxes paid and lower profitability), which was partially offset by a positive variance in the change in accounts payable. Net cash provided by operating activities decreased by \$36 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to a slight negative variance in net income adjusted for non-cash items along with negative variances in accounts payable and other noncurrent assets and liabilities, net. The decreases were substantially offset with positive variances in accrued income and other taxes and other current assets and liabilities, net, which was primarily due to a payment of approximately \$235 million in 2014 to settle certain litigation. Our net cash provided by operating activities in 2016 and 2015 were positively impacted by the cash received from the CAF Phase 2 support program, which was \$214 million and \$209 million greater in 2016 and 2015, respectively, than the projected amounts of cash we would have otherwise received during the same periods under the interstate USF support program. For additional information about our operating results, see "Results of Operations" above.

Investing Activities

Net cash used in investing activities increased by \$141 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 substantially due to an increase in payments for property, plant and equipment. Net cash used in investing activities decreased by \$224 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to a decrease in payments of property, plant and equipment and amounts paid for acquisitions in 2015.

Financing Activities

Net cash used in financing activities decreased by \$783 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily due to a reduction of common stock repurchases. Net cash used in financing activities increased by \$150 million for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily due to additional common stock repurchases. Net debt repayments have been about the same for all three years.

On December 23, 2016, a subsidiary of Embarq Corporation redeemed \$5 million of its 8.375% Notes due 2025, which resulted in an immaterial loss.

On September 19, 2016, a subsidiary of Embarq Corporation redeemed all of its 8.77% Notes due 2017, which was less than \$4 million and resulted in an immaterial loss.

On September 15, 2016, Qwest Corporation redeemed \$287 million of its 7.5% Notes due 2051, which resulted in a loss of \$9 million.

On August 29, 2016, Qwest Corporation redeemed all \$661 million of its 7.375% Notes due 2051, which resulted in a loss of \$18 million.

On August 22, 2016, Qwest Corporation issued \$978 million aggregate principal amount of 6.5% Notes due 2056, including \$128 million principal amount that was sold pursuant to an over-allotment option, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$946 million.

On June 1, 2016, Embarq Corporation paid at maturity the \$1.184 billion principal amount and accrued and unpaid interest due under its 7.082% Notes.

On May 2, 2016, Qwest Corporation paid at maturity the \$235 million principal amount and accrued and unpaid interest due under its 8.375% Notes.

On April 6, 2016, CenturyLink, Inc. issued \$1 billion aggregate principal amount of 7.5% Notes due 2024, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$988 million.

On January 29, 2016, Qwest Corporation issued \$235 million aggregate principal amount of 7% Notes due 2056, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$227 million.

See Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this annual report, for additional information on our outstanding debt securities.

Other Matters

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

We have cash management arrangements with certain of our principal subsidiaries, in which substantial portions of the subsidiaries' cash is regularly advanced to us. Although we periodically repay these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time we may owe a substantial sum to our subsidiaries under these advances, which, in accordance with generally accepted accounting principles, are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

We also are involved in various legal proceedings that could substantially impact our financial position. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this annual report for the current status of such legal proceedings.

Market Risk

We are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. 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, 2016, 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, 2016, we had approximately \$19.6 billion (excluding capital lease and other obligations with a carrying amount of \$440 million) of long-term debt outstanding, approximately 96% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. At December 31, 2016, we had \$806 million floating rate debt exposed to changes in either the London InterBank Offered Rate (LIBOR) or the Prime Rate. A hypothetical increase of 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$8 million.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, primarily the British Pound, and secondarily the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are immaterial, future volatility in exchange rates and an increase in the number of transactions could adversely impact our consolidated results of operations. We use a sensitivity analysis to estimate our exposure to this foreign currency risk, measuring the change in financial position arising from a hypothetical 10% change in the exchange rates of these currencies, relative to the U.S. Dollar, with all other variables held constant. The aggregate potential change in the fair value of financial assets resulting from a hypothetical 10% change in these exchange rates was \$18 million at December 31, 2016.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at December 31, 2016.

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 16—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 Stockholders
CenturyLink, Inc.:

We have audited the accompanying consolidated balance sheets of CenturyLink, Inc. and subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016. 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, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), CenturyLink, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 22, 2017 expressed an unqualified opinion on the effectiveness of CenturyLink, Inc.'s internal control over financial reporting.

/s/ KPMG LLP

Shreveport, Louisiana
February 22, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CenturyLink, Inc.:

We have audited CenturyLink, Inc.'s (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting (Item 9A). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016, and our report dated February 22, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Shreveport, Louisiana
February 22, 2017

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUES	\$ 17,470	17,900	18,031
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	7,774	7,778	7,846
Selling, general and administrative	3,449	3,328	3,347
Depreciation and amortization	3,916	4,189	4,428
Total operating expenses	15,139	15,295	15,621
OPERATING INCOME	2,331	2,605	2,410
OTHER (EXPENSE) INCOME			
Interest expense	(1,318)	(1,312)	(1,311)
Other income, net	7	23	11
Total other expense, net	(1,311)	(1,289)	(1,300)
INCOME BEFORE INCOME TAX EXPENSE	1,020	1,316	1,110
Income tax expense	394	438	338
NET INCOME	\$ 626	878	772
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$ 1.16	1.58	1.36
DILUTED	\$ 1.16	1.58	1.36
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	539,549	554,278	568,435
DILUTED	540,679	555,093	569,739

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
NET INCOME	\$ 626	878	772
OTHER COMPREHENSIVE (LOSS) INCOME:			
Items related to employee benefit plans:			
Change in net actuarial (loss) gain, net of \$113, \$(12) and \$742 tax	(168)	21	(1,200)
Change in net prior service credit (costs), net of \$(4), \$(47) and \$1 tax	6	76	(1)
Foreign currency translation adjustment and other, net of \$—, \$— and \$1 tax	(21)	(14)	(14)
Other comprehensive (loss) income	(183)	83	(1,215)
COMPREHENSIVE INCOME (LOSS)	<u>\$ 443</u>	<u>961</u>	<u>(443)</u>

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2016	2015
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 222	126
Accounts receivable, less allowance of \$178 and \$152.	2,017	1,943
Assets held for sale	2,376	8
Other	547	573
Total current assets	5,162	2,650
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	39,194	38,785
Accumulated depreciation	(22,155)	(20,716)
Net property, plant and equipment	17,039	18,069
GOODWILL AND OTHER ASSETS		
Goodwill	19,650	20,742
Customer relationships, net	2,797	3,928
Other intangible assets, net	1,531	1,555
Other, net	838	660
Total goodwill and other assets.	24,816	26,885
TOTAL ASSETS	\$ 47,017	47,604
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,503	1,503
Accounts payable	1,179	968
Accrued expenses and other liabilities		
Salaries and benefits	802	602
Income and other taxes	301	318
Interest.	260	250
Other	213	220
Current liabilities associated with assets held for sale.	419	—
Advance billings and customer deposits	672	743
Total current liabilities	5,349	4,604
LONG-TERM DEBT	18,185	18,722
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,471	3,569
Benefit plan obligations, net	5,527	5,511
Other	1,086	1,138
Total deferred credits and other liabilities	10,084	10,218
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDERS' EQUITY		
Preferred stock — non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 7 shares.	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 546,545 and 543,800 shares	547	544
Additional paid-in capital	14,970	15,178
Accumulated other comprehensive loss.	(2,117)	(1,934)
(Accumulated deficit) retained earnings	(1)	272
Total stockholders' equity.	13,399	14,060
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.	\$ 47,017	47,604

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 626	878	772
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,916	4,189	4,428
Impairment of assets	13	9	32
Deferred income taxes	6	350	291
Provision for uncollectible accounts	192	177	159
Net long-term debt issuance costs and premium amortization	2	(3)	(21)
Net loss on early retirement of debt	27	—	—
Share-based compensation	80	73	79
Changes in current assets and liabilities:			
Accounts receivable	(266)	(132)	(163)
Accounts payable	109	(168)	70
Accrued income and other taxes	(43)	32	(84)
Other current assets and liabilities, net	92	(53)	(270)
Retirement benefits	(152)	(141)	(184)
Changes in other noncurrent assets and liabilities, net	(18)	(78)	99
Other, net	24	19	(20)
Net cash provided by operating activities	4,608	5,152	5,188
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(2,981)	(2,872)	(3,047)
Cash paid for acquisitions	(39)	(4)	(93)
Proceeds from sale of property and intangible assets	30	31	63
Other, net	(4)	(8)	—
Net cash used in investing activities	(2,994)	(2,853)	(3,077)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	2,161	989	483
Payments of long-term debt	(2,462)	(966)	(800)
Net payments on credit facility and revolving line of credit	(40)	(315)	(4)
Early retirement of debt costs	—	(1)	—
Dividends paid	(1,167)	(1,198)	(1,228)
Proceeds from issuance of common stock	6	11	50
Repurchase of common stock and shares withheld to satisfy tax withholdings	(16)	(819)	(650)
Other, net	—	(2)	(2)
Net cash used in financing activities	(1,518)	(2,301)	(2,151)
Net increase (decrease) in cash and cash equivalents	96	(2)	(40)
Cash and cash equivalents at beginning of period	126	128	168
Cash and cash equivalents at end of period	\$ 222	126	128
Supplemental cash flow information:			
Income taxes paid, net	\$ (397)	(63)	(27)
Interest paid (net of capitalized interest of \$54, \$52 and \$47)	\$ (1,301)	(1,310)	(1,338)

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
COMMON STOCK (represents dollars and shares)			
Balance at beginning of period.	\$ 544	569	584
Issuance of common stock through dividend reinvestment, incentive and benefit plans	3	2	4
Repurchase of common stock	—	(27)	(19)
Balance at end of period.	547	544	569
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period.	15,178	16,324	17,343
Issuance of common stock through dividend reinvestment, incentive and benefit plans	7	9	46
Repurchase of common stock	—	(767)	(591)
Shares withheld to satisfy tax withholdings.	(15)	(19)	(16)
Share-based compensation and other, net	79	77	82
Dividends declared	(279)	(446)	(540)
Balance at end of period.	14,970	15,178	16,324
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period.	(1,934)	(2,017)	(802)
Other comprehensive (loss) income.	(183)	83	(1,215)
Balance at end of period.	(2,117)	(1,934)	(2,017)
(ACCUMULATED DEFICIT) RETAINED EARNINGS			
Balance at beginning of period.	272	147	66
Net income	626	878	772
Dividends declared	(899)	(753)	(691)
Balance at end of period.	(1)	272	147
TOTAL STOCKHOLDERS' EQUITY.	\$ 13,399	14,060	15,023

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the content otherwise requires and except in Note 5, where such references refer solely to CenturyLink, Inc.

(1) Background and Summary of Significant Accounting Policies

General

We are an integrated communications company engaged primarily in providing an array of services to our residential and business customers. Our communications services include local and long-distance voice, broadband, Multi-Protocol Label Switching ("MPLS"), private line (including special access), Ethernet, colocation, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, Voice over Internet Protocol ("VoIP"), information technology and other ancillary services.

On October 31, 2016, we entered into a definitive merger agreement under which we agreed to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. See Note 2—Pending Acquisition of Level 3 for additional information. On November 3, 2016, we entered into a definitive stock purchase agreement with a consortium led by BC Partners, Inc. and Medina Capital under which we propose to sell our data centers and colocation business for a combination of cash and equity. See Note 3—Pending Sale of Colocation Business and Data Centers for additional information.

Basis of Presentation

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.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income, net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 14—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period presented.

Connect America Fund

In 2015, we accepted Connect America Fund ("CAF") funding from the Federal Communications Commission ("FCC") of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses in 33 states under the CAF Phase 2 high-cost support program. The funding from the CAF Phase 2 support program has substantially replaced the funding from the interstate Universal Service Fund ("USF") program that we previously utilized to support voice services in high-cost rural markets in these 33 states. In late 2015, we began receiving these monthly support payments from the FCC under the new CAF Phase 2 support program, which included (i) monthly support payments at a higher rate than under the interstate USF support program and (ii) a substantial one-time transitional payment, designed to align the prior USF payments with the new CAF Phase 2 payments for the full year 2015. For 2016, we continued to receive the monthly support payments at the higher rate than under the interstate USF support program. We recorded \$201 million and \$215 million more revenue from the CAF Phase 2 program for the years ended December 31, 2016 and 2015, respectively, than the projected amounts we would have otherwise recorded during the same periods under the interstate USF support program.

Changes in Estimates

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by approximately \$149 million in 2016. This change was treated as a change in accounting estimate and accordingly, we did not adjust the amounts recorded in 2015 or 2014. The reduction in expense described above, net of tax, increased net income by \$91 million, or \$0.17 per basic and diluted common share, for the year ended December 31, 2016.

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 specific items and matters, including, but not limited to, investments, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, 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 are made. These estimates, judgments and assumptions can materially affect the reported amounts of assets, liabilities and components of stockholders' equity 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 other consolidated financial statements. We also make estimates in our assessments of potential losses in relation to threatened or pending tax and legal matters. See Note 13—Income Taxes and Note 16—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 materially 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 three years to over seven 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. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We offer bundle discounts to our customers who receive certain groupings of services. These bundle discounts are 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 do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other optical capacity assets.

In connection with offering products and services provided 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 our agreements with DIRECTV and Verizon Wireless, we offer these services through sales agency relationships which are reported on a net basis.

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

USF Surcharges, 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 USF surcharges, 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 \$216 million, \$210 million and \$214 million for the years ended December 31, 2016, 2015 and 2014, 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

We file a consolidated federal income tax return with our eligible subsidiaries. The provision for income taxes consists of an amount for taxes currently payable, an amount for tax consequences deferred to future periods and adjustments to our liabilities for uncertain tax positions. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to tax net operating loss carryforwards ("NOLs"), 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.

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 13—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. In evaluating investments for classification as cash equivalents, we require that individual securities have original maturities of ninety days or less and that individual investment funds have dollar-weighted average maturities of ninety days or less. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Book overdrafts occur when checks have been issued but have not been presented to our controlled disbursement bank accounts for payment. Disbursement bank accounts allow us to delay funding of issued checks until the checks are presented for payment. Until the issued checks are presented for payment, the book overdrafts are included in accounts payable on our consolidated balance sheet. This activity is included in the operating activities section in our consolidated statements of cash flows.

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

We record property, plant and equipment acquired in connection with our acquisitions based on its estimated fair value as of its acquisition date plus the estimated value of any associated legally or contractually required retirement obligations. We record purchased and constructed property, plant and equipment at cost, plus the estimated value of any associated legally or contractually required retirement obligations. 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 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 and we determine there is no alternative use for the asset.

We have asset retirement obligations associated with the legally or contractually required removal of a limited group of property, plant and equipment assets from leased properties and the disposal of certain hazardous materials present in our owned properties. When an asset retirement obligation is identified, usually in association with the acquisition of the asset, we record the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Where the removal obligation is not legally binding, the net cost to remove assets is expensed in the period in which the costs are actually incurred.

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, capitalized software, trademarks and trade names, are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of 10 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We amortize our other intangible assets predominantly using the sum-of-the-years-digits method over an estimated life of 4 to 20 years. Other intangible assets not arising from business combinations are initially recorded at cost. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite-lived and such intangible assets are not amortized.

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.

Our long-lived intangible assets, other than goodwill, with indefinite lives are assessed for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be an impairment. These assets are carried at the estimated fair value at the time of acquisition and assets not acquired in acquisitions are recorded at historical cost. However, if their estimated fair value is less than the carrying amount, other indefinite-lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment assessment is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in many of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment assessment.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. Goodwill is reassigned to the reporting units using a relative fair value approach. We utilize the earnings before interest, taxes, depreciation and amortization of each reporting unit as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized.

See Note 4—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

Pension and Post-Retirement Benefits

We recognize the funded status of our defined benefit and post-retirement plans as an asset or a liability on our consolidated balance sheet. Each year's actuarial gains or losses are a component of our other comprehensive (loss) income, which is then included in our accumulated other comprehensive loss. Pension and post-retirement benefit expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make significant assumptions (including the discount rate, expected rate of return on plan assets, mortality and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 9—Employee Benefits for additional information.

Foreign Currency

Our results of operations include foreign subsidiaries, which are translated from the applicable functional currency to the United States Dollar using the average exchange rates during the reporting period, while assets and liabilities are translated at the reporting date. We include gains or losses from foreign currency remeasurement in other income, net in our consolidated statements of operations. Certain non-U.S. subsidiaries designate the local currency as their functional currency, and we record the translation of their assets and liabilities into U.S. Dollars at the balance sheet date as translation adjustments and include them as a component of accumulated other comprehensive loss in our consolidated balance sheets.

Common Stock

At December 31, 2016, we had 4 million unissued shares of CenturyLink, Inc. common stock reserved for acquisitions, substantially all of which are reserved for issuance in connection with our pending acquisition of Level 3. In addition, we had 21 million shares authorized for future issuance under our equity incentive plans.

Preferred stock

Holders of outstanding CenturyLink, Inc. preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon CenturyLink, Inc.'s liquidation and vote as a single class with the holders of common stock.

Dividends

We pay dividends out of retained earnings to the extent we have retained earnings on the date the dividend is declared. If the dividend is in excess of our retained earnings on the declaration date, then the excess is drawn from our additional paid-in capital.

Recent Accounting Pronouncements

Income Taxes

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

We are required to adopt the provisions of ASU 2016-16 on January 1, 2018, but have the option to early adopt as of January 1, 2017. We plan to adopt the provision of ASU 2016-16 on January 1, 2018. The impact of adopting ASU 2016-16, if any, will be recognized through a cumulative adjustment to retained earnings as of the date of adoption.

Financial Instruments

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

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

Share-based Compensation

On March 30, 2016, the FASB issued ASU 2016-09, “Improvement to Employee Share-Based Payment Accounting” (“ASU 2016-09”). ASU 2016-09 modifies the accounting and associated income tax accounting for share-based compensation in order to reduce the cost and complexity associated with current generally accepted accounting principles. ASU 2016-09 became effective as of January 1, 2017. ASU 2016-09 includes different transition requirements for the different changes implemented, including some provisions which allow retrospective application. We will implement this new standard on its effective date.

The primary provisions of ASU 2016-09 that we expect will affect our financial statements are: (1) a reclassification of the tax effect associated with the difference between the expense recognized for share-based payments and the associated tax deduction from additional paid-in capital to income tax expense; (2) a reclassification of the tax effect associated with the difference between compensation expense and associated deduction from financing cash flow to operating cash flow; and (3) a change in our accounting policy to account for forfeitures of share-based payment grants as they occur as opposed to our current policy of estimating the forfeitures on the grant date. The adoption of this accounting policy change will result in an immaterial increase in our retained earnings as of January 1, 2017. Although the provisions would not have had a material impact on our previously-issued financial statements, we cannot provide any assurance regarding their future impacts. Adoption of ASU 2016-09 may increase the volatility of income tax expense and cash flow from operating activities.

Leases

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

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

We are currently evaluating our existing lease accounting systems to determine whether our current systems will support the new accounting requirements or if upgrades or new systems will be required, and we are in the process of developing an implementation plan. We are also currently evaluating and assessing the impact ASU 2016-02 will have on us and our consolidated financial statements. As of the date of this annual report, we cannot provide any estimate of the impact of adopting ASU 2016-02.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 replaces virtually all existing 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, but we expect we will defer certain contract acquisition costs in the future which could have the impact of lowering our operating expenses. We currently defer contract fulfillment costs only up to the extent of any revenue deferred. Under ASU 2014-09, in certain transactions our deferred contract fulfillment costs could exceed our deferred revenues, which could result in an increase in deferred costs and could also have the impact of lowering our operating expenses.

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

(2) Pending Acquisition of Level 3

On October 31, 2016, we entered into a definitive merger agreement under which we propose to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. Under the terms of the agreement, Level 3 shareholders will receive \$26.50 per share in cash and 1.4286 of CenturyLink shares for each share of Level 3 common stock they own at closing. CenturyLink shareholders are expected to own approximately 51% and Level 3 shareholders are expected to own approximately 49% of the combined company at closing. On December 31, 2016, Level 3 had outstanding \$10.9 billion of long-term debt.

Completion of the transaction is subject to the receipt of regulatory approvals, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, as well as approvals from the FCC and certain state regulatory authorities. The transaction is also subject to the approval of CenturyLink and Level 3 shareholders at meetings scheduled for March 16, 2017, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction by the end of the third quarter 2017. If the merger is terminated under certain circumstances, we may be obligated to pay Level 3 a termination fee of \$472 million, or Level 3 may be obligated to pay CenturyLink a termination fee of \$738 million.

(3) Pending Sale of Colocation Business and Data Centers

On November 3, 2016, we entered into a definitive stock purchase agreement to sell our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital in exchange for cash and a minority stake in the consortium's newly-formed global secure infrastructure company. The sale is subject to regulatory approvals, including a review by the Committee of Foreign Investments in the United States, as well as other customary closing conditions.

Based on certain estimates and assumptions regarding the closing date and various tax matters, we currently project that the net cash proceeds from the divestiture will be approximately \$1.5 billion to \$1.7 billion. We plan to use a portion of these net cash proceeds to partly fund our acquisition of Level 3.

As a result of the pending sale of our colocation business and data centers, we reclassified the following assets and liabilities, which are now reflected as assets held for sale and current liabilities associated with the assets held for sale on our consolidated balance sheet, respectively, as of December 31, 2016:

	Dollars in millions
Goodwill	\$ 1,141
Property, plant and equipment	1,071
Other intangible assets	258
Other assets	45
Total amount reclassified to assets held for sale ⁽¹⁾	<u>\$ 2,515</u>
Capital lease obligations	305
Other liabilities	114
Total liabilities associated with assets held for sale	<u>\$ 419</u>

⁽¹⁾ A portion of the assets equivalent to our anticipated minority stake, which was based on an estimated fair value, in the consortium's newly-formed global secure infrastructure company is reflected in non-current other assets on our consolidated balance sheet.

The colocation business has resided in our business reporting unit. The amount of goodwill allocated to the colocation business being sold was determined using a relative-fair-value approach. The amount of goodwill included in the carrying amount of assets held for sale was based on the relative fair value of the colocation business we agreed to sell and the portion of the business reporting unit to be retained by us. We used the sale price as the fair value of the colocation business and the relative business fair value for the portion of the business reporting unit we will retain. As of November 3, 2016, we performed a quantitative assessment of the goodwill remaining in the business reporting unit after the allocation to the colocation business and concluded the remaining goodwill was not impaired as of that date.

Effective with the date we entered into the agreement to sell the colocation business we ceased recording depreciation of the property, plant and equipment to be sold and amortization of the intangible assets. We estimate that we would have recorded \$36 million of depreciation and amortization expense in the two months subsequent to entering into the agreement to sell the colocation business if we had not met the held-for-sale criteria.

We have estimated that after factoring in the costs to sell the colocation business the net carrying value of the assets and liabilities being sold closely approximates the estimated value of the proceeds we will receive upon closing. We further estimate, due to corporate actions we plan to take in the first quarter of 2017 regarding certain subsidiaries involved in the colocation business, that we will trigger tax expense relating to the sale of approximately \$100 million to \$200 million.

For additional information on our goodwill, see Note 4—Goodwill, Customer Relationships and Other Intangible Assets.

(4) Goodwill, Customer Relationships and Other Intangible Assets

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

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Goodwill.....	\$ 19,650	20,742
Customer relationships, less accumulated amortization of \$6,318 and \$5,648.....	2,797	3,928
Indefinite-life intangible assets.....	269	269
Other intangible assets subject to amortization:		
Capitalized software, less accumulated amortization of \$2,019 and \$1,778.....	1,227	1,248
Trade names and patents, less accumulated amortization of \$23 and \$20.....	35	38
Total other intangible assets, net.....	\$ 1,531	1,555

Total amortization expense for intangible assets for the years ended December 31, 2016, 2015 and 2014 was \$1.225 billion, \$1.353 billion and \$1.470 billion, respectively. As of December 31, 2016, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$32.338 billion.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2017 through 2021 will be as follows:

	(Dollars in millions)
2017.....	\$ 1,044
2018.....	925
2019.....	808
2020.....	703
2021.....	268

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We assess our goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the recorded amount of goodwill exceeds the fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assessed our reporting units, which are business (excluding wholesale), consumer and wholesale. Our annual impairment assessment date for indefinite-lived intangible assets other than goodwill is December 31.

Our reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. For each reporting unit, we compare its estimated fair value of equity to its carrying value of equity that we assign to the reporting unit. If the estimated fair value of the reporting unit is greater than the carrying value, we conclude that no impairment exists. If the estimated fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to the carrying value of goodwill that we assigned to the reporting unit. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

At October 31, 2016, we utilized a level 3 valuation technique to estimate the fair value of our business (excluding wholesale), consumer and wholesale reporting units by considering both a market approach and a discounted cash flow method. 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 of the reporting units beyond the cash flows from the discrete projection period. We discounted the estimated cash flows for our consumer and wholesale reporting units using a rate that represents their 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 2.8% and a cost of equity of 6.2%). We discounted the estimated cash flows of our business (excluding wholesale) reporting unit using a rate that represents its estimated weighted average cost of capital, which we determined to be approximately 7.0% as of the assessment date (which was comprised of an after-tax cost of debt of 2.8% and a cost of equity of 6.8%). We also reconciled the estimated fair values of the reporting units to our market capitalization as of October 31, 2016 and concluded that the indicated implied control premium of approximately 33.8% was reasonable based on recent transactions in the market place. As of October 31, 2016, based on our assessment performed with respect to these reporting units as described above, we concluded that our goodwill for our three reporting units was not impaired as of that date.

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2014 through December 31, 2016.

	Business	Consumer	Total
	(Dollars in millions)		
As of December 31, 2014 ⁽¹⁾	\$ 10,477	10,278	20,755
Purchase accounting and other adjustments	(13)	—	(13)
As of December 31, 2015 ⁽¹⁾	10,464	10,278	20,742
Purchase accounting and other adjustments	49	—	49
Goodwill attributable to the colocation business and data centers reclassified to assets held for sale	(1,141)	—	(1,141)
As of December 31, 2016 ⁽¹⁾	<u>\$ 9,372</u>	<u>\$ 10,278</u>	<u>\$ 19,650</u>

⁽¹⁾ Goodwill is net of accumulated impairment losses of \$1.1 billion that related to our former hosting segment now included in our business segment.

During 2016, we acquired all of the outstanding stock of three companies for total consideration of \$53 million, including future deferred or contingent cash payments of \$14 million, of which \$49 million has initially been attributed to goodwill. The valuation for these three acquisitions is preliminary and subject to change during the measurement period, which will end one year from the date of each acquisition. These acquisitions were consummated to expand the product offerings of our business segment and therefore the goodwill has been assigned to that segment. The majority of the goodwill is attributed primarily to expected future increases in business segment revenue from the sale of new products. The majority of the goodwill from these acquisitions is expected to be deductible for tax purposes.

None of the above-described acquisitions materially impacted the consolidated results of operations from the dates of the acquisitions and would not materially impact pro forma results of operations.

For additional information on our segments, see Note 14—Segment Information.

We completed our qualitative assessment of our indefinite-lived intangible assets other than goodwill as of December 31, 2016 and concluded it is more likely than not that our indefinite-lived intangible assets are not impaired; thus, no impairment charge was recorded in 2016.

As of October 31, 2015, based on our assessment performed, we concluded that our goodwill for our then three reporting units was not impaired as of that date. As of October 31, 2014, based on our assessment performed, we concluded that our goodwill for our then four reporting units was not impaired as of that date.

(5) Long-Term Debt and Credit Facilities

Long-term debt, including unamortized discounts and premiums and unamortized debt issuance costs, consisting of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest Corporation, Qwest Capital Funding, Inc. and Embarq Corporation and its subsidiaries ("Embarq"), were as follows:

			As of December 31,	
	Interest Rates	Maturities	2016	2015
			(Dollars in millions)	
CenturyLink, Inc.				
Senior notes	5.150% - 7.650%	2017 - 2042	\$ 8,975	7,975
Credit facility and revolving line of credit ⁽¹⁾	4.500%	2019	370	410
Term loan	2.520%	2019	336	358
Subsidiaries				
Qwest Corporation				
Senior notes	6.125% - 7.750%	2017 - 2056	7,259	7,229
Term loan	2.520%	2025	100	100
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation and subsidiaries				
Senior note	7.995%	2036	1,485	2,669
First mortgage bonds	7.125% - 8.770%	2017 - 2025	223	232
Other	9.000%	2019	150	150
Capital lease and other obligations	Various	Various	440	425
Unamortized discounts, net.			(133)	(125)
Unamortized debt issuance costs			(193)	(179)
Total long-term debt			19,993	20,225
Less current maturities not associated with assets held for sale.			(1,503)	(1,503)
Less capital lease obligations associated with assets held for sale ⁽²⁾			(305)	—
Long-term debt, excluding current maturities and capital leases obligations associated with assets held for sale.			\$ 18,185	18,722

(1) The aggregate amount outstanding on our Credit Facility and revolving line of credit borrowings at December 31, 2016 and 2015 was \$370 million and \$410 million, respectively, with weighted-average interest rates of 4.500% and 2.756%, respectively. These amounts change on a regular basis.

(2) If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3—Pending Sale of Colocation Business and Data Centers, \$305 million of the capital lease obligations as of December 31, 2016 will be assumed by the Purchaser. See Note 3—Pending Sale of Colocation Business and Data Centers for additional information.

New Issuances

2016

On August 22, 2016, Qwest Corporation issued \$978 million aggregate principal amount of 6.5% Notes due 2056, including \$128 million principal amount that was sold pursuant to an over-allotment option, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$946 million. All of the 6.5% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after September 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On April 6, 2016, CenturyLink, Inc. issued \$1 billion aggregate principal amount of 7.5% Notes due 2024, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$988 million. All of the 7.5% Notes are unsecured obligations and may be redeemed by CenturyLink, Inc., in whole or in part, on or after January 1, 2024, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. At any time before January 1, 2024, the Notes are redeemable, in whole or in part, at CenturyLink, Inc.'s option, at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2019, CenturyLink, Inc. may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.5% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of certain equity offerings. Under certain circumstances, CenturyLink, Inc. will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date.

On January 29, 2016, Qwest Corporation issued \$235 million aggregate principal amount of 7% Notes due 2056, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$227 million. All of the 7% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

2015

On September 21, 2015, Qwest Corporation issued \$400 million aggregate principal amount of 6.625% Notes due 2055, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$386 million. On September 30, 2015, Qwest Corporation issued an additional \$10 million aggregate principal amount of the 6.625% Notes under an over-allotment option granted to the underwriter for this offering. All of the 6.625% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after September 15, 2020, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On March 19, 2015, CenturyLink, Inc. issued in a private offering \$500 million aggregate principal amount of 5.625% Notes due 2025, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately \$494 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, at any time before January 1, 2025 at a redemption price equal to the greater of 100% of the principal amount of the Notes or the sum of the present value of the remaining scheduled payments of principal and interest on the Notes, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. At any time on or after January 1, 2025, CenturyLink, Inc. may redeem the Notes at par plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2018, CenturyLink, Inc. may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with net cash proceeds of certain equity offerings. Under certain circumstances, CenturyLink, Inc. will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date. In October 2015, CenturyLink, Inc. exchanged all of the unregistered Notes issued on March 19, 2015 for fully-registered Notes.

Repayments

2016

On December 23, 2016, a subsidiary of Embarq Corporation redeemed \$5 million of its 8.375% Notes due 2025, which resulted in an immaterial loss.

On September 19, 2016, a subsidiary of Embarq Corporation redeemed all of its 8.77% Notes due 2017, which was less than \$4 million and resulted in an immaterial loss.

On September 15, 2016, Qwest Corporation redeemed \$287 million of its 7.5% Notes due 2051, which resulted in a loss of \$9 million.

On August 29, 2016, Qwest Corporation redeemed all \$661 million of its 7.375% Notes due 2051, which resulted in a loss of \$18 million.

On June 1, 2016, Embarq Corporation paid at maturity the \$1.184 billion principal amount and accrued and unpaid interest due under its 7.082% Notes.

On May 2, 2016, Qwest Corporation paid at maturity the \$235 million principal amount and accrued and unpaid interest due under its 8.375% Notes.

2015

On October 13, 2015, Qwest Corporation redeemed all \$250 million of its 7.2% Notes due 2026, which resulted in an immaterial gain, and redeemed \$150 million of its 6.875% Notes due 2033, which resulted in an immaterial loss.

On June 15, 2015, Qwest Corporation paid at maturity the \$92 million principal amount of its 7.625% Notes.

On February 17, 2015, CenturyLink, Inc. paid at maturity the \$350 million principal and accrued and unpaid interest due under its Series M 5.00% Notes.

Credit Facility

Our \$2 billion revolving credit facility (as amended, the "Credit Facility") matures on December 3, 2019 and has 16 lenders, each with commitments ranging from \$3.5 million to \$198.5 million. The Credit Facility allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries.

Term Loans, Revolving Line of Credit and Revolving Letter of Credit

The CenturyLink, Inc. term loan matures on April 18, 2019. In 2015, CenturyLink amended its term loan agreement to reduce the interest rate payable by it thereunder and to modify some covenants to provide additional flexibility.

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

In 2016, our \$85 million uncommitted revolving line of credit with one of the lenders under the Credit Facility was suspended as a result of this lender's additional borrowing commitment towards the pending acquisition of Level 3. Interest is paid monthly based upon the LIBOR plus an applicable margin between 1.00% and 2.25% per annum. At December 31, 2016, CenturyLink, Inc. had no borrowings outstanding under this uncommitted revolving line of credit and at December 31, 2015, CenturyLink, Inc. had \$80 million borrowings outstanding under this uncommitted revolving line of credit.

In April 2011, we entered into a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At December 31, 2016 and 2015, our outstanding letters of credit totaled \$105 million and \$109 million, respectively, under this facility.

Aggregate Maturities of Long-Term Debt

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

	(Dollars in millions)⁽¹⁾
2017	\$ 1,544
2018	280
2019	1,131
2020	1,032
2021	2,329
2022 and thereafter	14,003
Total long-term debt	<u>\$ 20,319</u>

(1) Actual principal paid in any year may differ due to the possible future refinancing of outstanding debt or the issuance of new debt. The projected amounts in the table also exclude any impacts from the sale of our colocation business or any further acquisitions.

Interest Expense

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

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 1,372	1,364	1,358
Capitalized interest	(54)	(52)	(47)
Total interest expense	<u>\$ 1,318</u>	<u>1,312</u>	<u>1,311</u>

Covenants

Certain of our loan agreements contain various restrictions, as described more fully below. Under current circumstances, we believe the covenants currently in effect place no significant restriction on the transfer of funds from our consolidated subsidiaries to CenturyLink.

The senior notes of CenturyLink, Inc. were issued under an indenture dated March 31, 1994. This indenture restricts our ability to (i) incur, issue or create liens upon the property of CenturyLink, Inc. and (ii) consolidate with or merge into, or transfer or lease all or substantially all of our assets to any other party. The indenture does not contain any provisions that are impacted by our credit ratings or that restrict the issuance of new securities in the event of a material adverse change to us. However, if the credit ratings relating to certain of our long-term debt securities issued under this indenture are downgraded in the manner specified thereunder in connection with a "change of control" of CenturyLink, Inc., then we will be required to offer to repurchase such debt securities.

The senior notes of Qwest Corporation were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures contain restrictions on the incurrence of liens and the consummation of certain transactions substantially similar to the above-described covenants in CenturyLink, Inc.'s March 31, 1994 indenture. The senior notes of Qwest Capital Funding, Inc. were issued under an indenture dated June 29, 1998 containing terms substantially similar to those set forth in Qwest Corporation's indentures.

Embarq's senior note was issued pursuant to an indenture dated as of May 17, 2006. While Embarq is generally prohibited from creating liens on its property unless its senior notes are secured equally and ratably, Embarq can create liens on its property without equally and ratably securing its senior notes so long as the sum of all indebtedness so secured does not exceed 15% of Embarq's consolidated net tangible assets. The indenture contains customary events of default, none of which are impacted by Embarq's credit rating.

None of the above-listed indentures of CenturyLink, Inc., Qwest Corporation, Qwest Capital Funding, Inc. and Embarq contain any financial covenants or restrictions on the ability to issue new securities in accordance with the terms of the indenture.

Several of our Embarq subsidiaries have outstanding first mortgage bonds. Each issue of these first mortgage bonds is secured by substantially all of the property, plant and equipment of the issuing subsidiary. Approximately 10% of our net property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, 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 us to secure equally and ratably any advances under the Credit Facility if we 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. Our debt to EBITDA ratios could be adversely affected by a wide variety of events, including unforeseen expenses or contingencies. 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.

CenturyLink, Inc. and Qwest Corporation are both indebted under term loans, each of which includes covenants substantially similar to those set forth in the Credit Facility.

At December 31, 2016, we believe we were in compliance with all of the provisions and covenants contained in our Credit Facility and other material debt agreements.

Guarantees

We do not guarantee the debt of any unaffiliated parties, but certain of our subsidiaries guarantee the outstanding senior notes issued by other subsidiaries. In addition, nine of our largest wholly owned subsidiaries guarantee the obligations of CenturyLink, Inc. under the Credit Facility and its term loan.

Level 3 Financing Commitment Letter

In connection with entering into our merger agreement with Level 3 (discussed further in Note 2), on October 31, 2016, we obtained a debt commitment letter, which was amended and restated on November 13, 2016, and further amended on November 15, 2016 (the “Debt Commitment Letter”), from Bank of America, N.A., Morgan Stanley Senior Funding, Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Barclays Bank PLC, JPMorgan Chase Bank, N.A., Wells Fargo Bank, National Association, Royal Bank of Canada, Goldman Sachs Bank USA, SunTrust Bank, Mizuho Bank, Ltd., Regions Bank, Fifth Third Bank, Credit Suisse AG, Cayman Islands Branch, and U.S. Bank, National Association (collectively the “Commitment Parties”), pursuant to which the Commitment Parties or certain of their affiliates agreed to provide a \$2.0 billion senior secured revolving credit facility, a \$1.5 billion senior secured term loan “A” credit facility, a \$4.5 billion senior secured term loan “B” credit facility and a \$2.225 billion senior secured bridge loan facility (collectively, the “Commitment Facilities”), together with certain backstop commitments designed to provide additional acquisition-related financing in certain limited instances. The secured bridge loan facility will only be drawn to the extent we are unable to raise such amounts by issuing senior secured notes or other debt securities at or prior to the closing of the Level 3 acquisition. The senior secured revolving credit facility is designed to replace the Credit Facility. Bank of America, N.A. and Morgan Stanley Senior Funding, Inc., affiliates of BofA Merrill Lynch and Morgan Stanley, will be entitled to receive financing fees in connection with the debt commitment letter, the amount of which will vary based on, among other things, when the debt financing is incurred, whether the previously-announced divestiture of our data centers and colocation business closes prior to the Level 3 acquisition and whether the bridge loan facility is drawn. The financing fees to be payable to Bank of America, N.A. and Morgan Stanley Senior Funding, Inc. are expected to be quite substantial.

Each Commitment Party’s commitments to provide the Commitment Facilities and each Commitment Party’s agreements to perform the services described in the Commitment Letter will automatically terminate on the earliest of (i) the date of termination of our merger agreement with Level 3 in accordance with its terms, (ii) the closing of the Level 3 acquisition with or without the use of such Commitment Facilities and (iii) 11:59 p.m. on October 31, 2017 (or, if the “Termination Date” as defined in the merger agreement is extended in certain circumstances, the date to which it is extended that is not later than 11:59 p.m. on January 31, 2018).

The definitive documentation governing the Level 3 debt financing has not been finalized and, accordingly, the actual terms of the debt financing may differ from those described above. Although the debt financing described above is not subject to due diligence or a “market out,” such financing may not be considered assured. The obligation of the Commitment Parties to provide debt financing under the debt commitment letter is subject to a number of conditions, and it is anticipated that the definitive debt financing documentation will also include certain funding conditions. There is a risk that these conditions will not be satisfied and the debt financing may not be available when required. In addition, we have the right to substitute the proceeds of other debt financing, or commitments for other debt financing, for all or any portion of the Commitment Facilities. As of the date of this annual report, no such other debt financing has been arranged.

(6) Accounts Receivable

The following table presents details of our accounts receivable balances:

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Trade and purchased receivables	\$ 1,882	1,789
Earned and unbilled receivables	299	288
Other	14	18
Total accounts receivable	2,195	2,095
Less: allowance for doubtful accounts	(178)	(152)
Accounts receivable, less allowance	<u>\$ 2,017</u>	<u>1,943</u>

We are exposed to concentrations of credit risk from residential and business customers within our local service area, business customers outside of our local service area and from other telecommunications service providers. 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)			
2016	\$ 152	192	(166)	178
2015	\$ 162	177	(187)	152
2014	\$ 155	159	(152)	162

(7) Property, Plant and Equipment

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

	Depreciable Lives	As of December 31,	
		2016	2015
		(Dollars in millions)	
Land	N/A	\$ 563	571
Fiber, conduit and other outside plant ⁽¹⁾	15-45 years	16,996	16,166
Central office and other network electronics ⁽²⁾	3-10 years	13,768	14,144
Support assets ⁽³⁾	3-30 years	6,623	7,000
Construction in progress ⁽⁴⁾	N/A	1,244	904
Gross property, plant and equipment		39,194	38,785
Accumulated depreciation		(22,155)	(20,716)
Net property, plant and equipment		\$ 17,039	18,069

(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, data centers, 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.

See Note 3—Pending Sale of Colocation Business and Data Centers for additional information on our colocation assets and data centers reclassified to assets held for sale.

We recorded depreciation expense of \$2.691 billion, \$2.836 billion and \$2.958 billion for the years ended December 31, 2016, 2015 and 2014, respectively.

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

Additionally, in 2014 we sold an office building for \$12 million.

Asset Retirement Obligations

At December 31, 2016, our asset retirement obligations balance was primarily related to estimated future costs of removing equipment from leased properties and estimated future costs of properly disposing of asbestos and other hazardous materials upon remodeling or demolishing buildings. Asset retirement obligations are included in other long-term liabilities on our consolidated balance sheets.

The following table provides asset retirement obligation activity:

	Years Ended December 31,		
	2016	2015	2014
(Dollars in millions)			
Balance at beginning of year	\$ 91	107	106
Accretion expense	6	7	7
Liabilities incurred	—	—	6
Liabilities settled	(2)	(2)	(2)
Change in estimate	—	(21)	(10)
Balance at end of year	<u>\$ 95</u>	<u>91</u>	<u>107</u>

If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3, \$19 million of the asset retirement obligation as of December 31, 2016 will be assumed by the Purchaser.

Our estimates for the cost of removal of network equipment, asbestos remediation and other obligations remained unchanged for the year ended December 31, 2016. During 2015 and 2014, we revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$21 million and \$10 million, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment, and revisions to assets specifically identified are recorded as a reduction to accretion expense.

(8) Severance and Leased Real Estate

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

We report severance liabilities within accrued expenses and other liabilities - salaries and benefits in our consolidated balance sheets and report severance expenses in selling, general and administrative expenses in our consolidated statements of operations. As noted in Note 14—Segment Information, we do not allocate these severance expenses to our segments.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities-other and report the noncurrent portion in deferred credits and other liabilities in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At December 31, 2016, the current and noncurrent portions of our leased real estate accrual were \$8 million and \$59 million, respectively. The remaining lease terms range from 1.2 years to 9.0 years, with a weighted average of 7.8 years.

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2014	\$ 26	96
Accrued to expense	96	—
Payments, net	(108)	(13)
Reversals and adjustments	—	(3)
Balance at December 31, 2015	14	80
Accrued to expense	173	4
Payments, net	(89)	(20)
Reversals and adjustments	—	3
Balance at December 31, 2016	<u>\$ 98</u>	<u>67</u>

(9) Employee Benefits

Pension, Post-Retirement and Other Post-Employment Benefits

We sponsor various defined benefit pension plans (qualified and non-qualified), which in the aggregate cover a substantial portion of our employees including legacy CenturyLink, legacy Qwest Communications International, Inc. ("Qwest") and legacy Embarq employees. On December 31, 2014, we merged our existing qualified pension plans, which included merging the Qwest Pension Plan and Embarq Retirement Pension Plan into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan ("Combined Plan"). Pension benefits for participants of the new Combined Plan who are represented by a collective bargaining agreement are based on negotiated schedules. All other participants' pension benefits are based on each individual participant's years of service and compensation. We also maintain non-qualified pension plans for certain current and former highly compensated employees. We maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. We also provide other post-employment benefits for certain eligible former employees. We use a December 31 measurement date for all our plans.

Pension Benefits

Current funding laws require a company with a pension shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Our funding policy for our Combined Plan is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due under the terms of the plan. The accounting unfunded status of our qualified pension plan was \$2.352 billion and \$2.215 billion as of December 31, 2016 and 2015, respectively.

We made a voluntary cash contribution of \$100 million in both 2016 and 2015 to our qualified pension plan and paid \$7 million and \$6 million of benefits directly to participants of our non-qualified pension plans in 2016 and 2015, respectively. Based on current laws and circumstances, we are not required to make any contributions to our qualified pension plan in 2017, but we estimate that we will pay \$6 million of benefits directly to participants of our non-qualified pension plans. We currently expect to make a voluntary contribution of \$100 million to the trust for our qualified pension plan in 2017.

Our pension plans contain provisions that allow us, from time to time, to offer lump sum payment options to certain former employees in settlement of their future retirement benefits. Additionally, eligible employees who terminate employment may elect to receive a lump sum payout. We record these payments as a settlement only if, in the aggregate, they exceed the sum of the annual service and interest costs for the plan's net periodic pension benefit costs, which represents the settlement threshold. There were no pension lump sum offerings in 2016, other than those to eligible employees who terminated during 2016. In 2015, we made cash settlement payments of \$356 million through a lump sum offering to a group of former employees. The total amount of the lump sum settlement payments for the year ended December 31, 2015, which included the lump sum offer and lump sum elections from employees who terminated employment during the year, was less than the settlement threshold, therefore settlement accounting was not triggered in 2015. In 2014, lump sum pension settlement payments to terminated, but not-yet-retired legacy Qwest participants was \$460 million, which exceeded the settlement threshold of \$418 million. As a result, we were required to recognize a settlement charge of \$63 million in 2014 to accelerate the recognition of a portion of the previously unrecognized actuarial losses in the qualified pension plan, which has been allocated and reflected in cost of services and products (exclusive of depreciation and amortization) and selling, general and administrative in our consolidated statement of operations for the year ended December 31, 2014. This charge reduced our recorded net income and retained earnings, with an offset to accumulated other comprehensive loss in shareholders' equity. The amount of any future non-cash settlement charges will depend on the level of lump sum benefit payments made in 2017 and beyond.

Post-Retirement Benefits

Our post-retirement benefit plans provide post-retirement benefits to qualified retirees and allow (i) eligible employees retiring before certain dates to receive benefits at no or reduced cost and (ii) eligible employees retiring after certain dates to receive benefits on a shared cost basis. The post-retirement benefits not paid by the trust are funded by us and we expect to continue funding these post-retirement obligations as benefits are paid. The accounting unfunded status of our qualified post-retirement benefit plan was \$3.360 billion and \$3.374 billion as of December 31, 2016 and 2015, respectively.

Assets in the post-retirement trusts have been substantially depleted as of December 31, 2016; however we will continue to pay certain post-retirement benefits through the trusts. No contributions were made to the post-retirement trusts in 2016, and we do not expect to make a contribution in 2017. In 2016, we paid \$129 million of post-retirement benefits, net of participant contributions and direct subsidies. In 2017, we expect to pay \$275 million of post-retirement benefits, net of participant contributions and direct subsidies. The increase in anticipated post-retirement benefit payments is the result of substantially depleting the plan assets held in the trust.

We expect our health care cost trend rate to range from 5.0% to 5.5% in 2017 to 5.0% to 6.0% in 2018 and 2019 and grading to 4.50% by 2025. Our post-retirement benefit expense, for certain eligible legacy Qwest retirees and certain eligible legacy CenturyLink retirees, is capped at a set dollar amount. Therefore, those health care benefit obligations are not subject to increasing health care trends after the effective date of the caps.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2016:

	100 Basis Points Change	
	Increase	(Decrease)
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit expense (consolidated statement of operations)	\$ 2	(2)
Effect on benefit obligation (consolidated balance sheet).	66	(61)

Expected Cash Flows

The qualified pension, non-qualified pension and post-retirement health care benefit payments and premiums and life insurance premium payments are paid by us or distributed from plan assets. The estimated benefit payments provided below are based on actuarial assumptions using the demographics of the employee and retiree populations and have been reduced by estimated participant contributions.

	Pension Plans	Post-Retirement Benefit Plans	Medicare Part D Subsidy Receipts
	(Dollars in millions)		
Estimated future benefit payments:			
2017	\$ 1,277	295	(6)
2018	987	284	(6)
2019	968	275	(6)
2020	948	267	(6)
2021	928	259	(6)
2022 - 2026	4,280	1,160	(26)

Net Periodic Benefit Expense

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by approximately \$149 million in 2016. This change was treated as a change in accounting estimate and accordingly, we did not adjust the amounts recorded in 2015 or 2014.

The actuarial assumptions used to compute the net periodic benefit expense for our qualified pension, non-qualified pension and post-retirement benefit plans are based upon information available as of the beginning of the year, as presented in the following table.

	Pension Plans			Post-Retirement Benefit Plans		
	2016	2015	2014	2016	2015	2014
Actuarial assumptions at beginning of year:						
Discount rate	3.50% - 4.50%	3.50% - 4.10%	4.20% - 5.10%	4.15%	3.80%	4.50%
Rate of compensation increase	3.25%	3.25%	3.25%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.00%	7.50%	7.50%	7.00%	7.50%	6.00% - 7.50%
Initial health care cost trend rate	N/A	N/A	N/A	5.00% / 5.25%	6.00% / 6.50%	6.00% / 6.50%
Ultimate health care cost trend rate	N/A	N/A	N/A	4.50%	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	N/A	2025	2025	2024

N/A-Not applicable

Net periodic benefit (income) expense for our qualified and non-qualified pension plans includes the following components:

Pension Plans Years Ended December 31,			
	2016	2015	2014
	(Dollars in millions)		
Service cost	\$ 64	83	77
Interest cost	427	568	602
Expected return on plan assets	(732)	(898)	(891)
Settlements	—	—	63
Special termination benefits charge	13	—	—
Recognition of prior service (credit) cost	(8)	5	5
Recognition of actuarial loss	175	161	22
Net periodic pension benefit income	<u>\$ (61)</u>	<u>(81)</u>	<u>(122)</u>

Net periodic benefit expense (income) for our post-retirement benefit plans includes the following components:

Post-Retirement Plans Years Ended December 31,			
	2016	2015	2014
	(Dollars in millions)		
Service cost	\$ 19	24	22
Interest cost	111	140	159
Expected return on plan assets	(7)	(21)	(33)
Special termination benefits charge	3	—	—
Recognition of prior service cost	20	19	20
Net periodic post-retirement benefit expense	<u>\$ 146</u>	<u>162</u>	<u>168</u>

We report net periodic benefit (income) expense for our qualified pension, non-qualified pension and post-retirement benefit plans in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014. In the third quarter of 2016, we announced plans to reduce our workforce, initially through voluntary severance packages and the balance through involuntary reductions. We recognized in the fourth quarter of 2016, a one-time charge of \$16 million for special termination benefit enhancements paid to certain eligible employees upon voluntary retirement.

Benefit Obligations

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2016 and 2015 and are as follows:

	Pension Plans December 31,		Post-Retirement Benefit Plans December 31,	
	2016	2015	2016	2015
Actuarial assumptions at end of year:				
Discount rate	3.50% - 4.10%	3.50% - 4.50%	3.90%	4.15%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	5.00% / 5.50%	5.00% / 5.25%
Ultimate health care cost trend rate	N/A	N/A	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	2025	2025

N/A-Not applicable

In 2016, we adopted the revised mortality table and projection scale released by the Society of Actuaries ("SOA"), which decreased the projected benefit obligation of our benefit plans by \$268 million. The 2015 revised mortality table and projection scale decreased the 2015 projected benefit obligation of our benefit plans by \$379 million. In 2014, to better reflect the expected lifetimes of our plan participants, we adopted a new mortality table for our defined benefit plan. The table used was based on SOA tables and increased the projected benefit obligation of our benefit plans by approximately \$1.3 billion. The change in the projected benefit obligation of our benefit plans was recognized as part of the net actuarial loss and is included in accumulated other comprehensive loss, a portion of which is subject to amortization over the remaining estimated life of plan participants, which was approximately 9 to 10 years as of December 31, 2016.

The following tables summarize the change in the benefit obligations for the pension and post-retirement benefit plans:

				Pension Plans		
				Years Ended December 31,		
				2016	2015	2014
				(Dollars in millions)		
Change in benefit obligation						
Benefit obligation at beginning of year	\$	13,349		15,042		13,401
Service cost		64		83		77
Interest cost		427		568		602
Plan amendments		2		(100)		4
Special termination benefits charge		13		—		—
Actuarial loss (gain)		487		(800)		2,269
Settlements		—		—		(460)
Benefits paid by company		(7)		(6)		(6)
Benefits paid from plan assets		(1,034)		(1,438)		(845)
Benefit obligation at end of year	\$	13,301		13,349		15,042

	Post-Retirement Benefit Plans Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 3,567	3,830	3,688
Service cost	19	24	22
Interest cost	111	140	159
Participant contributions	57	57	69
Plan amendments	—	—	23
Direct subsidy receipts	5	8	9
Special termination benefits charge	3	—	—
Actuarial (gain) loss	(13)	(148)	245
Benefits paid by company	(191)	(181)	(166)
Benefits paid from plan assets	(145)	(163)	(219)
Benefit obligation at end of year	\$ 3,413	3,567	3,830

Our aggregate benefit obligation as of December 31, 2016, 2015 and 2014 was \$16.714 billion, \$16.916 billion and \$18.872 billion, respectively.

Plan Assets

We maintain plan assets for our qualified pension plan and certain post-retirement benefit plans. The qualified pension plan's assets are used for the payment of pension benefits and certain eligible plan expenses. The post-retirement benefit plan's assets are used to pay health care benefits and premiums on behalf of eligible retirees and to pay certain eligible plan expenses. As discussed further above, the liquid plan assets in our post-retirement trust have been substantially depleted as of December 31, 2016. The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

The following tables summarize the change in the fair value of plan assets for the pension and post-retirement benefit plans:

Pension Plans Years Ended December 31,			
	2016	2015	2014
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year.	\$ 11,072	12,571	12,346
Return on plan assets	754	(161)	1,373
Employer contributions	100	100	157
Settlements	—	—	(460)
Benefits paid from plan assets	(1,034)	(1,438)	(845)
Fair value of plan assets at end of year	<u>\$ 10,892</u>	<u>11,072</u>	<u>12,571</u>

Post-Retirement Benefit Plans Years Ended December 31,			
	2016	2015	2014
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year.	\$ 193	353	535
Return on plan assets	5	3	37
Benefits paid from plan assets	(145)	(163)	(219)
Fair value of plan assets at end of year	<u>\$ 53</u>	<u>193</u>	<u>353</u>

Pension Plans: Our investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits and minimize the risk of large losses. Our pension plan investment strategy is designed to meet this objective by broadly diversifying plan assets across numerous strategies with differing expected returns, volatilities and correlations. The pension plan assets have target allocations of 45% to interest rate sensitive investments and 55% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 30% of plan assets targeted primarily to long-duration investment grade bonds, 10% targeted to high yield and emerging market bonds and 5% targeted to diversified strategies, which primarily have exposures to global bonds, as well as some exposures to global stocks and commodities. Assets expected to provide higher returns than the interest rate sensitive assets include broadly diversified equity investments with targets of approximately 15% to U.S. equity markets and 15% to non-U.S. developed and emerging markets. Approximately 7% is targeted to broadly diversified multi-asset class strategies that have the flexibility to adjust exposures to different asset classes. Approximately 10% is allocated to private markets investments including funds primarily invested in private equity, private debt and hedge funds. Real estate investments are targeted at 8% of plan assets. At the beginning of 2017, our expected annual long-term rate of return on pension assets before consideration of administrative expenses is assumed to be 7.0%. However, projected increases in PBGC (Pension Benefit Guaranty Corporation) premium rates have now become large enough to reduce the annual long-term expected return net of administrative expenses to 6.5%.

Our non-qualified pension plans are not funded. We pay benefits directly to the participants of these plans.

Post-Retirement Benefit Plans: Our investment objective for the post-retirement benefit plans' assets is to achieve an attractive risk-adjusted return and minimize the risk of large losses over the expected life of the assets. At the beginning of 2017, our expected annual long-term rate of return on post-retirement benefit plan assets is assumed to be 5.0%.

Permitted investments: Plan assets are managed consistent with the restrictions set forth by the Employee Retirement Income Security Act of 1974, as amended, which requires diversification of assets and also generally prohibits defined benefit and welfare plans from investing more than 10% of their assets in securities issued by the sponsor company. At December 31, 2016 and 2015, the pension and post-retirement benefit plans did not directly own any shares of our common stock and less than 1% of the assets were held in CenturyLink debt.

Derivative instruments: Derivative instruments are used to reduce risk as well as provide return. The pension and post-retirement benefit plans use exchange traded futures and swaps to gain exposure to equity and interest rate markets consistent with target asset allocations and to reduce risk relative to measurement of the benefit obligation, which is sensitive to interest rate changes. Foreign exchange forward contracts are used to manage currency exposures. Credit default swaps are used to manage credit risk exposures in a cost effective and targeted manner relative to transacting with physical corporate fixed income securities. Options are currently used to manage interest rate exposure taking into account the implied volatility and current pricing of the specific underlying market instrument. Some derivative instruments subject the plans to counterparty risk. The external investment managers, along with Plan Management, monitor counterparty exposure and mitigate this risk by diversifying the exposure among multiple high credit quality counterparties, requiring collateral and limiting exposure by periodically settling contracts.

The gross notional exposure of the derivative instruments directly held by the pension benefit plan is shown below. The notional amount of the derivatives corresponds to market exposure but does not represent an actual cash investment. Our post-retirement plans were not invested in derivative instruments for the years ended December 31, 2016 or 2015.

Gross Notional Exposure		
Pension Plans		
Years Ended December 31,		
	2016	2015
(Dollars in millions)		
<u>Derivative instruments:</u>		
Exchange-traded U.S. equity futures	\$ 104	79
Exchange-traded Treasury and other interest rate futures	1,813	1,767
Interest rate swaps.	260	550
Credit default swaps	240	189
Foreign exchange forwards.	778	992
Options	206	285

Fair Value Measurements: 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. For additional information on the fair value hierarchy, see Note 12—Fair Value Disclosure.

At December 31, 2016, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2016:

- Level 1—Assets were valued using the closing price reported in the active market in which the individual security was traded.
- Level 2—Assets were valued using quoted prices in markets that are not active, broker dealer quotations, net asset value of shares held by the plans and other methods by which all significant inputs were observable at the measurement date.
- Level 3—Assets were valued using unobservable inputs in which little or no market data exists as reported by the respective institutions at the measurement date.

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2016. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivables, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2016				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 420	1,404	—	\$ 1,824
High yield bonds (b)	7	597	11	615
Emerging market bonds (c)	212	212	—	424
Convertible bonds (d)	2	—	—	2
U.S. stocks (f)	1,144	1	—	1,145
Non-U.S. stocks (g)	721	1	—	722
Multi-asset strategies (m)	389	—	—	389
Cash equivalents and short-term investments (o)	—	207	—	207
Total investments, excluding investments valued at NAV	<u>\$ 2,895</u>	<u>2,422</u>	<u>11</u>	<u>5,328</u>
Investments valued at NAV				<u>5,564</u>
Total pension plan assets				<u>\$ 10,892</u>

Fair Value of Post-Retirement Plan Assets at December 31, 2016				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 1	2	—	\$ 3
High yield bonds (b)	—	1	—	1
U.S. stocks (f)	2	—	—	2
Non-U.S. stocks (g)	1	—	—	1
Cash equivalents and short-term investments (o)	—	5	—	5
Total investments, excluding investments valued at NAV	<u>\$ 4</u>	<u>8</u>	<u>—</u>	<u>12</u>
Investments valued at NAV				<u>41</u>
Total post-retirement plan assets				<u>\$ 53</u>

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2015. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivable, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2015				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 841	1,045	—	\$ 1,886
High yield bonds (b)	—	544	13	557
Emerging market bonds (c)	208	232	1	441
Convertible bonds (d)	—	2	—	2
U.S. stocks (f)	1,201	—	—	1,201
Non-U.S. stocks (g)	1,127	1	—	1,128
Multi-asset strategies (m)	376	—	—	376
Derivatives (n)	2	(6)	—	(4)
Cash equivalents and short-term investments (o)	—	192	—	192
Total investments, excluding investments valued at NAV	<u>\$ 3,755</u>	<u>2,010</u>	<u>14</u>	<u>5,779</u>
Investments valued at NAV				5,293
Total pension plan assets				<u>\$ 11,072</u>

Fair Value of Post-Retirement Plan Assets at December 31, 2015				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 2	1	—	\$ 3
High yield bonds (b)	—	1	—	1
U.S. stocks (f)	16	—	—	16
Non-U.S. stocks (g)	12	—	—	12
Emerging market stocks (h)	4	—	—	4
Cash equivalents and short-term investments (o)	—	4	—	4
Total investments, excluding investments valued at NAV	<u>\$ 34</u>	<u>6</u>	<u>—</u>	<u>40</u>
Investments valued at NAV				153
Total post-retirement plan assets				<u>\$ 193</u>

In 2015, we adopted Accounting Standards Update 2015-07 (“ASU 2015-07”), which retrospectively changed the disclosure requirements for certain investments that are valued based upon net asset value (“NAV”) as a practical expedient. ASU 2015-07 was issued to eliminate diversity among entities on what level in the fair value hierarchy such investments were assigned. Under ASU 2015-07, investments valued using NAV as a practical expedient are no longer assigned to a level in the fair value hierarchy. The value associated with these investments is disclosed in the reconciliation of the total investments measured at fair value shown below.

The table below presents the fair value of plan assets valued at NAV by category for our pension and post-retirement plans at December 31, 2016 and 2015.

Fair Value of Plan Assets Valued at NAV				
	Pension Plans at December 31,		Post-Retirement Benefit Plans at December 31,	
	2016	2015	2016	2015
	(Dollars in millions)			
Investment grade bonds (a)	\$ 106	115	—	35
High yield bonds (b)	521	512	1	1
Emerging market bonds (c)	6	9	—	—
Diversified strategies (e)	522	516	1	54
U.S. stocks (f)	58	70	—	—
Non-U.S. stocks (g)	560	289	1	—
Emerging market stocks (h)	76	64	—	—
Private equity (i)	506	526	14	21
Private debt (j)	369	371	1	2
Market neutral hedge funds (k)	739	825	1	17
Directional hedge funds (k)	657	594	1	1
Real estate (l)	926	968	8	20
Multi-asset strategies (m)	412	386	—	—
Cash equivalents and short-term investments (o)	106	48	13	2
Total investments valued at NAV	<u>\$ 5,564</u>	<u>5,293</u>	<u>41</u>	<u>153</u>

The plans' assets are invested in various asset categories utilizing multiple strategies and investment managers. Interests in commingled funds are valued using the net asset value ("NAV") per unit of each fund. The NAV reported by the fund manager is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding. Commingled funds can be redeemed at NAV, generally within a year of the financial statement date. Investments in private funds, primarily limited partnerships, represent long-term commitments with a fixed maturity date and are also valued at NAV. Valuation inputs for these private fund interests are generally based on assumptions and other information not observable in the market. The assumptions and valuation methodologies of the pricing vendors, account managers, fund managers and partnerships are monitored and evaluated for reasonableness. Below is an overview of the asset categories, the underlying strategies and valuation inputs used to value the assets in the preceding tables:

(a) *Investment grade bonds* represent investments in fixed income securities as well as commingled bond funds comprised of U.S. Treasury securities, agencies, corporate bonds, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. Treasury securities are valued at the bid price reported in the active market in which the security is traded and are classified as Level 1. The valuation inputs of other investment grade bonds primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. The primary observable inputs include references to the new issue market for similar securities, the secondary trading markets and dealer quotes. Option adjusted spread models are utilized to evaluate securities such as asset backed securities that have early redemption features. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying fixed income securities using the same valuation inputs previously described.

(b) *High yield bonds* represent investments in below investment grade fixed income securities as well as commingled high yield bond funds. The valuation inputs for the securities primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. These securities are primarily classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying high yield instruments using the same valuation inputs previously described.

(c) *Emerging market bonds* represent investments in securities issued by governments and other entities located in developing countries as well as registered mutual funds and commingled emerging market bond funds. The valuation inputs for the securities utilize observable market information and are primarily based on dealer quotes or a spread relative to the local government bonds. The registered mutual fund is classified as Level 1 while individual securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying emerging market bonds using the same valuation inputs previously described.

(d) *Convertible bonds* primarily represent investments in corporate debt securities that have features that allow the debt to be converted into equity securities under certain circumstances. The valuation inputs for the individual convertible bonds primarily utilize observable market information including a spread to U.S. Treasuries and the value and volatility of the underlying equity security. Convertible bonds are classified as Level 1.

(e) *Diversified strategies* represent an investment in a commingled fund that primarily has exposures to global government, corporate and inflation linked bonds, global stocks and commodities. The commingled fund is valued at NAV based on the market value of the underlying investments. The valuation inputs utilize observable market information including published prices for exchange traded securities, bid prices for government bonds, and spreads and yields available for comparable fixed income securities with similar credit ratings.

(f) *U.S. stocks* represent investments in stocks of U.S. based companies as well as commingled U.S. stock funds. The valuation inputs for U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are primarily classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

(g) *Non-U.S. stocks* represent investments in stocks of companies based in developed countries outside the U.S. as well as commingled funds. The valuation inputs for non-U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are primarily classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

(h) *Emerging market stocks* represent investments in an exchange traded fund and commingled funds comprised of stocks of companies located in developing markets. Exchange traded funds are based on the last published price reported on the major stock market on which the securities are traded and are classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described previously for individual stocks.

(i) *Private equity* represents non-public investments in domestic and foreign buy out and venture capital funds. Private equity funds are primarily structured as limited partnerships and are valued according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The partnerships are valued at NAV using valuation methodologies that give consideration to a range of factors, including but not limited to the price at which investments were acquired, the nature of the investments, market conditions, trading values on comparable public securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investments. These valuation methodologies involve a significant degree of judgment.

(j) *Private debt* represents non-public investments in distressed or mezzanine debt funds. Mezzanine debt instruments are debt instruments that are subordinated to other debt issues and may include embedded equity instruments such as warrants. Private debt funds are primarily structured as limited partnerships and are valued at NAV according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The valuation of underlying fund investments are based on factors including the issuer's current and projected credit worthiness, the security's terms, reference to the securities of comparable companies, and other market factors. These valuation methodologies involve a significant degree of judgment.

(k) *Market neutral hedge funds* hold investments in a diversified mix of instruments that are intended in combination to exhibit low correlations to market fluctuations. These investments are typically combined with futures to achieve uncorrelated excess returns over various markets. *Directional hedge funds*—This asset category represents investments that may exhibit somewhat higher correlations to market fluctuations than the market neutral hedge funds. Investments in hedge funds include both direct investments and investments in diversified funds of funds. Hedge funds are valued at NAV based on the market value of the underlying investments which include publicly traded equity and fixed income securities and privately negotiated debt securities. The hedge funds are valued by third party administrators using the same valuation inputs previously described.

(l) *Real estate* represents investments in commingled funds and limited partnerships that invest in a diversified portfolio of real estate properties. These investments are valued at NAV according to the valuation policy of each fund or partnership, subject to prevailing accounting and other regulatory guidelines. The valuation inputs of the underlying properties are generally based on third-party appraisals that use comparable sales or a projection of future cash flows to determine fair value.

(m) *Multi-asset strategies* represent broadly diversified strategies that have the flexibility to tactically adjust exposures to different asset classes through time. This asset category includes investments in a registered mutual fund which is classified as Level 1 and a commingled fund which is valued at NAV based on the market value of the underlying investments.

(n) *Derivatives* include exchange traded futures contracts which are classified as Level 1, as well as privately negotiated over-the-counter swaps and options that are valued based on the change in interest rates or a specific market index and are classified as Level 2. The market values represent gains or losses that occur due to fluctuations in interest rates, foreign currency exchange rates, security prices, or other factors.

(o) *Cash equivalents and short-term investments* represent investments that are used in conjunction with derivatives positions or are used to provide liquidity for the payment of benefits or other purposes. The valuation inputs of securities are based on a spread to U.S. Treasury Bills, the Federal Funds Rate, or London Interbank Offered Rate and consider yields available on comparable securities of issuers with similar credit ratings and are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

Concentrations of Risk: Investments, in general, are exposed to various risks, such as significant world events, interest rate, credit, foreign currency and overall market volatility risk. These risks are managed by broadly diversifying assets across numerous asset classes and strategies with differing expected returns, volatilities and correlations. Risk is also broadly diversified across numerous market sectors and individual companies. Financial instruments that potentially subject the plans to concentrations of counterparty risk consist principally of investment contracts with high quality financial institutions. These investment contracts are typically collateralized obligations and/or are actively managed, limiting the amount of counterparty exposure to any one financial institution. Although the investments are well diversified, the value of plan assets could change materially depending upon the overall market volatility, which could affect the funded status of the plans.

The table below presents a rollforward of the pension plan assets valued using Level 3 inputs:

Pension Plan Assets Valued Using Level 3 Inputs			
	High Yield Bonds	Emerging Market Bonds	Total
	(Dollars in millions)		
Balance at December 31, 2014	\$ 7	—	7
Net transfers	4	1	5
Acquisitions	4	—	4
Dispositions	(2)	—	(2)
Balance at December 31, 2015	13	1	14
Net transfers	(2)	—	(2)
Acquisitions	1	—	1
Dispositions	(1)	(1)	(2)
Balance at December 31, 2016	\$ 11	—	11

Certain gains and losses are allocated between assets sold during the year and assets still held at year-end based on transactions and changes in valuations that occurred during the year. These allocations also impact our calculation of net acquisitions and dispositions.

For the year ended December 31, 2016, the investment program produced actual gains on qualified pension and post-retirement plan assets of \$759 million as compared to expected returns of \$739 million for a difference of \$20 million. For the year ended December 31, 2015, the investment program produced actual losses on pension and post-retirement plan assets of \$158 million as compared to the expected returns of \$919 million for a difference of \$1.077 billion. The short-term annual returns on plan assets will almost always be different from the expected long-term returns and the plans could experience net gains or losses, due primarily to the volatility occurring in the financial markets during any given year.

Unfunded Status

The following table presents the unfunded status of the pensions and post-retirement benefit plans:

	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2016	2015	2016	2015
	(Dollars in millions)			
Benefit obligation	\$ (13,301)	(13,349)	(3,413)	(3,567)
Fair value of plan assets	10,892	11,072	53	193
Unfunded status	(2,409)	(2,277)	(3,360)	(3,374)
Current portion of unfunded status	\$ (6)	(5)	(236)	(135)
Non-current portion of unfunded status	\$ (2,403)	(2,272)	(3,124)	(3,239)

The current portion of our post-retirement benefit obligations is recorded on our consolidated balance sheets in accrued expenses and other current liabilities-salaries and benefits.

Accumulated Other Comprehensive Loss-Recognition and Deferrals

The following table presents cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2015, items recognized as a component of net periodic benefits expense in 2016, additional items deferred during 2016 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2016. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

	As of and for the Years Ended December 31,			
	2015	Recognition of Net Periodic Benefits Expense	Deferrals	Net Change in AOCL
				2016
	(Dollars in millions)			
Accumulated other comprehensive loss:				
Pension plans:				
Net actuarial (loss) gain	\$ (2,857)	175	(466)	(291)
Prior service benefit (cost)	72	(8)	(2)	(10)
Deferred income tax benefit (expense) . .	1,070	(67)	188	121
Total pension plans	(1,715)	100	(280)	(180)
Post-retirement benefit plans:				
Net actuarial (loss) gain	(147)	—	10	10
Prior service (cost) benefit	(147)	20	—	20
Deferred income tax benefit (expense) . .	114	(8)	(4)	(12)
Total post-retirement benefit plans	(180)	12	6	18
Total accumulated other comprehensive loss	\$ (1,895)	112	(274)	(162)

The following table presents cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2014, items recognized as a component of net periodic benefits expense in 2015, additional items deferred during 2015 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2015. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

As of and for the Years Ended December 31,					
	2014	Recognition of Net Periodic Benefits Expense	Deferrals	Net Change in AOCL	2015
	(Dollars in millions)				
Accumulated other comprehensive loss:					
Pension plans:					
Net actuarial (loss) gain	\$ (2,760)	161	(258)	(97)	(2,857)
Prior service (cost) benefit	(32)	5	99	104	72
Deferred income tax benefit (expense)	1,072	(63)	61	(2)	1,070
Total pension plans	(1,720)	103	(98)	5	(1,715)
Post-retirement benefit plans:					
Net actuarial (loss) gain	(277)	—	130	130	(147)
Prior service (cost) benefit	(166)	19	—	19	(147)
Deferred income tax benefit (expense)	171	(7)	(50)	(57)	114
Total post-retirement benefit plans	(272)	12	80	92	(180)
Total accumulated other comprehensive loss	<u>\$ (1,992)</u>	<u>115</u>	<u>(18)</u>	<u>97</u>	<u>(1,895)</u>

The following table presents estimated items to be recognized in 2017 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	Pension Plans	Post- Retirement Plans
	(Dollars in millions)	
Estimated recognition of net periodic (cost) benefit income in 2017:		
Net actuarial loss	\$ (202)	—
Prior service income (cost)	8	(20)
Deferred income tax benefit	74	8
Estimated net periodic benefit expense to be recorded in 2017 as a component of other comprehensive (loss) income	<u>\$ (120)</u>	<u>(12)</u>

Medicare Prescription Drug, Improvement and Modernization Act of 2003

We sponsor post-retirement health care plans with several benefit options that provide prescription drug benefits that we deem actuarially equivalent to or exceeding Medicare Part D. We recognize the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of our 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 expense for current employees was \$399 million, \$381 million and \$381 million for the years ended December 31, 2016, 2015 and 2014, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$127 million, \$125 million and \$136 million for the years ended December 31, 2016, 2015 and 2014, respectively. Our group basic life insurance plans are fully insured and the premiums are paid by us.

401(k) Plans

We sponsor qualified defined contribution plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of employee contributions in cash. At December 31, 2016 and 2015, the assets of the plans included approximately 7 million shares and 8 million shares, respectively, of our common stock all of which were the result of the combination of previous employer match and participant directed contributions. We recognized expenses related to these plans of \$79 million, \$83 million and \$81 million and for the years ended December 31, 2016, 2015 and 2014, respectively.

Deferred Compensation Plans

We sponsored non-qualified deferred compensation plans for various groups that included certain of our current and former highly compensated employees. The value of liabilities related to these plans was not significant.

(10) Share-based Compensation

We maintain equity programs that allow our Board of Directors (through its Compensation Committee or our Chief Executive Officer as its delegate) to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units and market and performance shares. Stock options generally expire ten years from the date of grant. Until June 30, 2014, we offered an employee stock purchase plan, which allowed eligible employees to purchase our common stock at a 15% discount based on the lower of the beginning or ending stock price during recurring six month offering periods.

Stock Options

The following table summarizes activity involving stock option awards for the year ended December 31, 2016:

	Number of Options (in thousands)	Weighted- Average Exercise Price
Outstanding and Exercisable at December 31, 2015	3,525	\$ 39.67
Exercised	(31)	26.34
Forfeited/Expired	(486)	37.96
Outstanding and Exercisable at December 31, 2016	<u>3,008</u>	<u>40.08</u>

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2016 was approximately \$1 million. The weighted-average remaining contractual term for such options was 1.0 years.

During 2016, we received net cash proceeds of approximately \$1 million in connection with our option exercises. The tax benefit realized from these exercises was less than \$1 million. The total intrinsic value of options exercised for the years ended December 31, 2015 and 2014, was \$4 million and \$9 million, respectively. The total intrinsic value of options exercised for the year ended December 31, 2016 was less than \$1 million.

Restricted Stock Awards

For equity based awards that contain only service conditions for vesting, we calculate the award fair value based on the closing stock price on the accounting grant date. We also grant equity based restricted stock awards which contain market conditions or performance conditions, in addition to service conditions. For equity based restricted stock awards that contain market conditions, the award fair value is calculated through Monte-Carlo simulations. These awards, with service and market or performance conditions, represent the number of target shares for the award, as each recipient has the opportunity to ultimately receive a number of shares between 0% and 200% of the target restricted stock award. For the awards with market conditions, the percentage received depends on our total shareholder return versus that of selected peer companies during the three-year term of the award and for the awards with performance conditions, the percentage received depends upon the attainment of two financial performance targets during the three-year term of the award.

During the first quarter of 2016, we granted approximately 766 thousand shares of restricted stock to certain executive level employees as part of our long-term incentive program, of which approximately 306 thousand contained only service conditions and will vest on a straight-line basis on February 23, 2017, 2018 and 2019. The remaining awards contain service conditions and either market or performance conditions and are scheduled to vest on February 23, 2019.

During the first quarter of 2016, we also granted approximately 1.9 million shares to certain key employees as part of our annual equity compensation program, of which approximately 1.7 million contained only service conditions and will vest on a straight-line basis on February 25, 2017, 2018 and 2019. The remaining awards contain service conditions and either market or performance conditions and are scheduled to vest on February 25, 2019. During the first and third quarter of 2016, we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 113 thousand, 322 thousand and 209 thousand shares vesting on August 16, 2019, 2021 and 2023, respectively, and 22 thousand shares vesting on January 13, 2021 and 22 thousand shares vesting on January 13, 2023. The remaining awards granted throughout 2016 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

During the first quarter of 2015, we granted approximately 496 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 198 thousand contained only service conditions and will vest on a straight-line basis on February 23, 2016, 2017 and 2018. The remaining awards contain service conditions and market or performance conditions and are scheduled to vest on February 23, 2018.

At the end of the first quarter of 2015, we granted approximately 1.2 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 12, 2016, 2017 and 2018. During the third quarter of 2015 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 193 thousand, 423 thousand and 230 thousand shares vesting on August 14, 2018, 2020 and 2022, respectively, and 55 thousand shares vesting equally on August 14, 2017, 2019, and 2021. The remaining awards granted throughout 2015 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

During the first quarter of 2014, we granted approximately 440 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 250 thousand contained only service conditions and will vest on a straight-line basis on February 20, 2015, 2016 and 2017. The remaining awards contain service conditions and market or performance conditions and are scheduled to vest on February 20, 2017.

During the second quarter of 2014, we granted approximately 1.5 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 26, 2015, 2016 and 2017. During the third quarter of 2014 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with approximately 105 thousand, 325 thousand and 220 thousand vesting on August 4, 2017, 2019 and 2021, respectively. The remaining awards granted throughout 2014 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2016:

	Number of Shares	Weighted- Average Grant Date Fair Value
	(in thousands)	
Non-vested at December 31, 2015	4,902	33.86
Granted.	3,564	30.83
Vested.	(1,547)	34.82
Forfeited.	(971)	33.23
Non-vested at December 31, 2016	<u>5,948</u>	<u>31.89</u>

During 2015, we granted 2.9 million shares of restricted stock and restricted stock unit awards at a weighted-average price of \$31.83. The total fair value of restricted stock that vested during 2016, 2015 and 2014, was \$47 million, \$59 million and \$53 million, respectively.

Compensation Expense and Tax Benefit

We recognize compensation expense related to our market and performance share-based awards with graded vesting that only have a service condition on a straight-line basis over the requisite service period for the entire award. Total compensation expense for all share-based payment arrangements for the years ended December 31, 2016, 2015 and 2014, was \$80 million, \$73 million and \$75 million, respectively. Our tax benefit recognized in the consolidated statements of operations for our share-based payment arrangements for the years ended December 31, 2016, 2015 and 2014, was \$31 million, \$28 million and \$29 million, respectively. At December 31, 2016, there was \$137 million of total unrecognized compensation expense related to our share-based payment arrangements, which we expect to recognize over a weighted-average period of 2.6 years.

(11) Earnings Per Common Share

Basic and diluted earnings per common share for the years ended December 31, 2016, 2015 and 2014 were calculated as follows:

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions, except per share amounts, shares in thousands)		
Income (Numerator):			
Net income	\$ 626	878	772
Earnings applicable to non-vested restricted stock	—	—	—
Net income applicable to common stock for computing basic earnings per common share	626	878	772
Net income as adjusted for purposes of computing diluted earnings per common share	\$ 626	878	772
Shares (Denominator):			
Weighted average number of shares:			
Outstanding during period	545,946	559,260	572,748
Non-vested restricted stock	(6,397)	(4,982)	(4,313)
Weighted average shares outstanding for computing basic earnings per common share	539,549	554,278	568,435
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	10	10	10
Shares issuable under incentive compensation plans	1,120	805	1,294
Number of shares as adjusted for purposes of computing diluted earnings per common share	540,679	555,093	569,739
Basic earnings per common share	\$ 1.16	1.58	1.36
Diluted earnings per common share	\$ 1.16	1.58	1.36

Our calculation of diluted earnings per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are antidilutive as a result of unrecognized compensation cost. Such shares averaged 3.3 million, 3.1 million and 2.5 million for 2016, 2015 and 2014, respectively.

(12) Fair Value Disclosure

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

		As of December 31, 2016		As of December 31, 2015	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding capital lease and other obligations	2	\$ 19,553	19,639	19,800	19,473

(13) Income Taxes

Years Ended December 31,				
	2016	2015	2014	
(Dollars in millions)				
Income tax expense was as follows:				
Federal				
Current	\$ 335	28	18	
Deferred	5	329	305	
State				
Current	27	40	26	
Deferred	8	21	(14)	
Foreign				
Current	26	16	3	
Deferred	(7)	4	—	
Total income tax expense	\$ 394	438	338	

Years Ended December 31,				
	2016	2015	2014	
(Dollars in millions)				
Income tax expense was allocated as follows:				
Income tax expense in the consolidated statements of operations:				
Attributable to income	\$ 394	438	338	
Stockholders' equity:				
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(2)	(5)	(5)	
Tax effect of the change in accumulated other comprehensive loss.	(109)	59	(744)	

The following is a reconciliation from the statutory federal income tax rate to our effective income tax rate:

	Years Ended December 31,		
	2016	2015	2014
	(Percentage of pre-tax income)		
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	2.3 %	2.6 %	2.7 %
Change in liability for unrecognized tax position	0.2 %	0.4 %	0.4 %
Net foreign income taxes	0.1 %	0.7 %	0.4 %
Foreign dividend paid to a domestic parent company	1.8 %	— %	— %
Affiliate debt rationalization	— %	(2.6)%	— %
Research and development credits	(0.6)%	(2.1)%	— %
Loss on worthless investment in foreign subsidiary	— %	— %	(5.4)%
Other, net.	(0.2)%	(0.7)%	(2.6)%
Effective income tax rate	<u>38.6 %</u>	<u>33.3 %</u>	<u>30.5 %</u>

The 2016 effective tax rate is 38.6% compared to 33.3% for 2015. The effective tax rate for the year ended December 31, 2016 reflects a tax impact of \$18 million from an intercompany dividend payment from one of our foreign subsidiaries to its domestic parent company that was made as part of our corporate restructuring in preparation for the sale of our colocation business. The 2015 rate reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015 and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating loss carryforwards ("NOLs"). The 2014 rate reflects a \$60 million tax benefit associated with a deduction for tax basis for worthless stock in a wholly-owned foreign subsidiary as a result of developments in bankruptcy proceedings involving its sole asset and a \$13 million tax decrease due to changes in the state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of NOLs.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Deferred tax assets		
Post-retirement and pension benefit costs	\$ 2,175	2,154
Net operating loss carryforwards	473	487
Other employee benefits	125	182
Other	342	458
Gross deferred tax assets	<u>3,115</u>	<u>3,281</u>
Less valuation allowance	<u>(375)</u>	<u>(380)</u>
Net deferred tax assets	<u>2,740</u>	<u>2,901</u>
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(3,626)	(3,841)
Goodwill and other intangible assets	(2,577)	(2,588)
Other	—	(38)
Gross deferred tax liabilities	<u>(6,203)</u>	<u>(6,467)</u>
Net deferred tax liability	<u>\$ (3,463)</u>	<u>(3,566)</u>

Of the \$3.463 billion and \$3.566 billion net deferred tax liability at December 31, 2016 and 2015, respectively, \$3.471 billion and \$3.569 billion is reflected as a long-term liability and \$8 million and \$3 million is reflected as a net noncurrent deferred tax asset at December 31, 2016 and 2015, respectively.

At December 31, 2016, we had federal NOLs of \$61 million and state NOLs of \$11.9 billion. If unused, the NOLs will expire between 2017 and 2032; however, no significant amounts expire until 2021. At December 31, 2016, we had an immaterial amount of federal tax credits. Additionally, we had \$39 million (\$25 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2017 and 2026 if not utilized. In addition, at December 31, 2016, we have fully utilized all remaining federal alternative minimum tax, or AMT, credits. Our acquisitions of Qwest and SAVVIS, Inc. ("Savvis") caused "ownership changes" within the meaning of Section 382 of the Internal Revenue Code ("Section 382"). As a result, our ability to use these NOLs and AMT credits are subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these tax attributes to reduce our future federal tax liabilities, although the timing of that use will depend upon our future earnings and future tax circumstances.

We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2016, a valuation allowance of \$375 million was established as it is more likely than not that this amount of net operating loss and tax credit carryforwards will not be utilized prior to expiration. Our valuation allowance at December 31, 2016 and 2015 is primarily related to state NOL carryforwards. This valuation allowance decreased by \$5 million during 2016.

A reconciliation of the change in our gross unrecognized tax benefits (excluding both interest and any related federal benefit) from January 1 to December 31 for 2016 and 2015 is as follows:

	2016	2015
	(Dollars in millions)	
Unrecognized tax benefits at beginning of year	\$ 15	17
Increase in tax positions taken in the current year	1	1
Increase in tax positions taken in the prior year	—	7
Decrease due to the reversal of tax positions taken in a prior year	—	(9)
Decrease from the lapse of statute of limitations	—	(1)
Unrecognized tax benefits at end of year	<u>\$ 16</u>	<u>15</u>

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$34 million and \$32 million at December 31, 2016 and 2015, respectively.

Our policy is to reflect interest expense associated with unrecognized tax benefits in income tax expense. We had accrued interest (presented before related tax benefits) of approximately \$35 million and \$33 million at December 31, 2016 and 2015, respectively.

We file income tax returns, including returns for our subsidiaries, with federal, state and local jurisdictions. Our uncertain income tax positions are related to tax years that are currently under or remain subject to examination by the relevant taxing authorities.

Beginning with the 2013 tax year, our federal consolidated returns are subject to annual examination by the IRS.

Our open income tax years by major jurisdiction are as follows at December 31, 2016:

Jurisdiction	Open Tax Years
Federal	2013—current
State	
Arizona	2010—current
Other states	2012—current

Since the period for assessing additional liability typically begins upon the filing of a return, it is possible that certain jurisdictions could assess tax for years prior to the open tax years disclosed above. Additionally, it is possible that certain jurisdictions in which we do not believe we have an income tax filing responsibility, and accordingly did not file a return, may attempt to assess a liability, or that other jurisdictions to which we pay taxes may attempt to assert that we owe additional taxes.

Based on our current assessment of various factors, including (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, and (iv) the administrative practices of applicable taxing jurisdictions, it is reasonably possible that the related unrecognized tax benefits for uncertain tax positions previously taken may decrease by up to \$11 million within the next 12 months. The actual amount of such decrease, if any, will depend on several future developments and events, many of which are outside our control.

(14) Segment Information

We are organized into operating segments based on customer type, business and consumer. These operating segments are our two reportable segments in our consolidated financial statements:

- *Business Segment.* Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, Ethernet, colocation, hosting (including cloud hosting and managed hosting), broadband, VoIP, information technology ("IT") and other ancillary services. Our legacy services offered to these customers primarily include local and long-distance voice, including the sale of unbundled network elements ("UNEs"), private line (including special access), switched access and other ancillary services. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related products and professional services, all of which are described further below under the heading "Products and Services Categories"; and
- *Consumer Segment.* Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, video (including our Prism TV services) and other ancillary services. Our legacy services offered to these customers include local and long-distance voice and other ancillary services.

The following table summarizes our segment results for 2016, 2015 and 2014 based on the segment categorization we were operating under at December 31, 2016.

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Total segment revenues	\$ 16,255	16,668	17,028
Total segment expenses	8,492	8,461	8,502
Total segment income	<u>\$ 7,763</u>	<u>8,207</u>	<u>8,526</u>
Total margin percentage	48%	49%	50%
Business segment:			
Revenues	\$ 10,352	10,646	11,030
Expenses	5,930	5,967	6,019
Income	<u>\$ 4,422</u>	<u>4,679</u>	<u>5,011</u>
Margin percentage	43%	44%	45%
Consumer segment:			
Revenues	\$ 5,903	6,022	5,998
Expenses	2,562	2,494	2,483
Income	<u>\$ 3,341</u>	<u>3,528</u>	<u>3,515</u>
Margin percentage	57%	59%	59%

Changes in Segment Reporting

We continually review, evaluate and refine our expense allocations to better reflect how we view and manage our operations, and as a result, during the first half of 2016, we implemented several changes with respect to the assignment of certain expenses to our reportable segments. We have recast our previously-reported segment results for the years ended December 31, 2015 and 2014, to conform to the current presentation. The nature of the most significant changes to segment expenses are as follows:

- Certain marketing and advertising expenses were reassigned from the business segment to the consumer segment;
- Certain service delivery costs were reassigned from the consumer segment to the business segment;
- Centralized human resources training costs were reassigned from the business and consumer segments to corporate overhead; and

- Marketing direct mail costs and certain printing expenses were reassigned from corporate overhead to the business and consumer segments.

For the year ended December 31, 2015, the segment expense recast resulted in an increase in consumer expenses of \$69 million and a decrease in business expenses of \$67 million. For the year ended December 31, 2014, the segment expense recast resulted in an increase in consumer expenses of \$63 million and a decrease in business expenses of \$70 million.

Product and Service Categories

From time to time, we change the categorization of our products and services, and we may make similar changes in the future. During the second quarter of 2016, we determined that because of declines due to customer migration to other strategic products and services, certain of our business low-bandwidth data services, specifically our private line (including special access) services in our business segment, are more closely aligned with our legacy services than with our strategic services. As a result, we reflect these operating revenues as legacy services, and we have reclassified certain prior period amounts to conform to this change. The revision resulted in a reduction of revenue from strategic services and a corresponding increase in revenue from legacy services of \$1.586 billion and \$1.861 billion (net of \$9 million and \$33 million of deferred revenue included in other business legacy services) for the years ended December 31, 2015 and 2014, respectively. In addition, our business broadband services remain a strategic service and are now included in our other business strategic services.

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

- *Strategic services*, which include primarily broadband, MPLS, Ethernet, colocation, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we offer in 16 markets), VoIP, information technology and other ancillary services;
- *Legacy services*, which include primarily local and long-distance voice, including the sale of UNEs, private line (including special access), Integrated Services Digital Network ("ISDN") (which use regular telephone lines to support voice, video and data applications), switched access and other ancillary services;
- *Data integration*, which includes the sale of telecommunications equipment located on customers' premises and related products and professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our governmental and business customers; and
- *Other operating revenues*, which consist primarily of CAF support payments, USF support payments and USF surcharges. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We also generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

Our operating revenues for our products and services consisted of the following categories for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Strategic services			
Business high-bandwidth data services (1)	\$ 2,990	2,816	2,579
Business hosting services (2)	1,210	1,281	1,316
Other business strategic services (3)	703	624	558
Consumer broadband services (4)	2,689	2,611	2,469
Other consumer strategic services (5)	458	421	381
Total strategic services revenues	8,050	7,753	7,303
Legacy services			
Business voice services (6)	2,413	2,588	2,777
Business low-bandwidth data services (7)	1,382	1,594	1,893
Other business legacy services (8)	1,123	1,168	1,219
Consumer voice services (6)	2,442	2,676	2,865
Other consumer legacy services (9)	312	312	279
Total legacy services revenues	7,672	8,338	9,033
Data integration			
Business data integration	531	575	688
Consumer data integration	2	2	4
Total data integration revenues	533	577	692
Other revenues			
High-cost support revenue (10)	688	732	528
Other revenue (11)	527	500	475
Total other revenues	1,215	1,232	1,003
Total revenues	\$ 17,470	17,900	18,031

(1) Includes MPLS and Ethernet revenue

(2) Includes colocation, hosting (including cloud hosting and managed hosting) and hosting area network revenue

(3) Includes primarily broadband, VoIP, video and IT services revenue

(4) Includes broadband and related services revenue

(5) Includes video and other revenue

(6) Includes local and long-distance voice revenue

(7) Includes private line (including special access) revenue

(8) Includes UNEs, public access, switched access and other ancillary revenue

(9) Includes other ancillary revenue

(10) Includes CAF Phase 1, CAF Phase 2 and federal and state USF support revenue

(11) Includes USF surcharges

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated to \$572 million, \$544 million and \$526 million for the years ended December 31, 2016, 2015 and 2014, respectively. These USF surcharges, where we record revenue, are included in "other" operating revenues and transaction taxes are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our strategic, legacy and data integration operations as described in more detail above. Segment revenues are based upon each customer's classification as either business or consumer. We report our segment revenues based upon all services provided to that segment's customers. Our segment expenses for our two segments include specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are (i) directly associated with specific segment customers or activities, and (ii) allocated expenses which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses. We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Generally speaking, severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a consolidated basis and have not allocated assets or debt to specific segments. Other income and expense items are not monitored as a part of our segment operations and are therefore excluded from our segment results.

The following table reconciles segment income to net income for the years ended December 31, 2016, 2015 and 2014:

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Total segment income	\$ 7,763	8,207	8,526
Other operating revenues	1,215	1,232	1,003
Depreciation and amortization	(3,916)	(4,189)	(4,428)
Other unassigned operating expenses	(2,731)	(2,645)	(2,691)
Other expenses, net	(1,311)	(1,289)	(1,300)
Income before income tax expense	1,020	1,316	1,110
Income tax expense	(394)	(438)	(338)
Net income	<u>\$ 626</u>	<u>878</u>	<u>772</u>

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

(15) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2016					
Operating revenues	\$ 4,401	4,398	4,382	4,289	17,470
Operating income	694	650	595	392	2,331
Net income	236	196	152	42	626
Basic earnings per common share	0.44	0.36	0.28	0.08	1.16
Diluted earnings per common share	0.44	0.36	0.28	0.08	1.16
2015					
Operating revenues	\$ 4,451	4,419	4,554	4,476	17,900
Operating income	649	549	656	751	2,605
Net income	192	143	205	338	878
Basic earnings per common share	0.34	0.26	0.37	0.62	1.58
Diluted earnings per common share	0.34	0.26	0.37	0.62	1.58

During the fourth quarter of 2016, we recognized \$164 million of severance expenses and other one-time termination benefits associated with our workforce reductions and \$52 million of expenses related to our pending acquisition of Level 3.

During the third quarter of 2015, we recognized an incremental \$158 million of revenue associated with the FCC's CAF Phase 2 high-cost support program (primarily impacted by the one-time transitional payment), and an additional incremental \$57 million in the fourth quarter of 2015. During the fourth quarter of 2015, we also recognized a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015, and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating loss carryforwards ("NOLs").

(16) Commitments and Contingencies

We are vigorously defending against all of the matters described below under the headings "Pending Matters" and "Other Proceedings and Disputes." As a matter of course, we are prepared both to litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have established accrued liabilities for these matters described below where losses are deemed probable and reasonably estimable.

Pending Matters

CenturyLink and the members of the CenturyLink Board have been named as defendants in a putative shareholder class action lawsuit filed on January 11, 2017 in the 4th Judicial District Court of the State of Louisiana, Ouachita Parish, captioned Jeffery Tomasulo v. CenturyLink, Inc., et al., Docket No. C-20170110. The complaint asserts, among other things, that the members of CenturyLink's Board allegedly breached their fiduciary duties to the CenturyLink shareholders in approving the Level 3 merger agreement and, more particularly, that: the consideration that CenturyLink agreed to pay to Level 3 stockholders in the transaction is allegedly unfairly high; the CenturyLink directors allegedly had conflicts of interest in negotiating and approving the transaction; and the disclosures set forth in our preliminary joint proxy statement/prospectus filed in December 2016 are insufficient in that they allegedly fail to contain material information concerning the transaction. The complaint seeks, among other things, a declaration that the members of the CenturyLink Board have breached their fiduciary duties, corrective disclosure, rescissory or other damages and equitable relief, including rescission of the transaction. On February 13, 2017, the parties entered into a memorandum of understanding providing for the settlement of the lawsuit. The proposed settlement is subject to court approval, among other conditions.

In William Douglas Fulghum, et al. v. Embarq Corporation, et al., filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, was expected to reduce estimated future expenses for the subject benefits by more than \$300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefit plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The court certified classes on the claims for vested benefits and age discrimination, but rejected class certification on the claims for breach of fiduciary duty. On October 14, 2011, the Fulghum lawyers filed a new, related lawsuit, Abbott et al. v. Sprint Nextel et al. In Abbott, approximately 1,500 plaintiffs alleged breach of fiduciary duty in connection with the changes in retiree benefits that were at issue in Fulghum. After extensive district court proceedings in Fulghum, and an interlocutory appeal to the United States Court of Appeals for the Tenth Circuit, defendants prevailed in 2015 on all age discrimination claims and on the majority of claims for vested benefits. The district court in Fulghum subsequently granted judgment in favor of defendants on all remaining vested benefits claims, and in July 2016 ordered that any affected class members could appeal this ruling. No appeal was taken, and all claims for vested benefits thus have lapsed. On August 31, 2016, the parties reached a settlement in principle on all remaining claims in Fulghum and Abbott. Assuming its terms are successfully implemented, we believe the settlement is likely to be final in mid 2017. We have accrued a liability that we believe is probable for these matters; the amount is not material to our consolidated financial statements.

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

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges, and also allowed the IXCs to refile state-law claims. Since then, many of the LECs and IXCs have filed revised pleadings and additional motions, which remain pending. Separately, some of the defendants, including CenturyLink, Inc.'s LECs, have petitioned the FCC to address these issues on an industry-wide basis.

As both an IXC and a LEC, we both pay and assess significant amounts of the charges in question. The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, 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, Inc. and several of its subsidiaries are defendants in lawsuits filed over the past few years in the Circuit Court of St. Louis County, Missouri by numerous Missouri municipalities alleging underpayment of taxes. These municipalities are seeking, among other things, (i) a declaratory judgment regarding the extent of our obligations to pay certain business license and gross receipts taxes and (ii) a monetary award of back taxes covering 2007 to the present, plus penalties and interest. In an April 2016 ruling in connection with one of these pending cases, the court made findings which, if not overturned, will result in a tax liability to us well in excess of the contingent liability we have established. Following further proceedings at the district court, we plan to file an appeal and continue to vigorously defend against these claims. For a variety of reasons, we expect the outcome of our appeal to significantly reduce our ultimate exposure, although we can provide no assurances to this effect.

Other Proceedings and Disputes

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.

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

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

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

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:

	Years Ended December 31,		
	2016	2015	2014
	(Dollars in millions)		
Assets acquired through capital leases	45	17	37
Depreciation expense	70	96	126
Cash payments towards capital leases	58	89	118

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Assets included in property, plant and equipment	705	722
Accumulated depreciation	351	352

The future annual minimum payments under capital lease arrangements as of December 31, 2016 were as follows:

	Future Minimum Payments
	(Dollars in millions)
Capital lease obligations:	
2017	\$ 94
2018	91
2019	70
2020	46
2021	43
2022 and thereafter	170
Total minimum payments	514
Less: amount representing interest and executory costs	(123)
Present value of minimum payments	391
Less: current portion	(69)
Long-term portion	\$ 322

If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3—Pending Sale of Colocation Business and Data Centers, \$305 million of the capital lease obligations as of December 31, 2016 will be assumed by the Purchaser. The future annual minimum payments under capital lease arrangements for the colocation operations as of December 31, 2016 were as follows:

	Future Minimum Payments
	(Dollars in millions)
Capital lease obligations:	
2017	\$ 60
2018	62
2019	52
2020	39
2021	40
2022 and thereafter	145
Total minimum payments	398
Less: amount representing interest and executory costs	(93)
Present value of minimum payments	\$ 305

The present value of the minimum payments under capital lease arrangements for the colocation operations is included in "Current liabilities associated with assets held for sale" on our consolidated balance sheets. See Note 3—Pending Sale of Colocation Business and Data Centers for additional information.

Operating Leases

CenturyLink leases 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, 2016, 2015 and 2014, our gross rental expense was \$482 million, \$467 million and \$446 million, respectively. We also received sublease rental income for the years ended December 31, 2016, 2015 and 2014 of \$12 million, \$12 million and \$14 million, respectively.

At December 31, 2016, our future rental commitments for operating leases were as follows:

	Future Minimum Payments
	(Dollars in millions)
2017	\$ 295
2018	276
2019	249
2020	226
2021	162
2022 and thereafter	1,049
Total future minimum payments ⁽¹⁾	<u>\$ 2,257</u>

(1) Minimum payments have not been reduced by minimum sublease rentals of \$77 million due in the future under non-cancelable subleases.

If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3—Pending Sale of Colocation Business and Data Centers, \$750 million of the operating leases future rental commitments as of December 31, 2016 will be assumed by the Purchaser. The future rental commitments under operating leases for the colocation operations as of December 31, 2016 were as follows:

	Future Minimum Payments
	(Dollars in millions)
2017	\$ 89
2018	84
2019	71
2020	68
2021	68
2022 and thereafter	370
Total future minimum payments	<u>\$ 750</u>

Purchase Commitments

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 \$427 million at December 31, 2016. Of this amount, we expect to purchase \$166 million in 2017, \$153 million in 2018 through 2019, \$41 million in 2020 through 2021 and \$67 million in 2022 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, 2016.

If, as anticipated, we sell our colocation business and data centers in the manner discussed in Note 3—Pending Sale of Colocation Business and Data Centers, \$80 million of the purchase commitments as of December 31, 2016 will be assumed by the Purchaser.

(17) Other Financial Information

Other Current Assets

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

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Prepaid expenses	\$ 206	238
Materials, supplies and inventory	134	144
Deferred activation and installation charges	101	105
Other	106	86
Total other current assets	<u>\$ 547</u>	<u>573</u>

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable and other current liabilities as follows:

	As of December 31,	
	2016	2015
	(Dollars in millions)	
Accounts payable	\$ 1,179	968
Other current liabilities:		
Accrued rent	\$ 31	32
Legal reserves	30	20
Other	152	168
Total other current liabilities	<u>\$ 213</u>	<u>220</u>

Included in accounts payable at December 31, 2016 and 2015, were (i) \$56 million and \$68 million, respectively, representing book overdrafts and (ii) \$196 million and \$94 million, respectively, associated with capital expenditures.

(18) Labor Union Contracts

Approximately 38% of our employees are members of various bargaining units represented by the Communication Workers of America and the International Brotherhood of Electrical Workers. We believe that relations with our employees continue to be generally good. Approximately 12,000, or 30%, of our employees are subject to collective bargaining agreements that are scheduled to expire in 2017, including approximately 11,000, or 28%, of our employees that are subject to collective bargaining agreements that are scheduled to expire October 7, 2017.

(19) Accumulated Other Comprehensive Loss

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2016:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2015	\$ (1,715)	(180)	(39)	(1,934)
Other comprehensive income (loss) before reclassifications	(280)	6	(22)	(296)
Amounts reclassified from accumulated other comprehensive income	100	12	1	113
Net current-period other comprehensive income (loss) . . .	(180)	18	(21)	(183)
Balance at December 31, 2016	<u>\$ (1,895)</u>	<u>(162)</u>	<u>(60)</u>	<u>(2,117)</u>

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2016:

Year Ended December 31, 2016	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ 175	See Note 9—Employee Benefits
Prior service cost	12	See Note 9—Employee Benefits
Total before tax	187	
Income tax expense (benefit)	(75)	Income tax expense
Insignificant items	1	
Net of tax	<u>\$ 113</u>	

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2015:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2014	\$ (1,720)	(272)	(25)	(2,017)
Other comprehensive income (loss) before reclassifications	(98)	80	(14)	(32)
Amounts reclassified from accumulated other comprehensive income	103	12	—	115
Net current-period other comprehensive income (loss) . . .	5	92	(14)	83
Balance at December 31, 2015	<u>\$ (1,715)</u>	<u>(180)</u>	<u>(39)</u>	<u>(1,934)</u>

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2015:

Year Ended December 31, 2015	Decrease (Increase) in Net Loss	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$ 161	See Note 9—Employee Benefits
Prior service cost	24	See Note 9—Employee Benefits
Total before tax	185	
Income tax expense (benefit)	(70)	Income tax expense
Net of tax	<u>\$ 115</u>	

(20) Dividends

Our Board of Directors declared the following dividends payable in 2016 and 2015:

Date Declared	Record Date	Dividend Per Share	Total Amount (in millions)	Payment Date
November 15, 2016	11/28/2016	\$ 0.540	\$ 294	12/12/2016
August 23, 2016	9/2/2016	0.540	295	9/16/2016
May 18, 2016	5/31/2016	0.540	294	6/14/2016
February 23, 2016	3/4/2016	0.540	295	3/18/2016
November 10, 2015	11/24/2015	0.540	293	12/8/2015
August 25, 2015	9/8/2015	0.540	300	9/22/2015
May 20, 2015	6/2/2015	0.540	303	6/16/2015
February 23, 2015	3/6/2015	0.540	303	3/20/2015

The declaration of dividends is solely at the discretion of our Board of Directors, which may change or terminate our dividend practice at any time for any reason without prior notice.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2016. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2016, at the reasonable assurance level.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), a process designed 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 in the United States. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the COSO. Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective at December 31, 2016. The effectiveness of our internal control over financial reporting at December 31, 2016 has been audited by KPMG LLP, as stated in their report. See the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which is incorporated herein by reference.

Management's Report on the Consolidated Financial Statements

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements for the year ended December 31, 2016. The consolidated financial statements included in this annual report have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

/s/ Glen F. Post, III

Glen F. Post, III

Chief Executive Officer, President and Director

/s/ R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.

Executive Vice President, Chief Financial Officer and
Assistant Secretary

February 22, 2017

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Proxy Statement.

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2016 about our equity compensation plans under which Common Shares are authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	2,000,623 ⁽¹⁾	\$ 45.75 ⁽²⁾	17,904,466
Equity compensation plans not approved by shareholders ⁽³⁾	2,282,277	38.28	—
Totals	<u>4,282,900</u> ⁽¹⁾	<u>\$ 40.08</u> ⁽²⁾	<u>17,904,466</u>

(1) These amounts include restricted stock units, which represent the difference between the number of shares of restricted stock subject to market conditions granted at target and the maximum possible payout for these awards. Depending on performance, the actual share payout of these awards may range between 0-200% of target.

(2) The amounts in column (a) include restricted stock units, which do not have an exercise price. Consequently, those awards were excluded from the calculation of this exercise price.

(3) These amounts represent common shares to be issued upon exercise of options that were assumed in connection with certain acquisitions.

The balance of the information required by Item 12 is incorporated by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the Proxy Statement.

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.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of October 31, 2016, by and among CenturyLink, Inc., Level 3 Communications, Inc., Wildcat Merger Sub 1 LLC and WWG Merger Sub LLC (incorporated by reference to Exhibit 2.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 3, 2016).
3.1	Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 30, 2012).
3.2	Bylaws of CenturyLink, Inc., as amended and restated through February 4, 2016 (incorporated by reference to Exhibit 3.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.10 of CenturyLink, Inc.'s Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 2, 2012 (Registration No. 333-179888)).
4.2	Instruments relating to CenturyLink, Inc.'s Revolving Credit Facility. <ul style="list-style-type: none">a. Amended and Restated Credit Agreement, dated as of April 6, 2012, by and among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012, as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.3 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).b. Guarantee Agreement, dated as of April 6, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the Amendment to Guarantee Agreement and Reaffirmation Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the affiliated guarantors named therein (incorporated by reference to Exhibit 4.4 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).
4.3	Instruments relating to CenturyLink, Inc.'s Term Loan. <ul style="list-style-type: none">a. Credit Agreement, dated as of April 18, 2012, by and among CenturyLink, Inc., the several banks and other financial institutions or entities from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as amended by the amendment dated as of March 13, 2015.b. Guarantee Agreement, dated as of April 18, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.3(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the amendment dated as of March 13, 2015 (incorporated by reference to Exhibit 4.3(b) of CenturyLink's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (File No. 001-07784) filed with the Securities and Exchange Commission on May 6, 2015).

Exhibit Number	Description
4.4	Instruments relating to CenturyLink, Inc.'s public senior debt. ⁽¹⁾
a.	Indenture, dated as of March 31, 1994, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana), as Trustee.
(i).	Form of 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996).
(ii).	Form of 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 1998).
b.	Fourth Supplemental Indenture, dated as of March 26, 2007, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007).
(i).	Form of 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 29, 2007).
c.	Fifth Supplemental Indenture, dated as of September 21, 2009, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
(i).	Form of 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
d.	Sixth Supplemental Indenture, dated as of June 16, 2011, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
(i).	Form of 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
e.	Seventh Supplemental Indenture, dated as of March 12, 2012, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).
(i).	Form of 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).
f.	Eighth Supplemental Indenture, dated as of March 21, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).
(i).	Form of 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).

Exhibit Number	Description
	<p>g. Ninth Supplemental Indenture, dated as of November 27, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).</p> <p>(i). Form of 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).</p> <p>h. Tenth Supplemental Indenture, dated as of March 19, 2015, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).</p> <p>(i). Form of 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).</p> <p>i. Eleventh Supplemental Indenture, dated as of April 6, 2016, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).</p> <p>(i). Form of 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).</p>
4.5	<p>Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries.⁽¹⁾</p> <p>a. 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).</p> <p>(i). 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).</p> <p>b. 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).</p> <p>(i). 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).</p> <p>c. Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and The First National Bank of Chicago, as trustee (incorporated by reference to Exhibit 4(a) of U S WEST, Inc.'s Current Report on Form 8-K (File No. 001-14087) filed with the Securities and Exchange Commission on November 18, 1998).</p> <p>(i). First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.10 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-15577) filed with the Securities and Exchange Commission on August 11, 2000).</p> <p>d. Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).</p>

Exhibit Number	Description
	<ul style="list-style-type: none"> (i). 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 Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on May 18, 2007). (ii). 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). (iii). 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). (iv). Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012). (v). Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012). (vi). 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). (vii). 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). (viii). Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015). (ix). Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016). (x). Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with Securities and Exchange Commission on August 22, 2016).
	e. 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.
4.6	Instruments relating to indebtedness of Embarq Corporation. ⁽¹⁾ <ul style="list-style-type: none"> a. Indenture, dated as of May 17, 2006, by and between Embarq Corporation and J.P. Morgan Trust Company, National Association, a national banking association, as trustee (incorporated by reference to Exhibit 4.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on May 18, 2006). b. 7.995% Global Note due 2036 of Embarq Corporation (incorporated by reference to Exhibit 4.4 to Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).
4.7	Intercompany debt instruments. <ul style="list-style-type: none"> a. Revolving Promissory Note, dated as of April 2, 2012 pursuant to which Embarq Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$2.5 billion on a revolving basis (incorporated by reference to Exhibit 4.7(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).

Exhibit Number	Description
	<p>b. 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 September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).</p> <p>c. Revolving Promissory Note, dated as of September 27, 2012, pursuant to which Qwest Communications International, Inc. may borrow from an affiliate of CenturyLink, Inc. up to \$3.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(c) of CenturyLink Inc.'s annual report on Form 10-K for the year ended December 31, 2012 (File No. 001-07844) filed with the Securities and Exchange Commission on March 1, 2013).</p>
10.2	<p>Stock-based Incentive Plans and Agreements of CenturyLink</p> <p>a. Amended and Restated 2005 Directors Stock Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).</p> <p>(i). Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 12, 2006 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2006 (File No. 001-07784) filed with the Securities and Exchange Commission on August 3, 2006).</p> <p>(ii). Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 11, 2007 (incorporated by reference to Exhibit 10.2(f) (iii) of CenturyLink, Inc.'s annual report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).</p> <p>(iii). Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyLink, Inc. and each of its outside directors as of May 9, 2008 (incorporated by reference to Exhibit 10.2 (f) (iv) of CenturyLink, Inc.'s annual report on Form 10-K for the period ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009).</p> <p>(iv). Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors on such date who remained on the Board following July 1, 2009 (incorporated by reference to Exhibit 10.2 (b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).</p> <p>(v). Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 8, 2009, entered into between CenturyLink, Inc. and each of its outside directors who retired on July 1, 2009 (incorporated by reference to Exhibit 10.2(c) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).</p> <p>(vi). Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and each of its outside directors named to the Board on July 1, 2009 (incorporated by reference to Exhibit 10.1(d) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).</p> <p>(vii). Restricted Stock Agreement, pursuant to the foregoing plan and dated as of July 2, 2009, entered into between CenturyLink, Inc. and William A. Owens in payment of Mr. Owens' 2009 supplemental chairman's fees (incorporated by reference to Exhibit 10.2(e) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on August 7, 2009).</p> <p>(viii). Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of May 21, 2010, entered into between CenturyLink, Inc. and seven of its outside directors on such date (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on August 6, 2010).</p> <p>b. Amended and Restated 2005 Management Incentive Compensation Plan, as amended and restated through February 23, 2010 (incorporated by reference to Exhibit 10.2(g) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2009 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2010).</p>

Exhibit Number	Description
	<ul style="list-style-type: none"> (i). Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.2(g) (iii) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2005 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 2006). (ii). Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyLink, Inc. and its executive officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on May 9, 2007).
c.	CenturyLink 2011 Equity Incentive Plan, as amended through May 18, 2016 (incorporated by reference to Appendix A of CenturyLink, Inc.'s Proxy Statement for its 2016 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 5, 2016).
	<ul style="list-style-type: none"> (i). Form of Restricted Stock Agreement for non-management directors used since 2011 (incorporated by reference to Exhibit 10.2(a) (ii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011). (ii). Form of Restricted Stock Agreement for executive officers used since May 2013 (incorporated by reference to Exhibit 10.2(i) (iii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013).
10.3	Key Employee Incentive Compensation Plan, dated as of January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996) and amendment thereto dated as of November 21, 1996 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1996 (File No. 001-07784) filed with the Securities and Exchange Commission on March 17, 1997), amendment thereto dated as of February 25, 1997 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on May 8, 1997), amendment thereto dated as of April 25, 2001 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on May 15, 2001), amendment thereto dated as of April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002) and amendment thereto dated as of February 27, 2007 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2007).
10.4	Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2009) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on March 27, 2009) and amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.5	Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.6	Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1991).
10.7	2015 Executive Officer Short-Term Incentive Program (incorporated by reference to Exhibit A of CenturyLink's 2015 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 8, 2015).
10.8	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of February 24, 2016 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).

Exhibit Number	Description
10.9	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of February 24, 2016 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).
10.10	Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated by reference to Exhibit 10.11 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.11	Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive officers (incorporated by reference to Exhibit 10.12 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.12	CenturyLink Executive Severance Plan (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2014 (File No. 001-07784) filed with the Securities and Exchange Commission on February 24, 2015.)
10.13	Amended and Restated CenturyLink, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008) and First Amendment thereto (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).
10.14	Certain Material Agreements and Plans of Embarq Corporation. <ul style="list-style-type: none"> a. Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) filed with the Securities and Exchange Commission on July 1, 2009). b. Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on February 27, 2007). c. Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008). d. Embarq Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.27 of Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009), amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.14(o) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011) and second amendment thereto as of dated as of November 15, 2011 (incorporated by reference to Exhibit 10.14(k) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.15	Certain Material Agreements and Plans of Qwest Communications International Inc. or Savvis, Inc. <ul style="list-style-type: none"> a. Equity Incentive Plan, as amended and restated (incorporated by reference to Annex A of Qwest Communications International Inc.'s Proxy Statement for the 2007 Annual Meeting of Stockholders (File No. 001-15577) filed with the Securities and Exchange Commission on March 29, 2007). b. Forms of restricted stock, performance share and option agreements used under Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on October 24, 2005; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2005 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on May 3, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on February 8, 2007; Exhibit 10.3 of Qwest Communication International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on September 15, 2008; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on April 30, 2009; and Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-15577) filed with the Securities and Exchange Commission on February 15, 2011).

Exhibit Number	Description
c.	Deferred Compensation Plan for Nonemployee Directors, as amended and restated, Amendment to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on December 16, 2005 and Exhibit 10.8 to Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-15577) filed with the Securities and Exchange Commission on October 29, 2008) and Amendment No. 2011-1 to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.15(c) of CenturyLink, Inc.'s annual report for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
d.	Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s annual report on Form 10-K for the year ended December 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2010).
e.	SAVVIS, Inc. Amended and Restated 2003 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on May 5, 2006), as amended by Amendment No. 1 (incorporated by reference to Exhibit 10.6 of SAVVIS, Inc.'s annual report on Form 10-K for the year ended December 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on February 26, 2007); Amendment No. 2 (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 15, 2007); Amendment No. 3 (incorporated by reference to Exhibit 10.3 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-29375) filed with the Securities and Exchange Commission on July 31, 2007; Amendment No. 4 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (file No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009); and Amendment No. 5 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009).
12*	Ratio of Earnings to Fixed Charges
21*	Subsidiaries of CenturyLink, Inc.
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 CenturyLink, Inc. for the period ended December 31, 2016, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.

* Exhibit filed herewith.

(1) Certain of the items in Sections 4.4, 4.5 and 4.6 (i) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

ITEM 16. SUMMARY OF BUSINESS AND FINANCIAL INFORMATION

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

CenturyLink, Inc.

Date: February 22, 2017

By:

/s/ David D. Cole

David D. Cole

Executive Vice President, Controller and
Operations Support
(Chief Accounting Officer)

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

<u>/s/ Glen F. Post, III</u> Glen F. Post, III	Chief Executive Officer, President and Director	February 22, 2017
<u>/s/ William A. Owens</u> William A. Owens	Chairman of the Board	February 22, 2017
<u>/s/ Harvey P. Perry</u> Harvey P. Perry	Vice Chairman of the Board	February 22, 2017
<u>/s/ R. Stewart Ewing, Jr.</u> R. Stewart Ewing, Jr.	Executive Vice President, Chief Financial Officer and Assistant Secretary.	February 22, 2017
<u>/s/ David D. Cole</u> David D. Cole	Executive Vice President, Controller and Operations Support	February 22, 2017
<u>/s/ Martha H. Bejar</u> Martha H. Bejar	Director	February 22, 2017
<u>/s/ Virginia Boulet</u> Virginia Boulet	Director	February 22, 2017
<u>/s/ Peter C. Brown</u> Peter C. Brown	Director	February 22, 2017
<u>/s/ W. Bruce Hanks</u> W. Bruce Hanks	Director	February 22, 2017
<u>/s/ Mary L. Landrieu</u> Mary L. Landrieu	Director	February 22, 2017

<div> /s/ Gregory J. McCray </div> <div> Gregory J. McCray </div>	Director	February 22, 2017
<div> /s/ Michael J. Roberts </div> <div> Michael J. Roberts </div>	Director	February 22, 2017
<div> /s/ Laurie A. Siegel </div> <div> Laurie A. Siegel </div>	Director	February 22, 2017

CENTURYLINK, INC.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(Dollars in millions)				
Income before income taxes and cumulative effect of change in accounting principle	\$ 1,020	1,316	1,110	224	1,250
Less: income from equity investee	(27)	(25)	(22)	(24)	(15)
Add: estimated fixed charges	1,529	1,516	1,502	1,486	1,504
Add: estimated amortization of capitalized interest	21	19	17	16	15
Add: distributed income of equity investee	26	19	22	14	12
Less: interest capitalized	(54)	(52)	(47)	(41)	(43)
Total earnings available for fixed charges	<u>\$ 2,515</u>	<u>2,793</u>	<u>2,582</u>	<u>1,675</u>	<u>2,723</u>
Estimate of interest factor on rentals	<u>\$ 157</u>	<u>152</u>	<u>144</u>	<u>147</u>	<u>142</u>
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,318	1,312	1,311	1,298	1,319
Interest capitalized	54	52	47	41	43
Total fixed charges	<u>\$ 1,529</u>	<u>1,516</u>	<u>1,502</u>	<u>1,486</u>	<u>1,504</u>
Ratio of earnings to fixed charges	1.64	1.84	1.72	1.13	1.81

CENTURYLINK, INC.
SUBSIDIARIES OF THE REGISTRANT
AS OF DECEMBER 31, 2016

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
Actel, LLC	Delaware
Bloomington Telephone Company, Inc. (20%)	Michigan
Century Cellunet International, Inc.	Louisiana
Cellunet of India Limited	Mauritius
Century Telephone of West Virginia, Inc.	West Virginia
CenturyLink – Clarke M. Williams Foundation	Colorado
CenturyLink Communications, LLC	Delaware
Cognilytics, Inc.	California
Cognilytics Software and Consulting Private Limited	India
ElasticBox, Inc.	Delaware
netAura, LLC	Delaware
Qwest International Services Corporation	Delaware
Qwest N Limited Partnership (98.5%)	Delaware
Qwest Transoceanic, Inc.	Delaware
Qwest Communications International Ltd.	United Kingdom
CenturyLink Limited	United Kingdom
CenturyLink Austria GmbH	Austria
Qwest Holdings, BV	Netherlands
CenturyLink Belgium Sprl	Belgium
Qwest France SAS	France
Qwest Germany GmbH	Germany
Qwest Netherlands BV	Netherlands
Qwest Peru S.R.L.	Peru
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Australia Pty Limited	Australia
Qwest Communications Japan Corporation	Japan
Qwest Communications Korea, Limited	Korea
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Singapore Pte Ltd.	Singapore
Qwest Taiwan Telecommunications, Limited	Taiwan
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel Broadband Services, LLC	Louisiana
CenturyTel TeleVideo, Inc.	Wisconsin
CenturyTel/Televue of Wisconsin, Inc.	Wisconsin
Qwest Broadband Services, Inc.	Delaware
CenturyTel Broadband Wireless, LLC	Louisiana
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Central Louisiana, LLC	Louisiana
CenturyTel of Chatham, LLC	Louisiana

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
CenturyTel of Chester, Inc.	Iowa
CenturyTel of Claiborne, Inc.	Tennessee
CenturyTel of East Louisiana, LLC.	Louisiana
CenturyTel of Evangeline, LLC	Louisiana
CenturyTel Holdings, Inc.	Louisiana
Century Marketing Solutions, LLC.	Louisiana
CenturyTel Arkansas Holdings, Inc.	Arkansas
CenturyTel of Central Arkansas, LLC.	Louisiana
CenturyTel of Northwest Arkansas, LLC	Louisiana
CenturyTel Holdings Alabama, Inc.	Alabama
CenturyTel of Alabama, LLC	Louisiana
CenturyTel Holdings Missouri, Inc.	Missouri
CenturyTel of Missouri, LLC	Louisiana
CenturyTel Investments of Texas, Inc.	Delaware
CenturyTel of the Northwest, Inc.	Washington
Brown Equipment Corp.	Nevada
Carter Company, Inc.	Hawaii
Honomach PR, Inc.	Puerto Rico
Cascade Autovon Company	Washington
CenturyTel/Cable Layers, Inc.	Wisconsin
CenturyTel of Central Wisconsin, LLC.	Delaware
CenturyTel of Colorado, Inc.	Colorado
CenturyTel of Eagle, Inc.	Colorado
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel Entertainment, Inc.	Washington
CenturyTel of Fairwater-Brandon-Alto, LLC	Delaware
CenturyTel of Forestville, LLC.	Delaware
CenturyTel of the Gem State, Inc. (97%)	Idaho
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Larsen-Readfield, LLC.	Delaware
CenturyTel of the Midwest-Kendall, LLC	Delaware
CenturyTel of the Midwest-Wisconsin, LLC	Delaware
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Monroe County, LLC.	Delaware
CenturyTel of Montana, Inc. (99%).	Oregon
CenturyTel of Northern Wisconsin, LLC	Delaware
CenturyTel of Northwest Wisconsin, LLC	Delaware
CenturyTel of Oregon, Inc.	Oregon
CenturyTel of Paradise, Inc.	Washington
CenturyTel of Cowiche, Inc.	Washington
CenturyTel of Postville, Inc.	Iowa
CenturyTel of Southern Wisconsin, LLC	Delaware
CenturyTel of the Southwest, Inc.	New Mexico
CenturyTel Telecom Service, Inc.	Washington

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
CenturyTel Telephone Utilities, Inc.	Washington
CenturyTel of Upper Michigan, Inc.	Michigan
CenturyTel of Washington, Inc..	Washington
CenturyTel/WORLDVOX, Inc..	Oregon
CenturyTel of Wyoming, Inc.	Wyoming
Eagle Valley Communications Corporation	Colorado
International Communications Holdings, Inc..	Delaware
Pacific Telecom, Inc. (Shell)	Oregon
PTI Communications of Ketchikan, Inc.	Alaska
PTI Communications of Minnesota, Inc.	Minnesota
PTI Transponders, Inc.	Oregon
Universal Manufacturing Corp..	Wisconsin
CenturyTel of Idaho, Inc..	Delaware
CenturyTel Internet Holdings, Inc.	Louisiana
centurytel.com, LLC	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel of Michigan, Inc.	Michigan
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel Mobile Communications, Inc.	Louisiana
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Louisiana, LLC	Louisiana
CenturyTel of North Mississippi, Inc..	Mississippi
CenturyTel of Northern Michigan, Inc..	Michigan
CenturyTel of Northwest Louisiana, Inc.	Louisiana
CenturyTel of Odon, Inc..	Indiana
CenturyTel of Ohio, Inc.	Ohio
CenturyTel of Ooltewah-Collegedale, Inc.	Tennessee
CenturyTel of Port Aransas, Inc..	Texas
CenturyTel of Redfield, Inc.	Arkansas
CenturyTel of Ringgold, LLC	Louisiana
CenturyTel SM Telecorp, Inc..	Texas
CenturyTel Telecommunications, Inc..	Texas
CenturyTel of San Marcos, Inc..	Texas
CenturyTel San Marcos Investments, LLC.	Delaware
CenturyTel Security Systems, Inc.	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel of South Arkansas, Inc..	Arkansas
CenturyTel of Southeast Louisiana, LLC	Louisiana
CenturyTel of Southwest Louisiana, LLC.	Louisiana
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel/Tele-Max, Inc.	Texas
CenturyTel of Lake Dallas, Inc..	Texas
CenturyTel Web Solutions, LLC.	Louisiana
CenturyTel of Wisconsin, LLC	Louisiana

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
Embarq Corporation	Delaware
Carolina Telephone and Telegraph Company LLC.	North Carolina
NOCUTS, Inc.	Pennsylvania
SC One Company	Kansas
Centel Corporation	Kansas
Centel Capital Corporation	Delaware
Centel-Texas, Inc.	Texas
Central Telephone Company of Texas	Texas
EQ Central Texas Equipment LLC	Texas
Central Telephone Company	Delaware
Central Telephone Company of Virginia	Virginia
Embarq Florida, Inc.	Florida
The Winter Park Telephone Company	Florida
CenturyLink Intellectual Property LLC	Delaware
Embarq Directory Trademark Company, LLC	Delaware
CenturyLink Public Communications, Inc.	Florida
CenturyLink Sales Solutions, Inc.	Delaware
Embarq, Inc.	Kansas
Embarq Capital Corporation	Delaware
SC Seven Company	Kansas
Embarq Interactive Holdings LLC	Delaware
Embarq Interactive Markets LLC	Delaware
Embarq Management Company	Delaware
EQ Management Equipment LP	Nevada
Embarq Mid-Atlantic Management Services Company	North Carolina
Embarq Minnesota, Inc.	Minnesota
Embarq Missouri, Inc.	Missouri
SC Eight Company	Kansas
Embarq Network Company LLC	Delaware
EQ Equipment Leasing, Inc.	Delaware
United Telephone Company of the Carolinas LLC.	South Carolina
SC Two Company	Kansas
United Telephone Company of Eastern Kansas	Delaware
United Telephone Company of Florida	Florida
United Telephone Company of Indiana, Inc.	Indiana
SC Four Company	Kansas
United Telephone Company of Kansas	Kansas
Embarq Midwest Management Services Company	Kansas
United Teleservices, Inc.	Kansas
United Telephone Company of New Jersey, Inc.	New Jersey
United Telephone Company of the Northwest	Oregon
United Telephone Company of Ohio.	Ohio
SC Five Company	Kansas
United Telephone Company of Pennsylvania LLC, The.	Pennsylvania

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
SC Six Company	Kansas
Valley Network Partnership (40% aggregate).	Virginia
United Telephone Company of Southcentral Kansas	Arkansas
United Telephone Company of Texas, Inc.	Texas
EQ United Texas Equipment LLC.	Texas
United Telephone Company of the West.	Delaware
United Telephone Southeast LLC	Virginia
SC Three Company	Kansas
Hillsboro Telephone Company, Inc. (20%).	Wisconsin
Lafayette MSA Limited Partnership (49%).	Delaware
Madison River Communications Corp.	Delaware
Gallatin River Holdings L.L.C.	Delaware
Gallatin River Communications L.L.C.	Delaware
Madison River Finance Corp.	Delaware
Madison River Holdings LLC	Delaware
Madison River LTD Funding LLC	Delaware
Coastal Utilities, Inc.	Georgia
Gulf Coast Services, LLC	Alabama
Gulf Telephone Company, LLC	Alabama
Madison River Management LLC.	Delaware
Mebtel, Inc.	North Carolina
Pacific Telecom Cellular of Alaska RSA #1, Inc.	Alaska
Qwest Communications International, Inc.	Delaware
EUnet International Limited	United Kingdom
EUnet International B.V.	Netherlands
Qwest B.V.	Netherlands
KPNQwest N.V. (44.34%).	Netherlands
Qwest Capital Funding, Inc.	Colorado
Qwest Europe LLC	Delaware
Qwest Services Corporation	Colorado
CenturyLink Investment Management Company	Colorado
Qwest Corporation.	Colorado
1200 Landmark Center Condominium Association, Inc.	Nebraska
Block 142 Parking Garage Association.	Colorado
Qwest Database Services, Inc.	Colorado
SMS/800, Inc. (33.3%)	District of Columbia
Qwest India Holdings, LLC	Delaware
CenturyLink Technologies India Private Limited.	India
The El Paso County Telephone Company.	Colorado
MoveARoo, LLC (33.3%).	Delaware
Qwest Dex Holdings, Inc.	Delaware
Qwest Government Services, Inc.	Colorado
Qwest Wireless, L.L.C.	Delaware
SAVVIS, Inc.	Delaware

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
AppFog, Inc.	Delaware
CenturyLink Australia Pty. Ltd.	Australia
CenturyLink do Brasil Participa?ões Ltda.	Brazil
CenturyLink Comunica?ões Ltda.	Brazil
CenturyLink Europe B.V.	Netherlands
CenturyLink Europe B.V., The Netherlands, filial Sweden	Sweden
SAVVIS Europe BV Sucursal en España	Spain
CenturyLink France S.A.S.	France
CenturyLink Germany GmbH.	Germany
CenturyLink Italia S.r.l.	Italy
CenturyLink Japan, Ltd.	Japan
CenturyLink Philippines, Inc.	Philippines
CenturyLink Poland Sp Zo.o.	Poland
CenturyLink Singapore Pte. Ltd.	Singapore
CenturyLink Switzerland A.G.	Switzerland
CenturyLink Taiwan Limited	Taiwan
CenturyLink Technology Hong Kong Limited.	Hong Kong
CenturyLink IT Consulting (Shanghai) Co., Ltd.	China
CenturyLink Technology Malaysia Sdn. Bhd.	Malaysia
CenturyLink Technology UK Limited	United Kingdom
CenturyLink (Thailand) Limited.	Thailand
DataGardens, Inc.	Canada
Digital Savvis HK JV	British VI
Digital Savvis HK Holding 1 Limited.	British VI
Digital Savvis Investment Management HK Limited	Hong Kong
Digital Savvis Management Subsidiary Limited.	Hong Kong
SAVVIS Argentina S.A.	Argentina
SAVVIS Canada, Inc.	Delaware
SAVVIS Communications Canada, Inc.	Canada
SAVVIS Communications Chile, S.A.	Chile
SAVVIS Communications, LLC.	Missouri
SAVVIS Federal Systems, Inc.	Delaware
SAVVIS Communications International, Inc.	Delaware
CenturyLink Korea Limited	Korea
SAVVIS Communications Private Limited.	India
SAVVIS Hungary Telecommunications KFT.	Hungary
SAVVIS Mexico, S.A. de C.V.	Mexico
Tier 3, Inc.	Washington
SkyComm Technologies Corporation (50.0%)	Delaware
Spectra Communications Group, LLC	Delaware
TelUSA Holdings, LLC (89%)	Delaware
Telephone USA of Wisconsin, LLC	Delaware
Western Re, Inc.	Louisiana

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CenturyLink, Inc.:

We consent to the incorporation by reference in the Registration Statements (No. 333-202411 and No. 333-187366) on Form S-3, the Registration Statements (No. 33-60061, No. 333-160391, No. 333-37148, No. 333-60806, No. 333-150157, No. 333-124854, No. 333-150188, and No. 333-174571) on Form S-8, and the Registration Statements (No. 33-48956, No. 333-17015, No. 333-167339, No. 333-174291, No. 333-155521, No. 333-206725 and No. 333-215121) on Form S-4 of CenturyLink, Inc. of our reports dated February 22, 2017, with respect to the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2016, and the effectiveness of internal control over financial reporting as of December 31, 2016, which reports appear in the December 31, 2016 annual report on Form 10-K of CenturyLink, Inc.

/s/ KPMG LLP

Shreveport, Louisiana
February 22, 2017

CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K of CenturyLink, Inc.;
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 22, 2017

/s/ Glen F. Post, III

Glen F. Post, III
Chief Executive Officer and President

CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K of CenturyLink, Inc.;
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 22, 2017

/s/ R. Stewart Ewing, Jr.

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

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of CenturyLink, Inc. ("CenturyLink"), certifies that, to his knowledge, the Annual Report on Form 10-K for the year ended December 31, 2016 of CenturyLink 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 CenturyLink as of the dates and for the periods covered by such report.

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

Date: February 22, 2017

/s/ Glen F. Post, III

Glen F. Post, III
Chief Executive Officer and
President

/s/ R. Stewart Ewing, Jr.

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

Section 1: 10-K (10-K)

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, 2017
or

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

For the transition period from _____ to _____
Commission File No. 001-7784



CENTURYLINK, INC.

(Exact name of registrant as specified in its charter)

Louisiana

(State or other jurisdiction of
incorporation or organization)

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

72-0651161

(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
Common Stock, par value \$1.00 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Stock Options

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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

Emerging growth company ☐

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

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

On February 16, 2018, 1,069,861,684 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2017 was \$11.7 billion.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2018 annual meeting of shareholders are incorporated by reference in Part III of this report.

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Unless the context requires otherwise, (i) references in this report on Form 10-K, for all periods presented, to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries and (ii) references in this report to "Level 3" refer to Level 3 Communications, Inc., which we acquired and renamed Level 3 Parent, LLC, on November 1, 2017.

PART I

ITEM 1. BUSINESS

Overview

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our business and residential customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

With approximately 450,000 route miles of fiber optic cable globally, we believe we are among the largest providers of communications services to global enterprise customers. Our terrestrial and subsea fiber optic long-haul network throughout North America, Europe and Latin America connects to metropolitan fiber networks that we operate. We operate in over 60 countries, with the substantial majority of our revenues being derived in the United States.

Based on our approximately 10.3 million total access lines at December 31, 2017, we believe we are the third largest wireline telecommunications company in the United States. We operate nearly 75% of our total access lines in portions of Colorado, Arizona, Washington, Minnesota, Florida, North Carolina, Oregon, Iowa, Utah, New Mexico, Missouri, and Idaho, and we also provide local service in portions of 25 other states. In the portion of the 37 states where we have local access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2017, we served approximately 5.7 million broadband subscribers.

We were incorporated under the laws of the State of Louisiana in 1968. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

For a discussion of certain risks applicable to our business, see "Risk Factors" in Item 1A of Part I of this report. The summary financial information in this Item 1 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 report.

Acquisition of Level 3

On November 1, 2017, CenturyLink acquired Level 3 through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. As a result of the acquisition, Level 3 shareholders received \$26.50 per share in cash and 1.4286 of CenturyLink common stock, with cash paid in lieu of fractional shares, for each outstanding share of Level 3 common stock they owned at closing, subject to certain limited exceptions. Upon closing, CenturyLink shareholders owned approximately 51% and former Level 3 shareholders owned approximately 49% of the combined company.

In addition, each outstanding Level 3 restricted stock unit award granted prior to April 1, 2014 or granted to an outside director of Level 3 was converted into \$26.50 in cash and 1.4286 shares of CenturyLink common stock (and cash in lieu of fractional shares) with respect to each Level 3 share covered by such award (the "Converted RSU Awards"). Each outstanding Level 3 restricted stock unit award granted on or after April 1, 2014 (other than those granted to outside directors of Level 3) was converted into a CenturyLink restricted stock unit award using a conversion ratio of 2.8386 to 1 as determined in accordance with a formula set forth in the merger agreement ("the Continuing RSU Awards").

Our preliminary estimate of the amount of aggregate consideration of \$19.617 billion is based on:

- the 517.3 million shares of CenturyLink's common stock (including those issued in connection with the Converted RSU Awards) issued to consummate the acquisition and the closing stock price of CenturyLink common stock at October 31, 2017 of \$18.99;

- the cash consideration of \$26.50 per share on the 362.1 common shares of Level 3 issued and outstanding as of October 31, 2017, and the cash consideration of \$1 million paid on the Converted RSUs awards;
- the estimated value of \$136 million of the Continuing RSU Awards, which represents the pre-combination portion of Level 3's share-based compensation awards assumed by CenturyLink; and
- the estimated liability of \$60 million for the dissenting common shares issued and outstanding as of October 31, 2017.

For additional information about our acquisition of Level 3, see (i) Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report, (ii) our current report on Form 8-K/A filed by us with the Securities and Exchange Commission (the "SEC") on January 16, 2018, (iii) our current report on Form 8-K filed by us with the SEC on November 1, 2017 and (iv) the definitive joint proxy statement/prospectus filed by us with the SEC on February 13, 2017.

Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for pre-tax cash proceeds of \$1.8 billion and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies ("Cyxtera"). As part of the transaction, the Purchaser acquired 57 of our data centers and assumed \$294 million (as of May 1, 2017) of our capital lease obligations related to the divested properties.

Our colocation business generated revenues (excluding revenue from affiliates) of \$210 million from January 1, 2017 through May 1, 2017, and \$622 million and \$626 million for the years ended December 31, 2016 and 2015, respectively (a small portion of which has been retained by us).

See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 8 of Part II of this report for additional information.

Financial and Operational Highlights

Our consolidated operating results, financial position and operational metrics include the operating results, financial position and operational metrics of Level 3 as of November 1, 2017. For additional information, see Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report.

The following table summarizes the results of our consolidated operations.

	Years Ended December 31,		
	2017 ⁽¹⁾⁽²⁾	2016 ⁽²⁾⁽³⁾⁽⁴⁾	2015 ⁽³⁾
	(Dollars in millions)		
Consolidated statements of operations summary results:			
Operating revenues	\$ 17,656	17,470	17,900
Operating expenses	15,647	15,137	15,321
Operating income	\$ 2,009	2,333	2,579
Net income	\$ 1,389	626	878

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- (1) The enactment of the Tax Cuts and Jobs Act legislation in December 2017 resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21%. The re-measurement resulted in a tax benefit of approximately \$1.1 billion.
- (2) During 2017 and 2016, we incurred Level 3 acquisition-related expenses of \$271 million and \$52 million, respectively. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisition of Level 3" and Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report.
- (3) In 2017, we adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" by retrospectively applying the requirements of the ASU to our previously issued consolidated financial statements. The adoption of ASU 2017-07 increased operating income and increased total other expense, net by \$2 million for the year ended December 31, 2016 and reduced operating income and decreased total other expense, net by \$26 million for the year ended December 31, 2015.
- (4) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions.

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

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Consolidated balance sheets summary information:		
Total assets	\$ 75,611	47,017
Total long-term debt ⁽¹⁾	37,726	19,993
Total stockholders' equity	23,491	13,399

- ⁽¹⁾ Total long-term debt for the year ended December 31, 2016 includes current maturities of long-term debt and capital lease obligations of \$305 million associated with colocation assets sold in 2017. For additional information on our total long-term debt, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report. For information on our total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Future Contractual Obligations" in Item 7 of Part II of this report.

The following table summarizes certain of our operational metrics:

	As of December 31,		
	2017	2016	2015
	(in thousands)		
Operational metrics:			
Total access lines ⁽¹⁾	10,282	11,090	11,748
Total broadband subscribers ⁽¹⁾	5,662	5,945	6,048

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

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

We estimate that during 2017 approximately 2% of our consolidated revenues was derived from providing telecommunications, colocation and hosting services outside the United States.

Operations

Segments

In January 2017, we implemented a new organization structure designed to further strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as two segments, business and consumer. As a result of this reorganization, we changed the name of the predecessor business segment to "enterprise" segment. Additionally, we also reassigned our information technology, managed hosting, cloud hosting and hosting area network services from our business segment to a new non-reportable operating segment. We reported two segments, enterprise and consumer, from January 2017 through October 2017.

In connection with our acquisition of Level 3 (discussed further in Note 2—Acquisition of Level 3), effective November 1, 2017, we implemented a new organization structure and began managing our operations in two segments: business and consumer. Our consumer segment remains substantially unchanged under this reorganization, and our newly reorganized business segment includes the legacy CenturyLink enterprise segment operations and the legacy Level 3 operations. In addition, we reassigned our information technology, managed hosting, cloud hosting and hosting area network operations back into the business segment from the former non-reportable operating segment. At December 31, 2017, we had the following two segments:

- *Business Segment.* This segment consists generally of providing products and services to small, medium and enterprise business, wholesale and government customers, including other communication providers. Our products and services offered to these customers include our local and long-distance voice, VPN data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services, all of which are described further under "Products and Services"; and
- *Consumer Segment.* This segment consists generally of providing products and services to residential customers. Our products and services offered to these customers include our broadband, local and long-distance voice, video and other ancillary services.

The following table shows the composition of our operating revenues by segment under our current segment categorization for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,			Percent Change	
	2017	2016	2015	2017 vs 2016	2016 vs 2015
Percentage of revenues:					
Business segment	64%	61%	61%	3 %	—%
Consumer segment	32%	35%	35%	(3)%	—%
Non-segment revenues*	4%	4%	4%	— %	—%
Total operating revenues	100%	100%	100%		

* Consists of all revenues not attributable to our segment revenues. Certain revenues previously included in non-segment revenues have now been assigned to our business and consumer segments based on our new products and services categorization as further described below.

For additional information on our segment data, including information on certain centrally-managed assets and expenses not reflected in our segment results, see Note 14—Segment Information to our consolidated financial statements in Item 8 of Part II of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Products and Services

In connection with our acquisition of Level 3 on November 1, 2017, we have revised the way we categorize our products and services and report our related revenues under the following categories: IP and data services, transport and infrastructure, voice and collaboration, IT and managed services and regulatory revenues, each of which is described in further detail below. From time to time, we change the categorization of our products and services, and we may make similar changes in the future.

We offer our customers the ability to bundle together several products and services. For example, our customers can bundle two or more services such as broadband, video (including DIRECTV through our strategic partnership) and voice services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Described in greater detail below are our primary products, services and revenue sources.

IP and Data Services

- *VPN Data Network.* Built on our optical transport network, we offer customers the ability to create private point-to-point, point-to-multipoint, and full-mesh networks. These services allow service providers, enterprises and government entities to replace multiple networks with a single, cost-effective solution that simplifies the transmission of voice, video, and data over a single or converged network, while delivering high quality of service and security;
- *Ethernet.* Ethernet services include point-to-point and multi-point equipment 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;
- *Internet Protocol ("IP").* Our IP services deliver a broad range of IP transit and network interconnection solutions for high bandwidth users; and

- *Video.* Our video services include our facilities-based video, marketed as CenturyLink Prism TV, which is a premium entertainment service that allows our customers to watch hundreds of television or cable channels and record up to four shows on one home digital video recorder. In addition, we offer various broadcast services, marketed as Vyvx, to provide audio and video feeds over fiber or satellite for broadcast and production customers. These services vary in capacity provided, frequency of use (that is, may be provided on an occasional or dedicated basis) and price. We also offer satellite digital television under an arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name.

Transport and Infrastructure

- *Broadband.* Our broadband services allow customers to connect at high speeds to the Internet through their existing telephone lines or fiber-optic cables. A substantial portion of our broadband subscribers are located within the local service area of our wireline telephone operations;
- *Private Line.* A private line (including business data services) 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 wireless backhaul transmissions;
- *Colocation and Data Center Services.* Our colocation and data center services include data center facilities that we acquired from Level 3 and services including cloud, hosting, and application management solutions. Our data center services range from dedicated hosting and cloud services to more complex managed solutions, including disaster recovery, business continuity, applications management support and security services to manage mission critical applications;
- *Wavelength.* Our wavelength services provide our customers that require significant amounts of bandwidth with an end-to-end transport solution of a fixed amount of bandwidth with Ethernet solutions;
- *Equipment Sales and Professional Services.* Our equipment sales and professional services include the sale of telecommunications equipment located on customers' premises and related products and professional services, such as network management, installation and maintenance of data equipment, the building of proprietary fiber-optic broadband networks for our government and business customers and the reselling of software; and
- *Network Security Services.* Our network security solutions are designed to address the escalating risk of cyber-attacks by assisting customers in establishing a secure network to safeguard brand value, to enable business continuity, and to avoid complexity and cost. Our network security services include adaptive network security, adaptive threat intelligence, network-based distributed denial of service (DDoS) mitigation and professional security services for governance, risk management, and compliance. Our network security services are sold stand-alone or in conjunction with IP and data services.

Voice and Collaboration

- *Local Voice Services.* 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;
- *Long-distance Voice Services.* We offer our residential and business customers domestic and international long-distance services and toll-free services. Our international long-distance services include voice calls that either terminate or originate with our customers in the United States; and
- *Wholesale Voice Services.* 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") and toll free service. These services share many of the same features as the local voice services described above and frequently permit other carriers to terminate voice services transmitted in part on other carriers' networks. We offer wholesale long distance services, which include domestic and international voice termination services targeted to interexchange carriers, wireless providers, local phone companies, cable companies, resellers and voice over IP providers. Our wholesale toll free service terminates toll free calls that are originated on the traditional telephone network. Customers for these services include call centers, conferencing providers, and voice over IP providers.

IT and Managed Services

- *Information Technology ("IT") Services.* Our IT-based services focus primarily on the transport and delivery of enterprise data and applications; and
- *Managed Services.* Managed services represents a blend of network, hosting, cloud, and IT services that typically require ongoing support from our staff. These services frequently involve equipment or networks owned, acquired or controlled by the customer and often include consulting or software development.

Regulatory Revenues

- *Universal Service Fund ("USF") support payments.* We receive federal and state USF support payment subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers;
- *Connect America Fund ("CAF").* We receive federal support payments from both Phase 1 and Phase 2 of the CAF program. The funding from the CAF Phase 2 support program has substantially replaced the funding from the interstate USF program that we previously utilized to support voice services in high-cost rural markets in 33 states; and
- *Other.* We generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties and from rental income associated with our failed-sale-leaseback. For additional information on our failed-leaseback transaction, see "Sale of Data Centers and Colocation Business—Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Because we centrally manage the activities that generate these regulatory revenues, these revenues are not included in our segment revenues.

Additional Information

From time to time, we also make investments in other communications or technology companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation" and "Competition" under this Item 1 below and "Risk Factors" under Item 1A below. For more information on the financial contributions of our various services, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Network

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, and form a portion of the public switched telephone network. A substantial portion of our equipment operates with licensed software.

At December 31, 2017, our network included:

- Approximately 450,000 route miles of fiber optic plant;
- Approximately 900,000 miles of copper plant;
- More than 360 colocation facilities and data centers globally;
- Approximately 37,500 route miles of subsea fiber optic cable systems; and
- Multiple gateway and transmission facilities used in connection with operating our network throughout North America, Europe and Latin America.

We continue to enhance and expand our network by deploying various 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 technology and customer demands, including demands for enhanced digitization, automation and customer self-service capabilities. In addition, we anticipate that continued increases in internet 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. The FCC's definition of broadband service could create additional requirements for higher capital spending to address marketing and competitive issues. Any such additional expenditure could adversely impact our results of operations and financial condition.

Similarly, we continue to take steps to simplify and modernize our network, much of which we have assembled through acquisitions. To attain our objectives, we plan to continue to undertake several complex projects that we expect will be costly and may take several years to complete. The costs of these projects could materially increase if we conclude that we need to replace any or all of our legacy systems.

Like other large communications companies, we are a constant target of cyber-attacks of varying degrees, which has caused us to spend increasingly more time and money to deal with increasingly sophisticated attacks. Some of the attacks result in security breaches, and we periodically notify our customers, our employees or the public of these breaches when necessary or appropriate. None of these resulting security breaches to date have materially adversely affected our business, results of operations or financial condition.

We rely on several other communications companies to provide our offerings. We lease a significant portion of our core fiber network from our competitors and other third parties. Many of these leases will lapse in future years. All of our satellite television and wireless voice services are provided by other carriers under agency agreements, and some of our other services are reliant upon reselling arrangements with other carriers. Our future ability to provide services on the terms of our current offerings will depend in part upon our ability to renew or replace these leases, agreements and arrangements on terms substantially similar to those currently in effect.

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

Patents, Trade Names, Trademarks and Copyrights

Either directly or through our subsidiaries, we have rights in various patents, trade names, trademarks, copyrights and other intellectual property necessary to conduct our business, such as our CenturyLink® and Prism® brand names. Our services often use the intellectual property of others, including licensed software. We also occasionally license our intellectual property to others as we deem appropriate.

Our patent portfolio includes patents covering technologies ranging from data and voice services to content distribution to transmission and networking equipment. Patents give us the right to prevent others, particularly competitors, from using our proprietary technologies. Patent licenses give us the freedom to operate our business without the risk of interruption from the holder of the patent that has been licensed to us. We plan to continue to file new patent applications as we enhance and develop products and services, and we plan to continue to seek opportunities to expand our patent portfolio through strategic acquisitions and licensing.

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 Affecting Our Business" in Item 1A of Part I of this report, and Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this report.

Sales and Marketing

We maintain local offices in most major and secondary markets within the U.S. and in most of the larger population centers within our local service area. In addition, we maintain offices within the primary markets of the more than 60 countries in which we operate. These offices provide sales and customer support services to the communities in our local markets. We also rely on our call center personnel and a variety of channel partners to promote sales of services that meet the needs of our customers. Our sales and marketing strategy is to enhance our sales by offering solutions tailored to the needs of our various customers and promoting our brands. Our offerings include both stand-alone services and bundled services designed to meet the needs of different customer segments.

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. Our switched digital television service offering is branded under the name "Prism TV."

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

Similarly, our sales and marketing approach to our business customers includes a commitment to provide comprehensive communications and IT solutions for business, wholesale and government customers of all sizes, ranging from small business offices to the world's largest global enterprise customers. We strive to offer our business customers stable, reliable, secure and trusted solutions. Our marketing plans include marketing our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties, including telecommunications agents, system integrators, value-added resellers and other telecommunications firms. We support our distribution through digital advertising, events, television advertising, website promotions and public relations.

Regulation

Overview

Our domestic operations are regulated by the Federal Communications Commission (the "FCC"), various state utility commissions and occasionally by local agencies. Our non-domestic operations are regulated by supranational groups (such as the European Union), national agencies and, often, state, provincial or local bodies.

Our domestic operations are subject to significant regulation by the 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 developed and administered support programs designed to subsidize the provision of services to high-cost rural areas. In most states, local voice service, switched and business data 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. Many acquisitions and divestitures require approval by the FCC and some state commissions. These agencies typically have the authority to withhold their approval, or to request or impose substantial conditions upon the transacting parties in connection with granting their approvals.

The following description discusses some of the major industry regulations that affect our 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 domestic and international communications 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 report.

The laws and regulations governing our affairs are quite complex and occasionally in conflict with each other. From time to time, we are fined for failing to meet applicable regulations or service requirements.

Federal Regulation of Domestic Operations

General

The 2016 U.S. Presidential election ushered in a new Administration with a more deregulatory agenda. The industry is undergoing rapid change, driven mostly by evolving technology and the emergence of a variety of new competitors. Cybersecurity and consumer privacy now dominate policy discussions. Much of our domestic operations are still required to comply with the Telecommunications Act of 1996, which materially amended the Communications Act of 1934, primarily to promote competition. Among other things, those laws regulate the terms and conditions under which we provide interstate communications services and require our incumbent local exchange carriers ("ILECs") to offer various of our traditional wireline services at just and reasonable rates and on non-discriminatory terms.

The FCC regulates interstate services we provide, including the business data service 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 our access to and use of local telephone numbers and our provision of emergency 911 services. The FCC has responsibility for maintaining and administering support programs designed to expand nationwide access to communications services (which are described further below), as well as other programs supporting service to low-income households, schools and libraries, and rural health care providers. Changes in the composition of the five members of the FCC or its Chairman can have significant impacts on the regulation of our business.

In recent years, our operations and those of other telecommunications carriers have been further impacted by legislation, merger-related conditions and regulation imposing additional obligations on us, particularly with regards to providing voice and 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. In addition, the FCC has heightened its focus on the reliability of emergency 911 services. The FCC has imposed fines on us and other companies for 911 outages and has adopted new compliance requirements for providing 911 services. We are incurring capital and operating expenses designed to comply with the FCC's 911 requirements and minimize future outages. All of these laws and regulations may cause us to incur additional costs and could impact our ability to compete effectively against companies not subject to the same regulations.

Over the past several years, the FCC has taken various actions and initiated certain proceedings designed to comprehensively evaluate the proper regulation of the provisions of data services to businesses. As part of its evaluation, the FCC has reviewed the rates, terms and conditions under which these services are provided. The FCC's proceedings remain pending, and their ultimate impact on us is currently unknown.

In 2015, the FCC issued an order regulating the manner in which ILECs can discontinue or reduce certain copper-based services. This order is under review by the current FCC but still requires ILECs to provide prior notice to certain customers of their proposed change in services, and in certain cases to provide replacement offerings on reasonably comparable terms and conditions. We expect that this order may limit our flexibility to react to changing conditions in the communications industry and introduce services such as Voice over Internet Protocol ("VoIP") services.

Intercarrier Compensation and Universal Service

For decades, the FCC has regularly 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. The FCC has also traditionally administered support programs designed to promote the deployment of voice and broadband services in high-cost rural areas of the country.

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 to 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 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.

In late 2011, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the 2011 order. 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. Rulemakings designed to implement the order are not complete, and several FCC proceedings relating to the 2011 order remain pending. For these and other reasons, we cannot predict the ultimate impact of these proceedings at this time.

As a result of the 2011 order, a new Universal Service program was created to deploy broadband to unserved and underserved rural areas utilizing the Connect America Fund or "CAF". The CAF substantially replaces interstate USF funding, that we previously utilized to support voice services in high-cost rural markets. There are two phases to the CAF program, CAF Phase 1, a one-time broadband grant program, and CAF Phase 2, which is a multi-year recurring subsidy program for more extensive broadband deployment in price-cap ILEC territories.

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses in 33 states of the 37 states in which we are an ILEC under the CAF Phase 2 high-cost support program. The funding from the CAF Phase 2 support program in these 33 states has substantially replaced the funding from the interstate USF high-cost program that we previously utilized to support voice services in high-cost rural markets in these 33 states.

As a result of accepting CAF Phase 2 support payments for 33 states, as well as existing merger-related commitments, we will be obligated to make substantial capital expenditures to build infrastructure by certain specified milestone deadlines. Future funding is contingent upon our compliance with these infrastructure buildout commitments and certain other service requirements, including certain minimum upload and download transmission speed requirements. In addition, if we are not in compliance with FCC measures at the end of the six-year CAF Phase 2 period, we will have 12 months to attain full compliance. If we are not in full compliance after the additional 12 months, we would incur a penalty equal to 1.89 times the average amount of support per location received in the state over the six-year term, plus a potential penalty of 10% of the state's total CAF Phase 2 support over the six-year term. For information on the risks associated with participating in this program, see "Risk Factors—Risks Relating to Legal and Regulatory Matters" in Item 1A of Part I of this report.

For additional information about the potential financial impact of the CAF Phase 2 program, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of Part II of this report.

Broadband Regulation

In February 2015, the FCC adopted new regulations to regulate Internet services as a public utility under Title II of the Communications Act of 1934. A newly-constituted FCC voted to repeal most of those regulations in December 2017. Opponents of that change have judicially challenged this action and will likely advocate in favor of re-instituting regulation of Internet services under Title II of the Communications Act. Several states have also opposed the change and have initiated state executive orders or introduced legislation focused on state-specific Internet service regulation.

In 2015, the FCC adopted a broadband standard of 25 megabits per second download speed and 3 megabits per second 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, and our failure to attain these speeds in certain markets could place us at a marketing or financial disadvantage.

State Regulation of Domestic Operations

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. Our ILEC operations are generally regulated under various forms of alternative regulation that typically limit our ability to increase rates for basic local voice service, but relieve us from the requirement to meet certain earnings tests. In a number of states, our ILEC operations have gained pricing freedom for the majority of retail services other than basic voice service. In most of the states in which we operate as an ILEC, 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, our telephone operating subsidiaries 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 which provide no ILEC services, our ILEC affiliates generally face "carrier of last resort" obligations which include an ongoing requirement to provide service to all prospective and current customers in their ILEC 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 our ILEC affiliates if competitors can choose to focus on low-cost profitable customers and withhold service from high-cost unprofitable customers. On the other hand, our non-ILEC affiliates have substantial flexibility to compete against unaffiliated ILECs in other markets.

We operate in states where traditional cost recovery mechanisms, including rate structures and state USF, are under evaluation or have been modified. Recent changes to the federal tax code have prompted several states to review regulated rates. 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 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 retail customers, is not assured.

International Regulations

Our subsidiaries operating outside of the United States are subject to various regulations in the markets where service is provided. Although the scope of regulation varies from country to country, a substantial portion of our foreign operations are located in Europe and Brazil, both of which are governed by detailed telecommunication regulation.

All of the countries in which we currently operate are members of the World Trade Organization, and most have committed to some deregulatory measures fostering market competition and permitting foreign ownership. Some countries now permit competition for all telecommunications facilities and services, while others allow less competition for some facilities and services, but restrict competition for other services. The telecommunications regulatory regimes of many Latin American countries are in the process of development. Many issues, such as regulation of incumbent providers, interconnection, unbundling of local loops, resale of telecommunications services, and pricing have not been addressed fully, or even at all. We cannot accurately predict whether and how these issues will be resolved, or their effect on our operations. Further, some of the legal requirements governing our foreign operations are more restrictive than or conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks.

European Union

The European Union, or EU, has adopted a more systematic approach to the convergence of networks and the regulation of telecommunications services. The European Commission oversees the implementation by its Member States of various directives developed to regulate electronic communications. These directives address, among other things, (i) interconnection and access, (ii) authorization and licensing, (iii) universal service, and (iv) privacy. In November 2009, the European Parliament and Council of Ministers agreed to implement a number of changes to the existing regulation regime including, among other things, more clearly define user rights.

In November 2015, the EU adopted Regulation EU 2015/2120 which, among other things set out new legislation in relation to open internet. The net neutrality provisions of this Regulation became effective at the beginning of the second quarter 2016. In 2015, the EU Commission also began a review of the entire suite of Directives and Regulations relating to the communications sector and proposals are currently under consideration with a view to making any changes in sufficient time to have these transposed into Member State law by 2019.

In June 2016, following a national referendum, the UK decided to cease its membership in the EU. The European Treaty sets out the legal process that must be followed to accomplish this departure. It is generally expected that the UK will remain a member of the EU until at least 2019. While there is likely to be little immediate effect for the Company or its customers, the longer term implications are presently unclear.

Brazil

Law No. 9,472, known as the General Telecommunications Law ("LGT"), provides for the organization of telecommunications services in Brazil (which includes the regulation of the performance, provision and use of services, and the implementation and operation of telecommunications networks). LGT establishes that the telecommunications policy must have as its main objectives universalization and competition in public telecommunications services. A legislative proposal currently in the Brazilian Senate may result in significant changes in the LGT, unifying private and public regimes under which the services are provided and promote a certain level of deregulation.

Brazil's communications regulatory agency has generally pursued a policy of market liberalization and supported a competitive telecommunications environment. In order to foster effective competition and prohibit economic concentration in the market, the agency may establish restrictions, limits or conditions for companies, or groups of companies, regarding obtaining and transferring concessions, permits and authorizations to render telecommunications services. The agency is reviewing the regulation applied to sharing of infrastructure between sectors and inside the telecommunication sector, especially in connection with price and rules access.

A 2014 law provides for network neutrality and prohibits all those responsible for routing traffic, including broadband providers, from impairing or degrading (also known as throttling) Internet traffic to different Internet applications; prioritizing traffic or some content; or unreasonably interfering with or hindering the ability of users to access lawful content.

Other Regulations

Our networks are subject to numerous local regulations, including codes that regulate our trenching and construction operations or that require us to obtain permits, licenses or franchises to operate. Such regulations vary on a city-by-city, country-by-country and state-by-state basis, and may require us to pay substantial fees. To install our own fiber optic transmission facilities, we typically need to obtain rights-of-way over privately and publicly owned land. Rights-of-way that are not already secured, or which may expire and not be renewed, may not be available to us on economically reasonable or advantageous terms in the future.

We are subject to federal and state regulations of customer service standards related to Prism TV. The FCC adopted customer service standards that we must meet in all of our Prism TV markets. The FCC has largely delegated its enforcement powers to local franchise authorities, who have the ability to adopt more stringent standards. We are subject to penalties in many of our local franchise agreements if we fail to meet applicable customer service standards.

Various foreign, federal and state laws govern our storage, maintenance and use of customer data, including a wide range of consumer protection, data protection, privacy, intellectual property and similar laws. The application, interpretation and enforcement of these laws are often uncertain, and may be interpreted and applied inconsistently from jurisdiction to jurisdiction. Various foreign, federal and state legislative or regulatory bodies have recently adopted increasingly restrictive laws or regulations governing the protection or retention of data, and others are contemplating similar actions.

For additional information about these matters, see "Risk Factors—Risks Affecting Our Business" and "Risk Factors—Risks Relating to Legal and Regulatory Matters" in item 1A of Part I of this report.

Competition

General

We compete in a rapidly evolving and highly competitive market, and we expect intense competition from a wide variety of sources under evolving market conditions to continue. In addition to competition from larger telecommunication service providers, we are facing increasing competition from several other sources, including cable and satellite companies, wireless providers, technology companies, cloud 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. 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. In addition, the communications industry has, in recent years, experienced substantial consolidation, and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do. In certain overseas markets, we compete against national incumbent telecommunications providers and other regional or international companies that may have a longer history of providing service in the market.

We compete to provide services to business customers based on a variety of factors, including the comprehensiveness and reliability of our network, our data transmission speeds, price, the latency of our available intercity and metro routes, the scope of our integrated offerings, the reach and peering capacity of our IP network, and customer service. Depending on the applicable market and requested services, competition can be intense, especially if one or more competitors in the market have network assets better suited to the customer's needs or are offering faster transmission speeds or lower prices.

Wireless telephone services are a significant source of competition with our traditional ILEC services particularly with regard to our small and medium size business customers as well as our wholesale business customers. It is increasingly common for customers to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly with younger customers who are less accustomed to using traditional wireline voice services. Technological and regulatory developments in wireless services, Wi-Fi, and other wired and wireless technologies have contributed to the development of alternatives to traditional landline voice services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital non-voice communications services continues to reduce the demand for traditional landline voice services. These factors have led to a long-term systemic decline in the number of our wireline voice service customers.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to colocate their physical plant on the ILEC's property, or provide virtual colocation if physical colocation is not practicable. Current FCC rules require ILECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network elements, and where the unbundling would not interfere with the development of facilities-based competition.

As a result of these regulatory, consumer and technological developments, ILECs also face competition from competitive local exchange carriers, or CLECs, particularly in densely populated areas. CLECs provide competing services through reselling an ILEC's local services, through use of an ILEC's unbundled network elements or through their own facilities.

Technological developments have led to the development of new products and services that have reduced the demand for our traditional services, as noted above, or that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies continue to aggressively market these services. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services. In addition, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being deployed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster average broadband transmission speeds than ours.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Such activities will continue to place downward pressure on the demand for and pricing of our services.

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 must continue to invest in our networks to ensure that they can deliver competitive services that meet these increasing bandwidth and speed requirements. In addition, network reliability and security are increasingly important competitive factors in our business.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers, municipalities or alternative access vendors. These systems are capable of originating or terminating calls without use of an ILEC's networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of business data services or independent switching services and the concentration of telecommunications traffic on a few of an ILEC's access lines. We anticipate that all these trends will continue and lead to decreased billable use of our networks.

Additional information about competitive pressures is located (i) under the heading "Risk Factors—Risks Affecting Our Business" in Item 1A of Part I of this report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our segments.

Business Segment

In connection with providing services to our business customers, which includes our small, medium and enterprise business, wholesale and government customers, we compete against other telecommunication providers, as well as other regional, national and international carriers, other data transport providers, cable companies, CLECs and other enterprises, some of whom are substantially larger than us. Competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. In providing broadband services, we compete primarily with cable companies, wireless providers, technology companies and other broadband service providers. We face competition in Ethernet based services in the wholesale market from cable companies and fiber based providers.

Our competitors for providing integrated data, broadband, voice services and other IT services to our business customers range from mid-sized businesses to large enterprises. Due to the size and capacity of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing sophisticated, secure and performance-driven services to our business customers through our global infrastructure.

The number of companies providing business services has grown and increased competition for these services, particularly with respect to smaller business customers. Many of our competitors for services we offer to our business customers are not subject to the same regulatory requirements as we are and therefore they are able to avoid significant regulatory costs and obligations.

Our competitors for cloud, hosting, colocation and other IT services include telecommunications companies, technology companies, cloud companies, colocation companies, hardware manufacturers and system integrators that support the in-house IT operations for a business or offer outsourcing solutions. Due to the size, capacity and strategically low pricing tactics of some of these companies, our competitors may be able to offer more inexpensive solutions to our customers. The increase in recent years in the number of companies providing these services has placed substantial downward pressure on pricing for a wide range of cloud, hosting, colocation and other IT services. We believe, however, that our hybrid IT services capabilities, which offer multiple products and services (including network services), and our ability to create end-to-end integrated customer solutions, could help differentiate our products and services from those offered by competitors with a narrower range of products and services. We have remained focused on expanding our hybrid cloud capabilities through internal product development and strategic acquisitions of select startup businesses.

In addition, our voice and private line services revenues have been, and we expect they will continue to be, adversely affected by product substitution, technological migration and price competition. For our wholesale customers, we will continue to be adversely affected by product substitution, technological migration, industry consolidation and mandated rate reductions. Competition for private line services is based on price, network reach and reliability, service, promotions and bundled offerings. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers as well as some of our own wholesale markets customers, many of which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce revenue producing traffic on our network.

In providing equipment sales and professional services to our business customers, we compete primarily with large integrators, equipment providers and national telecommunication providers. Competition is based on package offerings, and as such our strategy is to provide these customers individualized and customizable packages that include other services. As such, in providing data integration we often face many of the same competitive pressures as we face in providing other services, as discussed above.

We expect equipment sales and professional services revenues to continue to fluctuate from quarter to quarter as these offerings tend to be more sensitive than others to changes in the economy and in spending trends of our governmental customers. We further expect the profit margins on our equipment sales and professional services offerings to continue to be lower than those of our other services.

Consumer Segment

With respect to providing our services to residential customers, competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. Wireless carriers' latest generation technologies are allowing them to more directly compete with our services. The manner in which we compete for broadband customers in this segment is substantially similar to the manner in which we compete for business customers, as described in the above section. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Our Prism TV residential video service faces substantial competition from a variety of competitors, including well-established cable companies, satellite companies and several national companies that deliver content over the Internet and on mobile devices. Many of our competitors for these types of services are not subject to the same regulatory requirements as we are, and therefore are able to avoid significant regulatory costs and obligations.

Our strategy for maintaining and increasing our base of broadband customers is based on pricing, packaging of services and features and quality of service. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our network, which allows for the delivery of higher speed broadband services. We also continue to expand our marketing and product bundling efforts by offering a variety of bundled products and services with various pricing discounts, as we compete in a maturing market in which a significant portion of consumers already have broadband services. We offer these bundled products and services through various sales and marketing opportunities as further described above under the heading "Sales and Marketing."

Although our status as an ILEC in our local service areas continues to provide us advantages in providing local services in those territories, 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 and long-distance voice services from wireless providers, resellers and sales agents (including ourselves), social media hosts and broadband service providers, including cable companies. We also continue to compete with traditional telecommunications providers, such as national carriers, smaller regional providers, CLECs and independent telephone companies.

Our strategy to manage customer loss is based primarily on our pricing, packaging of services and features and quality of service. While bundle price discounts have resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention.

Acquisitions and Dispositions

We regularly evaluate the possibility of acquiring additional assets or disposing of assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions or dispositions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement.

See above under "Acquisition of Level 3", for additional information about our November 1, 2017 acquisition of Level 3, and the "Sale of Data Centers and Colocation Business", for additional information about our May 1, 2017 disposition.

During 2016, we acquired all of the outstanding stock of three companies for total consideration of \$53 million, including future deferred or contingent cash payments of \$14 million, of which \$49 million has been attributed to goodwill. These acquisitions were consummated to expand the product offerings of our business segment, and therefore, the goodwill was assigned to that segment. The majority of the goodwill was attributed primarily to expected future increases in revenue from the sale of new products. The majority of the goodwill from these acquisitions is expected to be deductible for tax purposes. See Note 4—Goodwill, Customer Relationships and Other Intangible Assets for additional information on these acquisitions.

Environmental Compliance

From time to time we may incur environmental compliance and remediation expenses, mainly resulting from owning or operating prior industrial sites or operating 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. For additional information, see "Risk Factors—Risks Relating to Legal and Regulatory Matters—Risks posed by other regulation" in Item 1A of Part I of this report and Note 16—Commitments and Contingencies included in Item 8 of Part II of this report.

Seasonality

Overall, our business is not materially impacted by seasonality. Our network-related operating expenses are, however, generally higher in the second and third quarters of the year. 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, but have generally been highest during the third quarter and have been related to damage from severe storms, including hurricanes, tropical storms and tornadoes in our markets along the Atlantic and Gulf of Mexico coastlines.

Employees

At December 31, 2017, we had approximately 51,000 employees, of which approximately 14,000 are members of either the Communications Workers of America ("CWA") or the International Brotherhood of Electrical Workers ("IBEW"). 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 report and see Note 18—Labor Union Contracts to our consolidated financial statements in Item 8 of Part II of this report for additional information on the timing of certain contract expirations.

From time to time, we have reduced our workforce primarily due to (i) increased competitive pressures, (ii) the loss of customers and related revenues, (iii) cost reduction initiatives, (iv) process improvements through automation and (v) integration efforts from our acquisitions.

Website Access and Important Investor Information

Our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this 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 amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. From time to time we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

We have adopted a written code of conduct that serves 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 we make any changes (other than by a technical, administrative or non-substantive amendment) to, or provide any waivers from, the provisions of our code of conduct applicable to our directors or executive officers, we intend to disclose these events on our website or in a report on Form 8-K filed with the SEC. The code of conduct, as well as copies of our guidelines on significant governance issues and the charters of our key board committees, are also available in the "Corporate Governance" section of our website at 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 that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC.

In connection with filing this 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 its related regulations. In addition, during 2017, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

We typically disclose material non-public information by disseminating press releases, making public filings with the SEC, or disclosing information during publicly accessible meetings or conference calls. Nonetheless, from time to time we have used, and intend to continue to use, our website and social media accounts to augment our disclosures.

Special Note Regarding Forward-Looking Statements and Related Matters

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

- forecasts of our anticipated future results of operations, cash flows or financial position;
- statements concerning the anticipated impact of our transactions, investments, product development and other initiatives, including synergies or costs associated with our recently-completed combination with Level 3, the impact of our other acquisitions or dispositions, and the impact our participation in government programs;
- statements concerning the anticipated impact of the Tax Cuts and Jobs Act enacted in late 2017;

- statements about our liquidity, profit margins, tax position, tax rates, asset values, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, business strategies, dividend and stock repurchase plans, capital allocation plans, 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 with respect to the future.

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

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

- our ability to meet the terms and conditions of our debt obligations;
- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- our ability to effectively manage our network buildout project and our other expansion opportunities;
- our ability to collect our receivables from financially troubled customers;
- any adverse developments in legal or regulatory proceedings involving us;
- changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
- the effects of changes in accounting policies or practices, including potential future impairment charges;
- the effects of adverse weather, terrorism or other natural or man-made disasters;
- the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and
- other risks referenced in "Risk Factors" in Item 1A or elsewhere in this report or other of our filings with the SEC.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or other capital allocation 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, answer questions raised by 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 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.

ITEM 1A. RISK FACTORS

The following discussion identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with the other portions of this report, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our consolidated financial statements and related notes in Item 8. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions. In addition, certain of the risks described below apply only to a part or segment of our business.

Risks Affecting Our Business

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

Each of our offerings to our business and consumer customers face increasingly intense competition from a wide variety of sources under evolving market conditions. In particular, (i) aggressive competition from a wide range of communications and technology companies has limited the prospects for several of our offerings to business customers, (ii) intense competition from wireless and other communications providers has led to a long-term systemic decline in the number of our wireline voice customers and (iii) strong competition from cable companies has impacted our business and consumer segments. We expect these trends will continue. For more detailed information, see "Business—Competition" in Item 1 of this report.

In addition to competition from a wide range of technology companies and communications providers (including those described above), we are facing increasing competition from several other sources, including satellite companies, cloud 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. Further competition could arise through industry consolidation, technological innovation, or changes in regulation, including changes allowing foreign carriers to more extensively compete in the U.S. market.

Some of our current and potential competitors (i) offer products or services that are substitutes for our traditional wireline voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) offer products or services with features that we cannot readily match in some or all of our markets, (iv) install their services more quickly than we do, (v) have greater marketing, engineering, research, development, technical, provisioning, customer relations, financial and other resources, (vi) have larger or more diverse networks with greater transmission capacity, (vii) conduct operations or raise capital at a lower cost than us, (viii) are subject to less regulation, which we believe enables such competitors to operate more flexibly than us with respect to certain offerings, (ix) offer services nationally or internationally to a larger geographic area or larger base of customers, (x) have substantially stronger brand names, which may provide them with greater pricing power than ours, or (xi) have larger operations than ours, which may enable them to compete more successfully in recruiting top talent, entering into operational or strategic partnerships or acquiring companies. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructure more quickly, to adapt more swiftly to changes in technologies or customer requirements, to devote greater resources to the marketing and sale of their products and services, to provide more comprehensive customer service, to provide greater resources to research and development initiatives and to take advantage of business or other opportunities more readily.

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

We are continually taking steps to respond to these competitive pressures, but these efforts may not be successful. Our operating results and financial condition would be adversely affected if these initiatives are unsuccessful or insufficient.

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

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

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

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

In addition to introducing new technologies and offerings, we may need, from time to time, to phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits. Similarly, if new market entrants are not burdened by an installed base of outdated equipment or obsolete technology, they may have a competitive advantage over us.

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 local voice, long-distance voice, network access and private line (including business data services) services continue to experience declining revenues, and our efforts to offset these declines may not be successful.

Primarily as a result of the competitive and technological changes discussed above, we have experienced a prolonged systemic decline in our local voice, long-distance voice, network access and private line (including business data services) revenues. Consequently, we have experienced declining consolidated revenues (excluding acquisitions) for a prolonged period.

We have taken a variety of steps to counter these declines in local voice, long-distance voice, network access, private line (including business data services) revenues, including an increased focus on selling services in greater demand. However, for the reasons described elsewhere in this report, most of our more recent product and service offerings generate lower profit margins than our traditional services, and some can be expected to experience slowing or no growth in the future. Moreover, we cannot assure you that the revenues generated from our new offerings will offset revenue losses associated with our traditional services. In addition, our reliance on third parties to provide certain of our more recent product and service offerings could constrain our flexibility, as described further below.

Our failure to meet the evolving needs of our customers could adversely impact our competitive position.

In order to compete effectively and respond to changing market conditions, we must continuously offer products and services on terms and conditions that allow us to retain and attract customers and to meet their evolving needs. To do so, we continuously invest in our network and develop, test and introduce new products and services. Our ability to maintain attractive products and services and to successfully introduce new product or service offerings on a timely and cost-effective basis could be constrained by a range of factors, including network limitations, support system limitations, limited capital, an inability to attract key personnel with the necessary skills, intellectual property constraints, inadequate digitization or automation, testing delays, technological limits or an inability to act as quickly or efficiently as other competitors. In addition, new product or service offerings may not be widely accepted by our customers. Our business could be materially adversely affected if we are unable to maintain competitive products and services and to timely and successfully develop and introduce new products or services.

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

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

In mid-2017, our Board of Directors formed a special committee of independent directors to review our policies, procedures and practices relating to consumer sales, service and billing following a former employee's allegations of sales-related misconduct. In late 2017, the special committee concluded its review and issued its key findings. Among other things, the committee found that (i) our investment in consumer sales monitoring was insufficient, (ii) our ordering and billing software contributed to customer confusion and (iii) systems and human errors contributed to inaccurate billing. We are committed to improving our customers' experience and believe that we have already made progress in addressing these concerns. Nonetheless, we cannot assure you that we will timely and effectively implement changes that will adequately address all of these issues to the full satisfaction of our customers.

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

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

Our revenues and cash flows from operating activities may not be adequate to fund all of our cash requirements.

As noted in greater detail below, our business is capital intensive, and we expect it to remain so for the foreseeable future. We will also continue to need substantial amounts of cash to meet our fixed commitments and other business objectives, including without limitation funding our operating costs, debt repayments, periodic pension contributions and other benefits payments. We further expect to continue to require significant cash to fund our quarterly dividend payments, subject to the discretionary right of our Board of Directors to change or terminate our current dividend practices at any time. We rely upon our consolidated revenues and cash flows from operating activities to fund our cash needs.

As noted in the risk factor disclosures appearing above and below, changes in competition, technology, regulation and demand for our traditional wireline services continue to place downward pressure on our consolidated revenues and cash flows from operating activities. During each of the past five years, we experienced declines in revenues and net cash provided by operating activities (excluding acquisitions) as compared to prior periods. Over the next several years, we expect that our future cash flows from operating activities will remain under pressure due to the factors discussed herein.

For these reasons, we cannot assure you that our future cash flows from operating activities will be sufficient to fund all of our cash requirements in the manner currently contemplated. Our inability to fund certain of these payments could have an adverse impact on our business, operations, competitive position, prospects or on the value of our securities.

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

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

We strive to maintain the security and integrity of information and systems under our control, and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, ransomware, distributed denial-of-service attacks, or other forms of cyber-attacks or similar events. These threats may derive from human error, hardware or software vulnerabilities, aging equipment or accidental technological failure. These threats may also stem from fraud, malice or sabotage on the part of employees, third parties or foreign nations, including attempts by outside parties to fraudulently induce our employees or customers to disclose or grant access to our data or our customers' data, potentially including information subject to stringent domestic and foreign data protection laws governing personally identifiable information, protected health information or other similar types of sensitive data. These threats may also arise from failure or breaches of systems owned, operated or controlled by other unaffiliated operators to the extent we rely on such other systems to deliver services to our customers. Each of these risks could further intensify to the extent we maintain information in digital form stored on servers connected to the Internet.

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

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

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

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

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

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

- disrupt the proper functioning of these networks and systems, which could in turn disrupt (i) our operational, billing or other administrative functions or (ii) the operations of certain of our customers who rely upon us to provide services critical to their operations;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive, classified or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require us to notify customers, regulatory agencies or the public of data breaches;

- require us to provide credits for future service under certain service level commitments we have provided contractually to our customers or to offer expensive incentives to retain customers;
- subject us to claims for damages, fines, penalties, termination or other remedies under our customer contracts or service standards set by state regulatory commissions, which in certain cases could exceed our insurance coverage;
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to prolonged litigation; or
- require significant management attention or financial resources to remedy the resulting damages or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems.

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

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

Our ability to expand and update our systems and information technology infrastructure in response to our growth and changing business needs is important to our ability to maintain and develop attractive product and service offerings. As discussed further under “Business—Network Architecture” in Item 1 of this report, we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which combines our legacy network and the networks of companies we have acquired in the past. Unanticipated delays in the completion of these projects may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions or delays, service offering inconsistencies and the diversion of development resources. Any or all of the foregoing developments could have a negative impact on our business, results of operations, financial condition and cash flows.

Negative publicity may adversely impact us.

Our ability to attract and retain customers depends in part upon external perceptions of our products, services and management integrity. Customer complaints, governmental investigations, outages, or other service failures of networks operated by us could cause substantial adverse publicity affecting us. Similar events impacting other operators could indirectly harm us by causing substantial adverse publicity affecting our industry in general. In either case, press coverage, social media messaging or other public statements that insinuate improper actions by us or other operators, regardless of their factual accuracy or truthfulness, may result in negative publicity, litigation, governmental investigations or additional regulations. Addressing negative publicity and any resulting litigation or investigations may distract management, increase costs and divert resources. Negative publicity may have an adverse impact on our reputation and the morale of our employees, which could adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

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

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

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

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

We may not be successful in protecting and enforcing our intellectual property rights.

We rely on various patents, copyrights, trade names, trademarks, service marks, trade secrets and other similar intellectual property rights, as well as confidentiality agreements and procedures, to establish and protect our proprietary rights. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe on our intellectual property. We may be unable to prevent competitors from acquiring proprietary rights that are similar to or infringe upon our proprietary rights, or to prevent our current or former employees from using or disclosing to others our proprietary information. Enforcement of our intellectual property rights may depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.

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

Reliance on other communications providers. To offer certain services in certain of our markets, we must either purchase services or lease network capacity from, or interconnect our network with the infrastructure of, other communications carriers or cloud companies who typically compete against us in those markets. Our reliance on these supply or interconnection arrangements exposes us to multiple risks. Typically these arrangements limit our control over the quality of our services and expose 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 or unable to continue or renew these arrangements in the future on terms favorable to us, or at all. This risk is heightened when the other carrier is a competitor who may benefit from terminating the agreement or imposing price increases, or a carrier who suffers financial distress or bankruptcy. If we lose these arrangements and cannot timely replace them, our ability to provide services to our customers and conduct our business could be materially adversely affected. Moreover, many of our arrangements with other carriers are regulated by domestic or foreign agencies, which subject us to the additional risk that changes in regulation could increase our costs or otherwise adversely affect our ability to provide services. Finally, even when another carrier agrees or is obligated to provide services to us to permit us to obtain new customers, it is frequently expensive, difficult and time-consuming to switch the new customers to our network, especially if the other carrier fails to provide timely and efficient cooperation.

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 this report.

We also rely on reseller and sales agency arrangements with other communications companies to provide some of the services that we offer 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 contractual arrangements; or
- are otherwise unable or unwilling to make payments or provide services to us.

Reliance on other key suppliers and vendors. We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure, including fiber optic cable, software, optronics, transmission electronics, digital switches and related components. 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 (i) software vendors to support our business management systems, (ii) content suppliers to provide programming to our video operations, and (iii) contractors to assist us in connection with our network construction and maintenance activities. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, utilities or programming on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Reliance on utility providers and landlords. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers.

We lease many of our office facilities. Although the majority of these leases provide us with the opportunity to renew the lease, many of these renewal options provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. Any resulting increases in our rent costs could have a negative impact on our financial results.

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

Violating our government contracts could have other serious consequences.

We provide services to various governmental agencies with responsibility for national security or law enforcement. These governmental contracts impose significant requirements on us relating to network security, information storage and other matters, and in certain instances impose on us additional heightened responsibilities, including requirements related to the composition of our Board of Directors. While we expect to continue to comply fully with all of our obligations under these contracts, we cannot assure you of this. The consequences of violating these contracts could be severe, potentially including the revocation of our FCC licenses in the U.S. (in addition to being suspended or debarred from government contracting, as noted above.)

Rising costs, changes in consumer behaviors and other industry changes may adversely impact our video business.

The costs of purchasing video programming have risen significantly in recent years and continue to rise. Moreover, an increasing number of consumers are receiving access to video content through video streaming or other services pursuant to new technologies for a nominal or no fee, which will likely reduce demand for our more traditional video products. New technologies are also affecting consumer behavior in ways that are changing how content is delivered and viewed. Increased access to various media through wireless devices has the potential to reduce the viewing of our content through traditional distribution outlets. These new technologies have increased the number of entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. Some of these newer technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis. All of these changes, coupled with changing consumer preferences and other related developments, could reduce demand for our video products and services.

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, 2017, approximately 28% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, retirement benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

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

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

Our subsidiaries currently are, and in the past have been, subject to lawsuits challenging the subsidiaries' use of rights-of-way. Similar suits are possible in the future. Plaintiffs in these suits typically seek to have them certified as class action suits. These suits are typically complex, lengthy and costly to defend, and expose us to each of the other general litigation risks described elsewhere herein.

Our business customers may seek to shift risk to us.

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

Our international operations expose us to various regulatory, currency, tax, legal and other risks.

Our international operations are subject to U.S. and non-U.S. laws and regulations regarding operations in international jurisdictions in which we provide services. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, anti-competition laws, trade restrictions, tax laws, immigration laws, privacy laws and accounting requirements. Many of these laws are complex and change frequently. Regulations that require the awarding of contracts to local contractors or the employment of local citizens may adversely affect our flexibility or competitiveness in these jurisdictions. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. There is a risk that these laws or regulations may materially restrict our ability to deliver services in various international jurisdictions or could be breached through inadvertence or mistake, fraudulent or negligent behavior of our employees or agents, failure to comply with certain formal documentation or technical requirements, or otherwise. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us or our personnel, or prohibitions on the conduct of our business or our ability to operate in one or more countries, any of which could have a material adverse effect on our business, reputation, results of operations, financial condition or prospects.

Many non-U.S. laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to privacy rights and data retention. For example, all 28 member states of the European Union have adopted new European data protection laws that we believe could impact our operations in Europe and could potentially expose us to an increased risk of litigation or significant regulatory fines. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products and services we seek to offer.

In addition to these international regulatory risks, some of the other risks inherent in conducting business internationally include:

- tax, licensing, political or other business restrictions or requirements, which may render it more difficult to obtain licenses or interconnection agreements on acceptable terms, if at all;
- uncertainty concerning import and export restrictions, including the risk of fines or penalties assessed for violations;
- longer payment cycles and problems collecting accounts receivable;
- U.S. and non-U.S. regulation of overseas operations, including regulation under the U.S. Foreign Corrupt Practices Act (the “FCPA”) and other applicable anti-corruption laws, including the U.K. Bribery Act of 2010 and the Brazilian Anti-corruption Law, (collectively with the FCPA, the “Anti-Corruption Laws”);
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- currency and exchange controls, repatriation restrictions and fluctuations in currency exchange rates;
- challenges in securing and maintaining the necessary physical and telecommunications infrastructure;
- the inability in certain jurisdictions to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;
- increased risk of cyber-attacks or similar events to our network as we expand our network or interconnect our network with other networks internationally;
- the inability in certain jurisdictions to adequately protect intellectual property rights;
- laws, policies or practices that restrict with whom we can contract or otherwise limit the scope of operations that can legally or practicably be conducted within any particular country;
- potential submission of disputes to the jurisdiction of a non-U.S. court or arbitration panel;
- reliance on third parties, including those with which we have limited experience;
- limitations in the availability, amount or terms of insurance coverage;
- the imposition of unanticipated or increased taxes, increased communications or privacy regulations or other forms of public or governmental regulation that increase our operating expenses; and
- challenges in staffing and managing overseas operations.

Many of these risks are beyond our control, and we cannot predict the nature or the likelihood of the occurrence or corresponding effect of any such events, each of which could have an adverse effect on our financial condition and results of operations.

Certain of our international operations are conducted in countries or regions experiencing corruption or instability, which subjects us to heightened legal and economic risks.

We do business and may in the future do additional business in certain countries or regions in which corruption is a serious problem. Moreover, in order to effectively compete in certain non-U.S. jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. In certain instances, these local operators, partners or agents may have interests that are not always aligned with ours. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products, or being held liable under any Anti-Corruption Laws for actions taken by our strategic or local partners or agents even though these partners or agents may not themselves be subject to such anti-corruption laws. Any determination that we have violated the Anti-Corruption Laws could have a material adverse effect on our business, results of operations, reputation or prospects.

We conduct significant operations in regions that have historically experienced high levels of political, economic and social instability, including the Latin American region. Various events in recent years have placed pressures on the stability of the currencies of several Latin American countries in which we operate, including Argentina, Brazil and Colombia. Pressures or volatility in local or regional currencies may adversely affect our customers in this region, which could diminish their ability or willingness to order products or services from us. Several Latin American countries have historically experienced high rates of inflation. Governmental actions taken to curb inflation, coupled with speculation about possible future actions, have in the past contributed to periodic economic uncertainty in many Latin American countries. Similar actions in the future, together with abrupt shifts in governmental administrations, could impede our ability to develop or implement effective business plans in the region. In addition, if high rates of inflation persist, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structures in those locations. A high inflation environment would also have negative effects on the level of economic activity and employment and adversely affect our business.

We are exposed to currency exchange rate risks and currency transfer restrictions and our results may suffer due to currency translations and re-measurements.

Certain of our current and prospective customers derive their revenue in currencies other than U.S. dollars but are invoiced by us in U.S. dollars. The obligations of customers with substantial revenue in non-U.S. currencies may be subject to unpredictable and indeterminate increases if such currencies depreciate relative to the U.S. dollar. Furthermore, these customers may become subject to exchange control regulations restricting the conversion of their revenue currencies into U.S. dollars. In either event, the affected customers may not be able to pay us in U.S. dollars. Similarly, declines in the value of non-U.S. currencies relative to the U.S. dollar could adversely affect us in several respects, including hampering our ability to market our services to customers whose revenue is denominated in depreciated currencies. In addition, where we issue invoices for our services in currencies other than U.S. dollars, our results of operations may suffer due to currency translations if such currencies depreciate relative to the U.S. dollar and we cannot or do not elect to enter into currency hedging arrangements regarding those payment obligations.

Certain Latin American economies have experienced shortages in non-U.S. currency reserves and have adopted restrictions on the use of certain mechanisms to expatriate local earnings and convert local currencies into U.S. dollars. Any of these shortages or restrictions may limit or impede our ability to transfer or to convert those currencies into U.S. dollars and to expatriate those funds.

We may not be able in the future to acquire new businesses on attractive terms.

Historically, much of our growth has been attributable to acquisitions. Our future ability to grow through additional acquisitions could be limited by several factors, including our leverage, debt covenants and inability to identify attractively-priced target companies. Moreover, we generally must devote significant management attention and resources to evaluate acquisition opportunities, which could preclude us from evaluating acquisition opportunities during periods when management is committed to other opportunities, tasks or activities. Accordingly, we cannot assure you that we will be able to attain future growth through acquisitions. See "Risks Relating to Our Recently-Completed Combination with Level 3" for a discussion of certain specific risks raised by our combination with Level 3 on November 1, 2017 and see the next risk factor immediately below for a discussion of certain general risks raised by acquisitions.

Any additional future acquisitions or strategic investments by us would subject us to additional business, operating and financial risks, the impact of which cannot presently be evaluated, and could adversely impact our capital structure or financial position.

In an effort to implement our business strategies, we may from time to time in the future pursue other acquisition or expansion opportunities, including strategic investments. These transactions could involve acquisitions of entire businesses or investments in start-up or established companies, and could take several forms, including mergers, joint ventures, investments in new lines of business, or the purchase of equity interests or assets. These types of transactions may present significant risks and uncertainties, including the difficulty of identifying appropriate companies to acquire or invest in on acceptable terms, distraction of management from current operations, insufficient revenue acquired to offset liabilities assumed, unexpected expenses, inadequate return of capital, regulatory or compliance issues, potential infringements, potential violations of covenants in our debt instruments and other unidentified issues not discovered in due diligence. To the extent we acquire part or all of a business that is financially unstable or is otherwise subject to a high level of risk, we may be affected by currently unascertainable risks of that business. Accordingly, there is no current basis to evaluate the possible merits or risks of the particular business or assets that we may acquire. Moreover, we cannot guarantee that any such transaction will ultimately result in the realization of the benefits of the transaction originally anticipated by us or that any such transaction will not have a material adverse impact on our financial condition or results of operations. In particular, we can provide no assurances that we will be able to successfully integrate the technology systems, billing systems, accounting processes, sales force, cost structure, product development and service delivery processes, standards, controls, policies, strategies and culture of the acquired company with ours. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional securities or the borrowing of additional funds. Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

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

For additional information about our business and operations, see "Business" in Item 1 of this report.

Risks Relating to Our Recently-Completed Combination with Level 3

We expect to continue to incur substantial expenses related to the Level 3 combination.

As noted elsewhere herein, we have incurred substantial expenses in connection with completing our business combination with Level 3 on November 1, 2017, and we expect to continue to incur substantial expenses in connection with integrating our business, operations, networks, systems, technologies, policies and procedures with those of Level 3. There are a large number of systems that will likely be integrated, including management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance systems. While we have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time and may ultimately be greater than envisioned. Due to these factors, the transaction and integration expenses associated with the acquisition are likely in the near term to exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses. As a result of these expenses, we have taken, and expect to continue to take, charges against our earnings. Our future charges are expected to be significant, although the timing of such charges is uncertain at present.

We may be unable to integrate successfully our incumbent business and Level 3's business and realize the anticipated benefits of the combination.

The transaction combined two companies which previously operated as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Level 3. Potential difficulties we may encounter in the integration process include the following:

- the inability to successfully combine our incumbent business and Level 3's business in a manner that permits us to achieve the cost savings and operating synergies anticipated to result from the acquisition, which would result in the anticipated benefits of the acquisition not being realized in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding to terminate or reduce their business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to provide consistent, high quality products and services under a unified culture;
- the additional complexities of combining two companies with different histories, regulatory restrictions, operating structures and markets;
- the failure to retain key employees of either of the two companies;
- unanticipated impediments in integrating departments, systems (including accounting systems), technologies, books and records, procedures and policies, and in maintaining uniform standards and controls, including internal control over financial reporting;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the acquisition; and
- performance shortfalls as a result of the diversion of management's attention caused by completing the acquisition and integrating the companies' operations.

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

We may be unable to retain key employees.

Our success following the combination will depend in part upon our ability to retain key Level 3 and CenturyLink employees. Key employees may depart because of issues relating to uncertainty, changes in workplace responsibilities or demands, or difficulty of integration. Accordingly, we cannot assure you that we will be able to retain key employees to the same extent as in the past.

We plan to conduct rebranding initiatives which may not be favorably received by customers.

Prior to the Level 3 acquisition, CenturyLink and Level 3 marketed their respective products and services using the "CenturyLink" and "Level 3" brand names and logos. Following the acquisition, "CenturyLink" will be the brand name of the combined company. We cannot assure you that customers will be receptive to our proposed rebranding efforts.

Counterparties to certain significant agreements with Level 3 may exercise contractual rights to terminate such agreements following the Level 3 combination.

Level 3 is a party to certain agreements that may give the counterparty a right under certain conditions to terminate the agreement following a "change in control" of Level 3. In addition, certain Level 3 customer contracts, including those with state or federal government agencies, allow the customer to terminate the contract at any time for convenience. Any such counterparty may request modifications of their respective agreements as a condition to foregoing exercise of their termination rights. There is no assurance that such agreements will not be terminated as materially modified after the acquisition.

We may be unable to obtain security clearances necessary to perform certain Level 3 government contracts.

Certain Level 3 legal entities and officers have security clearances required for Level 3's performance of customer contracts with various government entities. We have discussed and continue to discuss with appropriate governmental representatives arrangements that will permit us or our officers to continue to perform these Level 3 contracts. Although we expect these efforts will be successful, we cannot assure you of this.

We cannot assure you whether, when or in what amounts we will be able to use Level 3's net operating loss carryforwards.

As of December 31, 2017, CenturyLink had approximately \$9.1 billion of net operating loss carryforwards, ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income. These NOLs are primarily related to federal NOLs we acquired through the Level 3 acquisition and are subject to prior limitations under Section 382 of the Internal Revenue Code ("Code") and related Treasury regulations. Additionally, these NOLs are subject to a current Section 382 limitation as a result of our acquisition of Level 3. It should be noted that issuances or sales of our stock following the combination (including certain transactions outside of our control) could result in an ownership change of CenturyLink under Section 382, which may further limit its use of the NOLs. For these and other reasons, we cannot assure you that we will be able to use Level 3's NOLs in the amounts we project.

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 risks relating to such regulation.

General. Our domestic operations are regulated by the Federal Communications Commission (the "FCC"), various state utility commissions and occasionally by local agencies. Our non-domestic operations are regulated by supranational groups (such as the European Union), national agencies and, often, state, provincial or local bodies.

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 also operate in some areas of the world without licenses, as permitted through relationships with locally-licensed partners.

We are 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. The regulation of telecommunications networks and services around the world varies widely. In some countries, the range of services we are legally permitted to provide may be limited or may change. As noted above, in other countries existing telecommunications legislation is in development, is subject to currently ongoing proceedings, is unclear or inconsistent, or is applied in an unequal or discriminatory fashion, often in the absence of adjudicative forums that are adequate to address disputes. Accordingly, we cannot ensure that we are always considered to be in compliance with all these requirements at any single point in time (as discussed further elsewhere herein). Our inability or failure to comply with the telecommunications and other laws of one or more countries in which we operate could prevent us from commencing or continuing to provide service therein.

The agencies responsible for the enforcement of these laws, rules and regulations may initiate inquiries or actions based on customer complaints or on their own initiative. Even if we are ultimately found to have complied with applicable regulations, such actions or inquiries could create adverse publicity that negatively impacts our business.

Domestic regulation of the telecommunications industry continues to change, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. In addition, from time to time carriers or other third parties refuse to pay for certain of our services or challenge our rights to receive certain service payments. Our future revenues, costs, and capital investment could be adversely affected by material changes to or decisions regarding the applicability of government requirements, and we cannot assure you that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations.

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

Risks associated with recent changes in regulation. Changes in regulation can have a material impact on our business, revenues or financial performance. Changes over the past couple of decades in federal regulations have substantially impacted our operations. In 2011, the FCC adopted an order providing for a multi-year transition to a regulatory structure that reduces intercarrier compensation charges, redeploys universal service funding to newer technologies, and increases certain end-user charges. These changes, coupled with our participation in the new FCC support programs, have significantly impacted various aspects of our operations, financial results and capital expenditures, including the amount of revenues we collect from our wholesale customers and from federal support programs. We expect these impacts will continue in the future. For more information, see "Business—Regulation" in Item 1 of this report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

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.

Federal and state agencies that dispense universal service or other support program payments can, and from time to time do, reduce the amount of those payments to us and other carriers.

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

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

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

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

Risks posed by other regulations. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. In connection with our current operations, we use, handle and dispose of various hazardous and non-hazardous substances and wastes. In prior decades, certain of our current or former subsidiaries owned or operated, or are alleged to have owned or operated, manufacturing businesses, for which we have been notified of certain potential environmental liabilities regarding those past operations. We monitor our compliance with applicable regulations or commitments governing these current and past activities. Although we believe that we are in compliance with these regulations in all material respects, our use, handling and disposal of environmentally sensitive materials, or the prior operations of our predecessors, could expose us to claims or actions that could potentially have a material adverse effect on our business, financial condition and operating results.

For a discussion of regulatory risks associated with our international operations, see "Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks."

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

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

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

Since the creation of the Internet, there has been extensive debate about whether and how to regulate Internet service providers. A significant number of congressional leaders, state elected officials and various consumer interest groups have long advocated in favor of extensive regulation. In 2015, the FCC adopted new regulations that regulated broadband services as a public utility under Title II of the Communications Act of 1934. Although the FCC voted to repeal most of those regulations in December, 2017, opponents of the rescission have judicially challenged this action and will likely continue to advocate in favor of re-instituting extensive regulation. Depending on the content and scope of any such future federal or state regulations, the imposition of heightened regulation of our Internet operations 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. As the significance of the Internet expands, state, local or foreign governments may adopt new laws or regulations, or apply existing laws and regulations to the Internet. We cannot predict the outcome of any such changes.

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

The liability of private network operators for information asserted on or disseminated through their networks is impacted both by changing technology and evolving legal principles that remain unsettled in many jurisdictions. While we disclaim any liability for third-party content in our service contracts, 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. Although we believe our liability for these types of claims is limited, suits against other carriers have been successful and we cannot assure you that our defenses will prevail. 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.

Our pending legal proceedings could have a material adverse impact on our financial condition and operating results, the trading price of our securities and our ability to access the capital markets.

There are several material proceedings pending against us, as described in Note 16—Commitments and Contingencies to our consolidated financial statements included in Item 8 of this report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. We review our litigation accrual liabilities on a quarterly basis, but in accordance with applicable accounting guidelines only establish accrual liabilities when losses are deemed probable and reasonably estimable and only revise previously-established accrual liabilities when warranted by changes in circumstances, in each case based on then-available information. As such, as of any given date we could have exposure to losses under proceedings as to which no liability has been accrued or as to which the accrued liability is inadequate. For each of these reasons, any of the proceedings described in Note 16—Commitments and Contingencies, as well as current litigation not described therein or future litigation, could have a material adverse effect on our business, reputation, financial position, operating results, the trading price of our securities and our ability to access the capital markets. We can give you no assurances as to the ultimate impact of these matters on us.

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

We may be required to obtain from municipal authorities operating franchises to install or expand certain facilities related to our fiber transport operations and certain of our other services. Some of these franchises may require us to pay franchise fees, and may require us to pay fines or penalties if we violate or exit our related contractual commitments. In some cases, certain franchise requirements could delay us in expanding our operations or increase the costs of providing these services.

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

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

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Business—Regulation" in Item 1 of this report.

Risks Affecting Our Liquidity and Capital Resources

Our high debt levels expose us to a broad range of risks.

We continue to carry significant debt. As of December 31, 2017, the aggregate principal amount of our consolidated long-term debt was \$37.162 billion, excluding unamortized discounts, net, unamortized debt issuance costs and capital lease and other obligations. As of such date, \$1.588 billion aggregate principal amount of this long-term debt was scheduled to mature prior to December 31, 2020. While we currently believe we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of the credit markets or the economy generally.

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

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

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

A substantial portion of our indebtedness bears interest at variable rates. If market interest rates increase, our variable-rate debt will have higher debt service requirements, which could adversely impact our cash flows and financial condition.

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

Subject to certain limitations, our current debt agreements and the debt agreements of our subsidiaries allow us to incur additional debt, which could exacerbate the other risks described in this report.

Subject to certain limitations and restrictions, the current terms of our debt instruments and the debt instruments of our subsidiaries permit us or them to incur additional indebtedness. Incremental borrowings that impose additional financial risks could exacerbate the other risks described in this report.

We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all.

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt by CenturyLink, Inc., Qwest Corporation or Level 3 Financing, Inc. We may also need to obtain additional financing under a variety of other circumstances, including if:

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;
- we engage in additional acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to make pension or other benefits payments earlier or in greater amounts than currently anticipated;
- our payments of federal income taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements, including in connection with one or more of the matters discussed in Note 16—Commitments and Contingencies to our consolidated financial statements included elsewhere in this report.

Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Global financial markets continue to be unpredictable and volatile. Prevailing market conditions could be adversely affected by (i) general market conditions, such as disruptions in domestic or overseas sovereign or corporate debt markets, geo-political instabilities, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad and (ii) specific conditions in the communications industry. Volatility in the global markets could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all.

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities and other debt instruments, which are discussed further below.

Our access to funds under our revolving credit facility is further dependent upon the ability of the facility's lenders to meet their funding commitments. If one or more of the lenders fails to fund, the remaining lenders will not be legally obligated to rectify the funding shortfall.

For all the reasons mentioned above, we can give no assurance that additional financing for any of these purposes will be available on terms that are acceptable to us, or at all.

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, reducing or terminating our dividend payments, cutting costs or otherwise reducing our cash requirements, or negotiating with our lenders to restructure our applicable debt. Our current and future debt instruments may restrict, or market or business conditions may limit, our ability to do some of these things on favorable terms, or at all. For these and other reasons, we cannot assure you that we could implement these steps in a sufficient or timely manner, or at all. Moreover, any steps taken to strengthen our liquidity, such as cutting costs, could adversely impact our business or operations.

We have a complex debt structure, and our various debt agreements include restrictions and covenants that could (i) limit our ability to conduct operations or borrow additional funds, (ii) restrict our ability to engage in inter-company transactions and (iii) lead to the acceleration of our repayment obligations in certain instances.

CenturyLink, Inc. and various of its subsidiaries (including Embarq Corporation, Qwest Corporation, Qwest Capital Funding, Inc., Level 3 Financing, Inc. and Level 3 Parent, LLC) have borrowed substantial amounts of money from financial institutions or investors. Under the associated debt and financing arrangements, CenturyLink, Inc. and these subsidiaries are subject to various covenants and restrictions, the most restrictive of which pertain to the debt of CenturyLink, Inc. and the Level 3 entities.

CenturyLink, Inc.'s revolving and term loan debt arrangements contain several significant limitations restricting CenturyLink, Inc.'s ability to, among other things:

- borrow additional money or issue guarantees;
- pay dividends or other distributions to shareholders;
- make loans, advances or other investments;
- create liens on assets;
- sell assets;
- enter into sale-leaseback transactions;
- enter into transactions with affiliates; and
- engage in mergers or consolidations.

These above-listed restrictive covenants could materially adversely affect our ability to operate or expand our business, to pursue strategic transactions, or to otherwise pursue our plans and strategies.

The debt and financing arrangements of Level 3 Parent, LLC and its subsidiary Level 3 Financing, Inc. contain substantially similar limitations that restrict their operations on a standalone basis as a separate restricted group. Consequently, certain of these covenants may significantly restrict our ability to receive cash from Level 3, to distribute cash from Level 3 to other of our affiliated entities, or to enter into other transactions among our wholly-owned entities.

CenturyLink, Inc.'s above-referenced debt arrangements also contain financial covenants that require us to maintain certain financial ratios, and the term loan debt of Qwest Corporation includes a similar financial covenant. The ability of CenturyLink, Inc. and Qwest Corporation to comply with these provisions may be affected by events beyond their control.

The failure of CenturyLink, Inc. or any of its subsidiaries to comply with the above-described restrictive or financial covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. As noted elsewhere herein, we cannot assure you that we could adequately address any such defaults, cross-defaults or acceleration of our debt payment obligations in a sufficient or timely manner, or at all. For additional information, see "We expect to periodically require financing, and we cannot assure you that we will be able to obtain such financing on terms that are acceptable to us, or at all" and Note 5—Long-Term Debt and Credit Facilities.

Any downgrade in the credit ratings of us or our affiliates 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.

Nationally recognized credit rating organizations have issued credit ratings relating to CenturyLink, Inc.'s long-term debt and the long-term debt of several of its subsidiaries. Most of these ratings are below "investment grade", which results in higher borrowing costs than "investment grade" debt as well as reduced marketability of our debt securities. There can be no assurance that any rating assigned to any of these debt securities will remain in effect for any given period of time or that any such ratings will not be lowered, suspended or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances so warrant.

A downgrade of any of these credit ratings could:

- adversely affect the market price of some or all of our outstanding debt or equity securities;
- limit our access to the capital markets or otherwise adversely affect the availability of other new financing on favorable terms, if at all;
- trigger the application of restrictive covenants in certain of our debt agreements or result in new or more restrictive covenants in agreements governing the terms of any future indebtedness that we may incur;
- increase our cost of borrowing; and
- impair our business, financial condition and results of operations.

For more information on the credit ratings of our secured and unsecured debt, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt and Other Financing Arrangements” in Item 7 of this report.

Under certain circumstances upon a change of control, we will be obligated to offer to repurchase certain of our outstanding debt securities, which could have certain adverse ramifications.

Under our June 19, 2017 credit agreement, a “change of control” of CenturyLink, Inc. constitutes an event of default. Moreover, if the credit ratings relating to certain of our currently outstanding long-term debt securities are downgraded in the manner specified thereunder in connection with a “change of control” of CenturyLink, Inc., then we will be required to offer to repurchase such debt securities. The long-term debt securities of several of our subsidiaries include similar covenants that could, under similar circumstances in connection with a “change of control” of one of the subsidiaries, require us to offer to repurchase such securities. If, due to lack of cash, legal or contractual impediments, or otherwise, we fail to offer to repurchase such debt securities, such failure could constitute an event of default under such debt securities. Any default under our credit facility or these debt securities could in turn constitute a default under other of our agreements relating to our indebtedness outstanding at that time. Moreover, the existence of these repurchase covenants may in certain circumstances render it more difficult or discourage a sale or takeover of us, or the removal of our incumbent directors.

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

Our business is capital intensive. We expect to continue to require significant cash to maintain and expand our network to remain competitive.

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

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

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

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

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

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and their distribution of those earnings to us in the form of dividends, loans or other payments. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing or cash management purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. State law applicable to our subsidiaries restricts the amount of dividends that they may pay. Restrictions that have been or may be imposed by state regulators (either in connection with obtaining necessary approvals for our acquisitions or in connection with our regulated operations), and restrictions imposed by credit instruments or other agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included elsewhere in this report for further discussion of these matters.

We cannot assure you that we will continue paying dividends at the current rates, or at all.

For the reasons noted below, we cannot assure you that we will continue periodic dividends on our capital stock at the current rates, or at all.

As noted in the immediately preceding risk factor, because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends will depend on our subsidiaries generating a sufficient amount of earnings and cash flow and their ability to furnish funds to us in the form of dividends, loans or other payments.

Any quarterly dividends on our common stock and our outstanding shares of preferred stock will be paid from funds legally available for such purpose when, as and if declared by our Board of Directors. Decisions on whether, when and in which amounts to continue making any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason without prior notice, including without limitation any of the following:

- our supply of cash or other liquid assets is anticipated to remain under pressure for the various reasons described in this report;
- our cash requirements or plans might change for a wide variety of reasons, including changes in our financial position, capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding or other benefits payments;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and restrictions imposed by our existing or future credit facilities, debt securities, outstanding preferred stock securities, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions described in the immediately preceding risk factor.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock or our outstanding shares of preferred stock for any period for any reason without prior notice, regardless of whether we have funds legally available for such purposes. Holders of our equity securities should be aware that they have no contractual or other legal right to receive dividends.

Similarly, holders of our common stock should be aware that repurchases of our common stock under any repurchase plan then in effect are completely discretionary, and may be suspended or discontinued at any time for any reason regardless of our financial position.

Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.

The current practice of our Board of Directors to pay common share dividends reflects a current intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending may depend more than it otherwise would on our ability to obtain third party financing.

We cannot assure you whether, when or in what amounts we will be able to use our foreign or state net operating loss carryforwards, or when they will be depleted.

At December 31, 2017, we had state NOL carryforwards of approximately \$21 billion. These NOLs are comprised of \$11 billion from CenturyLink and \$10 billion from Level 3. A significant portion of the state NOL carryforwards are generated in states where separate company income tax returns are filed and our subsidiaries that generated the losses may not have the ability to generate income in sufficient amounts to realize these losses. In addition, certain of these state NOL carryforwards will be limited by state laws related to ownership changes. As a result, we expect to utilize only a small portion of the state NOL carryforwards, and consequently have determined that as of December 31, 2017, these state NOL carryforwards, net of federal benefit, had a net tax benefit (after giving effect to our valuation allowance) of \$481 million.

Additionally, we have foreign NOL carryforwards of \$5.8 billion as a result of the Level 3 acquisition. A significant portion of the foreign NOL carryforwards are generated in subsidiaries that do not have a history of earnings and may not have the ability to generate income in sufficient amounts to realize the losses. As of December 31, 2017, we have determined that these foreign NOL carryforwards had net benefit of \$293 million.

Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.

As of December 31, 2017, we had approximately 34,000 active employees participating in our company sponsored benefit plans, approximately 72,000 active and retired employees and surviving spouses eligible for post-retirement benefits, approximately 67,000 pension retirees and approximately 15,000 former employees with vested pension benefits participating in our benefit plans. The cost to fund the pension and healthcare benefit plans for our active and retired employees has a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and discount rates or other factors used to calculate the funding status of our pension and other post-retirement plans;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- increasing longevity of our employees and retirees;
- the impact of the continuing implementation, modification or potential repeal of current federal healthcare legislation and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- increases in insurance premiums we are required to pay to the Pension Benefit Guaranty Corporation, an independent agency of the United States government that must cover its own underfunded status by collecting premiums from a declining population of pension plans that are qualified under the U.S. tax code;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows available for other purposes. Similarly, depletion of assets placed in trust by us to fund these benefits, such as those discussed elsewhere herein, will similarly reduce our liquidity by reducing our cash flows available for other purposes.

As of December 31, 2017, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 9—Employee Benefits to our consolidated financial statements included in Item 8 of this report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations” included in Item 7 of this report.

For additional information concerning our liquidity and capital resources, see Item 7 of this report. For a discussion of certain currency and liquidity risks associated with our international operations, see “Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks.”

Other Risks

We face risks from natural disasters, which can disrupt our operations and cause us to incur substantial additional capital and operating costs.

A substantial number of our facilities are located in Florida, Alabama, Louisiana, Texas, North Carolina, South Carolina and other coastal states, which subjects them to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, flooded facilities, power outages, fuel shortages, damaged or destroyed property and equipment, and work interruptions. Although we maintain property and casualty insurance on our property (excluding our above ground outside plant) and may, under certain circumstances, be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to such natural disasters have historically been recoverable. We cannot predict whether we will continue to be able to obtain insurance for catastrophic hazard-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our losses. In addition, we expect any insurance of this nature to be subject to substantial deductibles, retentions and coverage exclusions, and the premiums to be based on our loss experience. For all these reasons, any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

Terrorist attacks and other acts of violence or war may adversely affect the financial markets and our business.

Future terrorist attacks or armed conflicts may directly affect our physical facilities or those of our customers. These events could cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and world financial markets and economy. Any of these occurrences could materially adversely affect our business.

If conditions or assumptions differ from the judgments, assumptions or estimates used in our critical accounting policies or forward-looking statements, 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 this 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.

While frequently presented with numeric specificity, the guidance and other forward-looking statements that we disseminate from time to time is based on numerous variables and assumptions (including, but not limited to, those related to industry performance and competition and general business, economic, market and financial conditions and additional matters specific to our business, as applicable) that are inherently subjective and speculative and are largely beyond our control. As a result, actual results may differ materially from our guidance or other forward-looking statements. Similarly, to adjust to evolving market conditions, we may change our intentions, strategies or plans at any time, which could materially alter our actual results from those previously anticipated. For additional information, see “Special Note Regarding Forward-Looking Statements and Related Matters” in Item 1 of this report.

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

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

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, 2017, approximately 57% of our total consolidated assets reflected on the consolidated balance sheet included in this report consisted of goodwill, customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time, we have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred. Any such charges could, in turn, have a material adverse effect on our results of operation, financial condition or ability to comply with financial covenants in our debt instruments.

The Tax Cuts and Jobs Act will have a substantial impact on us.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act significantly changes U.S. tax law by reducing the U.S. corporate income tax rate and making certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures, interest expense and various other items. Although we generally believe the net impact of this Act will be favorable to us, the Act is quite complex and certain of its features are expected to adversely impact us. Our views on the Act's ultimate impact on us are subject to change as we complete additional analysis, review regulations that will need to be adopted to implement the Act and monitor other future developments related to the Act's adoption.

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

Like all large businesses, we are subject to frequent and regular audits by the Internal Revenue Service as well as state and local tax authorities. These audits could subject us to tax liabilities if adverse positions are taken by these tax authorities.

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

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

The trading price of our common stock could be reduced if a large number of shares of our common stock are sold in the public market.

Our articles of incorporation currently authorize us to issue additional shares of our common stock, frequently without shareholder approval. Such additional issuances may dilute the beneficial ownership and voting power of our shareholders, and could reduce the trading price of our common stock. Similarly, the market price of our common stock could drop significantly if certain large holders of our common stock sell all or a substantial portion of their holdings in the public markets, or indicate their intent to do so. Similarly, the market price of our stock could be adversely affected if analysts or other market participants issue reports or make other statements that recommend the sale of our shares.

Our agreements and organizational documents and applicable law could limit another party's ability to acquire us.

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. These provisions could deprive our shareholders of any related takeover premium. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC on March 2, 2015.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our property, plant and equipment consists principally of telephone lines, cable, cable landing stations, 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,	
	2017	2016
Land	2%	2%
Fiber, conduit and other outside plant ⁽¹⁾	45%	43%
Central office and other network electronics ⁽²⁾	36%	35%
Support assets ⁽³⁾	15%	17%
Construction in progress ⁽⁴⁾	2%	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, cable landing stations, data centers, 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 both in the United States and internationally. Substantially all of our network electronics equipment is located in buildings or on land that we own or lease, typically 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 or in connection with legal challenges to our rights under such agreements. With the acquisition of Level 3 on November 1, 2017, we acquired, among other things, title or leasehold rights to various cable landing stations and data centers throughout the world related to undersea and terrestrial cable systems.

Our net property, plant and equipment was approximately \$26.9 billion and \$17.0 billion at December 31, 2017 and 2016, respectively. Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. For additional information, see Note 7—Property, Plant and Equipment to our consolidated financial statements in Item 8 of Part II of this report.

ITEM 3. LEGAL PROCEEDINGS

The information contained under the subheadings "Pending Matters" and "Other Proceedings and Disputes" in Note 16—Commitments and Contingencies to our consolidated financial statements included in Item 8 of Part II of this 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

Our common stock is listed on the New York Stock Exchange ("NYSE") and the Berlin Stock Exchange and is traded under the symbol CTL and CYT, respectively. The following table sets forth the high and low reported sales prices on the NYSE along with the quarterly dividends, for each of the quarters indicated.

	Sales Price		Cash Dividend per Common Share
	High	Low	
2017			
First quarter	\$ 26.29	22.33	0.540
Second quarter	27.61	23.05	0.540
Third quarter	24.14	18.17	0.540
Fourth quarter	20.55	13.16	0.540
2016			
First quarter	\$ 32.49	21.94	0.540
Second quarter	32.94	26.35	0.540
Third quarter	31.56	26.51	0.540
Fourth quarter	33.45	22.86	0.540

Dividends on common stock during 2017 and 2016 were paid each quarter. On February 21, 2018, our Board of Directors declared a common stock dividend of \$0.54 per share.

As described in greater detail in "Risk Factors" in Item 1A of Part I of this report, the declaration and payment of dividends is at the discretion of our Board of Directors, and will depend upon our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

At February 16, 2018, there were approximately 121,000 stockholders of record, although there were significantly more beneficial holders of our common stock. At February 16, 2018, the closing stock price of our common stock was \$18.93.

Issuer Purchases of Equity Securities

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the fourth quarter of 2017 to satisfy the related minimum tax withholding obligations:

Period	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
October 2017	4,554	\$ 20.00
November 2017	186,767	17.48
December 2017	140,448	15.57
Total	331,769	

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 report.

The tables of selected financial data shown below are derived from our audited consolidated financial statements, which include the operating results, cash flows and operational metrics of Level 3 for the 2 months ended December 31, 2017, and the assets and liabilities of Level 3 as of December 31, 2017. These historical results are not necessarily indicative of results that you can expect for any future period.

The following table summarizes selected financial information from our consolidated statements of operations.

	Years Ended December 31, ⁽¹⁾				
	2017 ⁽²⁾⁽³⁾⁽⁵⁾	2016 ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	2015 ⁽⁴⁾⁽⁵⁾	2014 ⁽⁴⁾⁽⁷⁾	2013 ⁽⁴⁾⁽⁸⁾
	(Dollars in millions, except per share amounts and shares in thousands)				
Operating revenues	\$ 17,656	17,470	17,900	18,031	18,095
Operating expenses	15,647	15,137	15,321	15,674	16,800
Operating income	\$ 2,009	2,333	2,579	2,357	1,295
Income before income tax expense	540	1,020	1,316	1,110	224
Net income (loss)	1,389	626	878	772	(239)
Basic earnings (loss) per common share	2.21	1.16	1.58	1.36	(0.40)
Diluted earnings (loss) per common share	2.21	1.16	1.58	1.36	(0.40)
Dividends declared per common share	2.16	2.16	2.16	2.16	2.16
Weighted average basic common shares outstanding	627,808	539,549	554,278	568,435	600,892
Weighted average diluted common shares outstanding	628,693	540,679	555,093	569,739	600,892

- (1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" in Item 7 of Part II of this report and in our preceding annual reports on Form 10-K for a discussion of unusual items affecting the results for each of the years presented.
- (2) The enactment of the Tax Cuts and Jobs Act legislation in December 2017 resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21%. The re-measurement resulted in a tax benefit of approximately \$1.1 billion.
- (3) During 2017 and 2016, we incurred Level 3 acquisition-related expenses of \$271 million and \$52 million, respectively. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisition of Level 3" and Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report.
- (4) In 2017, we adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" by retrospectively applying the requirements of the ASU to our previously issued consolidated financial statements. The adoption of ASU 2017-07 increased operating income and increased total other expense, net by \$2 million for the year ended December 31, 2016 and reduced operating income and decreased total other expense, net by \$26 million, \$53 million and \$158 million for the years ended December 31, 2015, 2014 and 2013, respectively.
- (5) During 2017, 2016 and 2015, we recognized an incremental \$186 million, \$201 million and \$215 million, respectively, of revenue associated with the Federal Communications Commission ("FCC") Connect America Fund Phase 2 support program, as compared to revenues received under the interstate USF program.
- (6) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions.
- (7) During 2014, we recognized a \$60 million tax benefit associated with a deduction for the tax basis for worthless stock in a wholly-owned foreign subsidiary and a \$63 million pension settlement charge.
- (8) During 2013, we recorded a non-cash, non-tax-deductible goodwill impairment charge of \$1.092 billion for goodwill attributed to one of our previous operating segments and a litigation settlement charge of \$235 million.

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

	As of December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Net property, plant and equipment ⁽¹⁾	\$ 26,852	17,039	18,069	18,433	18,646
Goodwill ⁽¹⁾	30,475	19,650	20,742	20,755	20,674
Total assets ⁽²⁾	75,611	47,017	47,604	49,103	50,471
Total long-term debt ⁽²⁾⁽³⁾	37,726	19,993	20,225	20,503	20,809
Total stockholders' equity	23,491	13,399	14,060	15,023	17,191

- (1) During 2016, as a result of our then pending sale of our colocation business and data centers, we reclassified \$1.071 billion in net property, plant and equipment and \$1.141 billion of goodwill to assets held for sale which is included in other current assets on our consolidated balance sheet. See Note 3—Sale of Colocation Business and Data Centers to our consolidated financial statements in Item 8 of Part II of this report, for additional information.
- (2) In 2015, we adopted both ASU 2015-03 "Simplifying the Presentation of Debt Issuance Costs" and ASU 2015-17 "Balance Sheet Classification of Deferred Taxes" by retrospectively applying the requirements of the ASUs to our previously issued consolidated financial statements. The adoption of both ASU 2015-03 and ASU 2015-17 reduced total assets by \$1.044 billion and \$1.316 billion in each year for the two years ended December 31, 2014, respectively, and ASU 2015-03 reduced total long-term debt by \$168 million and \$157 million in each year for the two years ended December 31, 2014, respectively.
- (3) Total long-term debt includes current maturities of long-term debt and capital lease obligations of \$305 million for the year ended December 31, 2016 associated with assets held for sale. For additional information on our total long-term debt, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report. 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 report.

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

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Net cash provided by operating activities	\$ 3,878	4,608	5,153	5,188	5,559
Net cash used in investing activities	(8,871)	(2,994)	(2,853)	(3,077)	(3,148)
Net cash provided by (used in) financing activities	5,358	(1,518)	(2,301)	(2,151)	(2,454)
Payments for property, plant and equipment and capitalized software	(3,106)	(2,981)	(2,872)	(3,047)	(3,048)

The following table presents certain of our selected operational metrics:

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Operational metrics:					
Total access lines ⁽¹⁾	10,282	11,090	11,748	12,394	13,002
Total broadband subscribers ⁽¹⁾	5,662	5,945	6,048	6,082	5,991

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

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 report. Certain statements in this report constitute forward-looking statements. See "Special Note Regarding Forward-Looking Statements and Related Matters" in Item 1 of Part I of this report for factors relating to these statements and "Risk Factors" in Item 1A of Part I of this report for a discussion of certain risk factors applicable to our business, financial condition, results of operations, liquidity or prospects.

Overview

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our residential and business customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

With approximately 450,000 route miles of fiber optic cable globally, we believe we are among the largest providers of communications services to global enterprise customers. Our terrestrial and subsea fiber optic long-haul network throughout North America, Europe and Latin America connects to metropolitan fiber networks that we operate. We operate in over 60 countries, with the substantial majority of our revenues being derived in the United States.

Based on our approximately 10.3 million total access lines at December 31, 2017, we believe we are the third largest wireline telecommunications company in the United States.

Acquisition of Level 3

On November 1, 2017, CenturyLink, Inc. ("CenturyLink") acquired Level 3 Communications, Inc. ("Level 3") through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. We entered into this transaction, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks.

During the year ended December 31, 2017, we recognized \$97 million of integration-related expenses associated with our activities related to the Level 3 acquisition. During 2017, we also recognized \$174 million in merger-related transaction costs, including investment banker and legal fees in connection with consummating the transaction.

Our consolidated financial statements include the accounts of CenturyLink and its majority owned subsidiaries, including Level 3 beginning on November 1, 2017. Due to the significant size of the acquisition, direct comparison of our results of operations for the periods ending on or after December 31, 2017 to prior periods are less meaningful than usual.

As a result of the acquisition, Level 3's assets and liabilities have been revalued and recorded at their preliminary estimated fair value. The assignment of estimated fair value requires a significant amount of judgment. The use of fair value measures affects the comparability of our post-acquisition financial information and may make it more difficult to predict earnings in future periods. We expect to complete our final fair value determinations prior to the first anniversary of the acquisition. Our final fair value determinations may be significantly different than those preliminary values reflected in our consolidated financial statements at December 31, 2017.

In the discussion that follows, we refer to the business that we operated prior to the Level 3 acquisition as "Legacy CenturyLink", and we refer to the incremental business activities that we now operate as a result of the Level 3 acquisition as "Legacy Level 3."

For additional information about our acquisition of Level 3, see (i) Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report, (ii) our current report on Form 8-K/A filed by us with the Securities and Exchange Commission (the "SEC") on January 16, 2018, (iii) our current report on Form 8-K filed by us with the SEC on November 1, 2017 and (iv) the definitive joint proxy statement/prospectus filed by us with the SEC on February 13, 2017.

Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for pre-tax cash proceeds of \$1.8 billion and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies. As part of the transaction, the Purchaser acquired 57 of our data centers and assumed our capital lease obligations, which amounted to \$294 million on May 1, 2017, related to the divested properties.

Our colocation business generated revenues (excluding revenue from affiliates) of \$210 million from January 1, 2017 through May 1, 2017, and \$622 million and \$626 million for the years ended December 31, 2016 and 2015, respectively (a small portion of which has been retained by us).

This transaction did not meet the accounting requirements for a sale-leaseback transaction as described in ASC 840-40, *Leases - Sale-Leaseback Transaction*. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera. The failed-sale-leaseback accounting treatment decreased net income by \$103 million on our consolidated results of operations for the year ended December 31, 2017.

After factoring in the costs to sell the data centers and colocation business, excluding the impacts from the failed-sale-leaseback accounting treatment, the sale resulted in a \$20 million gain as a result of the aggregate value of the consideration we received exceeding the carrying value of the assets sold and liabilities assumed. Based on the fair market values of the failed-sale-leaseback assets, the failed-sale-leaseback accounting treatment resulted in a loss of \$102 million as a result of the requirement to treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation. The combined net loss of \$82 million is included in selling, general and administrative expenses in our consolidated statement of operations for the year ended December 31, 2017. The sale also resulted in a significant capital loss carryforward, which was entirely offset by a valuation allowance due to our determination that we are not likely to be able to utilize this carryforward prior to its expiration.

For all of 2018, we will be required by GAAP to record similar non-cash adjustments to our net income. Upon the January 1, 2019 implementation of the new accounting standard for Leases (ASU 2016-02), which was issued by the FASB in early 2016, this particular accounting treatment will no longer be applicable for this transaction, and the above-described real estate assets and corresponding financing obligation will be derecognized from our consolidated balance sheet.

See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 8 of Part II of this report for additional information on the sale.

New Organizational Structure

In January 2017, we implemented a new organization structure designed to further strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as two segments, business and consumer. As a result of this reorganization, we changed the name of the predecessor business segment to "enterprise" segment. Additionally, we also reassigned our information technology, managed hosting, cloud hosting and hosting area network services from our business segment to a new non-reportable operating segment. We reported two segments, enterprise and consumer, from January 2017 through October 2017.

In connection with our acquisition of Level 3 (discussed further in Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report), effective November 1, 2017, we implemented a new organization structure and began managing our operations in two segments: business and consumer. Our consumer segment remains substantially unchanged under this reorganization, and our newly reorganized business segment includes the legacy CenturyLink enterprise segment operations and the legacy Level 3 operations. In addition, we reassigned our information technology, managed hosting, cloud hosting and hosting area network operations back into the business segment from the former non-reportable operating segment. At December 31, 2017, we had the following two segments:

- **Business Segment.** This segment consists generally of providing products and services to small, medium and enterprise business, wholesale and government customers, including other communication providers. Our products and services offered to these customers include our local and long-distance voice, VPN data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services, all of which are described further under "Operating Revenues"; and
- **Consumer Segment.** This segment consists generally of providing products and services to residential customers. Our products and services offered to these customers include our broadband, local and long-distance voice, video and other ancillary services.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017 ⁽¹⁾⁽²⁾	2016 ⁽²⁾⁽³⁾⁽⁴⁾	2015 ⁽³⁾
	(Dollars in millions except per share amounts)		
Operating revenues	\$ 17,656	17,470	17,900
Operating expenses	15,647	15,137	15,321
Operating income	2,009	2,333	2,579
Other expense, net	1,469	1,313	1,263
Income tax (benefit) expense	(849)	394	438
Net income	\$ 1,389	626	878
Basic earnings per common share	\$ 2.21	1.16	1.58
Diluted earnings per common share	\$ 2.21	1.16	1.58

- (1) The enactment of the Tax Cuts and Jobs Act legislation in December 2017 resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21%. The re-measurement resulted in a tax benefit of approximately \$1.1 billion.
- (2) During 2017 and 2016, we incurred Level 3 acquisition-related expenses of \$271 million and \$52 million, respectively. For additional information, see "Acquisition of Level 3" above and Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report.
- (3) In 2017, we adopted ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" by retrospectively applying the requirements of the ASU to our previously issued consolidated financial statements. The adoption of ASU 2017-07 increased operating income and increased total other expense, net by \$2 million for the year ended December 31, 2016 and reduced operating income and decreased total other expense, net by \$26 million for the year ended December 31, 2015.
- (4) During 2016, we recognized \$189 million of severance expenses and other one-time termination benefits associated with our workforce reductions.

The following table summarizes our access lines, broadband subscribers and number of employees as of December 31, 2017, 2016 and 2015:

	As of December 31,		
	2017	2016	2015
	(in thousands)		
Operational metrics:			
Total access lines ⁽¹⁾	10,282	11,090	11,748
Total broadband subscribers ⁽¹⁾	5,662	5,945	6,048
Total employees	51	40	43

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

During the last decade, we have experienced revenue declines primarily due to declines in access lines, private line customers, switched access rates and minutes of use. To mitigate these revenue declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- increase the capacity, speed and usage of our networks;
- provide a wide array of diverse services, including enhanced or additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;

- provide our premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable; and
- market our products and services to new customers.

Operating Revenues

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

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services and Vyvx broadcast services) and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services and other ancillary services;
- *Voice and collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary service;
- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services; and
- *Regulatory revenues*, which consist of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. The USF and CAF support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services. We generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties and from rental income associated with the failed-sale-leaseback. Because we centrally manage the activities that generate these regulatory revenues, these revenues are not included in our segment revenues.

For more information, see "Products and Services" in Item I of this report.

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

	Years Ended December 31,		Increase /	
	2017	2016	(Decrease)	% Change
	(Dollars in millions)			
IP & Data Services (1)	\$ 4,043	3,357	686	20 %
Transport & Infrastructure (2)	6,551	6,826	(275)	(4)%
Voice & Collaboration (3)	5,679	5,943	(264)	(4)%
IT & Managed Services (4)	651	640	11	2 %
Regulatory revenues (5)	732	704	28	4 %
Total operating revenues	\$ 17,656	17,470	186	1 %

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

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

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
IP & Data Services (1)	\$ 3,357	3,172	185	6 %
Transport & Infrastructure (2)	6,826	6,986	(160)	(2)%
Voice & Collaboration (3)	5,943	6,326	(383)	(6)%
IT & Managed Services (4)	640	687	(47)	(7)%
Regulatory revenues (5)	704	729	(25)	(3)%
Total operating revenues	<u>\$ 17,470</u>	<u>17,900</u>	<u>(430)</u>	<u>(2)%</u>

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

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

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

Our total operating revenues increased by \$186 million, or 1%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 due to the inclusion of \$1.39 billion in post-acquisition Legacy Level 3 operating revenues in our 2017 consolidated operating revenues. Total operating revenues for Legacy CenturyLink decreased by \$1.204 billion for the year ended December 31, 2017 as compared to the year ended December 31, 2016 and by \$430 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decline in total operating revenues for both periods reflects the continuing loss of access lines, loss of long-distance revenues primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including data and wireless communication services, and reductions in the volume of our private line (including business data services) services. Our total operating revenues for the year ended December 31, 2017 were also impacted by the May 1, 2017 sale of our data centers and colocation business, which resulted in a reduction of colocation revenues of \$396 million for the year ended December 31, 2017 as compared to the prior year period.

Further analysis of our segment operating revenues and trends impacting our performance are provided below in "Segment Results."

Operating Expenses

Our current definitions of operating expenses are as follows:

- *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 data integration and modem expenses); payments to 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); certain litigation expenses associated with our operations; and other expenses directly related to our operations; and
- *Selling, general and administrative expenses* are 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.

These expense classifications may not be comparable to those of other companies.

The following tables summarize our operating expenses:

	Years Ended December 31,		Increase /	
	2017	2016	(Decrease)	% Change
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 8,203	7,774	429	6%
Selling, general and administrative	3,508	3,447	61	2%
Depreciation and amortization	3,936	3,916	20	1%
Total operating expenses	<u>\$ 15,647</u>	<u>15,137</u>	<u>510</u>	<u>3%</u>

	Years Ended December 31,		Increase /	
	2016	2015	(Decrease)	% Change
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	\$ 7,774	7,778	(4)	— %
Selling, general and administrative	3,447	3,354	93	3 %
Depreciation and amortization	3,916	4,189	(273)	(7)%
Total operating expenses	<u>\$ 15,137</u>	<u>15,321</u>	<u>(184)</u>	<u>(1)%</u>

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

Cost of services and products (exclusive of depreciation and amortization) increased by \$429 million, or 6%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The increase in costs of services and products (exclusive of depreciation and amortization) was attributable to the inclusion of \$690 million in post-acquisition Legacy Level 3 costs (net of intercompany eliminations) in our consolidated costs of services and products (exclusive of depreciation and amortization). Costs of services and products (exclusive of depreciation and amortization) for Legacy CenturyLink decreased by \$261 million, or 3%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The decrease in cost of services and products (exclusive of depreciation and amortization) was primarily due to reductions in salaries and wages and employee benefits from lower headcount and healthcare costs, lower real estate and power expenses from the sale of the data centers and colocation business, and reduced customer premises equipment costs due to a decrease in sales of customer premises equipment and USF rates, which were partially offset by increases in facility costs. Cost of services and products (exclusive of depreciation and amortization) decreased by \$4 million, or less than 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in cost of services and products (exclusive of depreciation and amortization) was primarily due to reductions in salaries and wages from lower headcount, professional fees, payment processing fees and customer premises equipment costs, which were substantially offset by increases in content costs for Prism TV (resulting from higher content volume and rates), network expense and USF rates.

Selling, General and Administrative

Selling, general and administrative expenses increased by \$61 million, or 2%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The increase in selling, general and administrative expenses was primarily attributable to the inclusion of \$253 million in post-acquisition Legacy Level 3 expenses (net of intercompany eliminations) in our consolidated selling, general and administrative expenses. Legacy CenturyLink's selling, general and administrative expenses decreased by \$192 million, or 6%, primarily due to reductions in salaries and wages and employee benefits from lower headcount and healthcare costs, external commissions and bad debt expenses. These decreases were substantially offset by losses recognized from the sale of our data centers and colocation business and the related failed-sale-leaseback as further described in Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 8 of Part II of this report and increases in transaction and integration costs associated with the Level 3 acquisition. Selling, general and administrative expenses increased by \$93 million, or 3%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in selling, general and administrative expenses was primarily due to increases in severance expenses associated with workforce reductions, higher payments of employee health care claims, bad debt and other expenses (including fees related to the Level 3 acquisition), which were partially offset by reductions in professional fees and property and other taxes.

Depreciation and Amortization

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Depreciation	\$ 2,710	2,691	19	1%
Amortization	1,226	1,225	1	—%
Total depreciation and amortization	\$ 3,936	3,916	20	1%

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Depreciation	\$ 2,691	2,836	(145)	(5)%
Amortization	1,225	1,353	(128)	(9)%
Total depreciation and amortization	\$ 3,916	4,189	(273)	(7)%

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 network assets, the addition of new plant (including from the acquisition of Level 3) and the sale of our data centers and colocation business. Depreciation expense increased by \$19 million, or 1%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 and decreased by \$145 million, or 5%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in depreciation expense for the year ended December 31, 2017 was primarily attributable to the inclusion of \$143 million in post-acquisition Legacy Level 3 depreciation expense in our consolidated depreciation expense. Legacy CenturyLink's depreciation expense was lower for both periods due to full depreciation and retirement of certain plant placed in service prior to 2017 and 2016. Additionally, we ceased depreciating property, plant and equipment assets of our colocation business when we entered into the agreement to sell that business in late 2016. Absent the sale, we estimate that we would have recorded additional depreciation expense of \$54 million from January 1, 2017 through May 1, 2017 related to the conveyed property. These decreases were partially offset by an increase in depreciation expense attributable to new plant placed in service since January 1, 2016 and 2015, respectively. As a result of not meeting sale-leaseback accounting requirements, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera; therefore, we are required to reflect a portion of the real estate assets on our consolidated balance sheet and depreciate these assets over their useful lives. As further described in Note 3—Sale of Data Centers and Colocation Business, of the \$91 million increase in depreciation expense on these real estate assets, \$44 million is not expected to recur in future periods.

Amortization expense increased by \$1 million, or less than 1%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 and decreased by \$128 million, or 9%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in amortization expense for the year ended December 31, 2017 was primarily attributable to the inclusion of \$139 million in post-acquisition Legacy Level 3 amortization expense in our consolidated amortization expense. Legacy CenturyLink's amortization expense was lower for both periods primarily due to the use of accelerated amortization for a portion of our customer relationship assets and our entry into an agreement to sell our data centers and colocation business. The effect of using an accelerated amortization method results in an incremental decline in expense each period as the intangible assets amortize. We ceased amortizing the intangible assets of our colocation business when we entered into the agreement to sell that business. Absent the sale, we estimate that we would have recorded additional amortization expense of \$13 million from January 1, 2017 through May 1, 2017, related to the conveyed intangible assets. In addition, amortization of capitalized software was lower in both periods due to software becoming fully amortized faster than new software was acquired or developed.

Other Consolidated Results

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

	Years Ended December 31,		Increase / (Decrease)	% Change
	2017	2016		
(Dollars in millions)				
Interest expense	\$ (1,481)	(1,318)	163	12%
Other income, net	12	5	7	140%
Total other expense, net	\$ (1,469)	(1,313)	156	12%
Income tax (benefit) expense	\$ (849)	394	(1,243)	nm

	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Interest expense	\$ (1,318)	(1,312)	6	— %
Other income, net	5	49	(44)	(90)%
Total other expense, net	\$ (1,313)	(1,263)	50	4 %
Income tax expense	\$ 394	438	(44)	(10)%

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 \$163 million, or 12%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The increase in interest expense was primarily due to (i) the issuance of \$7.945 billion of term loans in 2017 for the purpose of providing funding for the Level 3 acquisition, (ii) the assumption of Level 3's debt upon the consummation of the acquisition of Level 3, which accounted for \$80 million in post-acquisition interest expense and (iii) the recognition of imputed interest expense resulting from the failed-sale-leaseback as further described in Note 3—Sale of Data Centers and Colocation Business. Interest expense increased by \$6 million, or less than 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The increase in interest expense was substantially due to a reduction in the amount of net premium amortization recorded at acquisition due to the early retirement of several issuances of debt during the period, which has the effect of increasing interest expense, and an increase in interest expense on unsecured notes related to the issuance of \$1.0 billion of new debt in April, 2016 in advance of a debt maturity in June, 2016.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from non-operating asset dispositions, foreign currency gains and losses and components of net periodic pension and postretirement benefit costs. Other income (expense), net increased by \$7 million, or 140%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. This increase in other income, net was primarily due to a reduction in the loss on early retirement of debt, an increase in interest income from the \$6 billion Term Loan B funds held in escrow and income generated from our services agreements with Cyxtera, which was substantially offset by a lower expected return on assets in 2017 for our pension and post-retirement plans. The expected return on assets for our pension and post-retirement plans was lower in 2017 as compared to 2016, which resulted in us recording pension and post-retirement expense in 2017 as compared to recording pension and post-retirement income in 2016. Other income, net decreased by \$44 million, or 90%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This decrease in other income, net was primarily due to losses on early retirement of debt, which was partially offset by the impact of nonrecurring funding from a state economic development program.

Income Tax (Benefits) Expense

The enactment of the Tax Cuts and Jobs Act legislation in December 2017 resulted in a re-measurement of our deferred tax assets and liabilities at the new federal corporate tax rate of 21%. The re-measurement resulted in a tax benefit of approximately \$1.1 billion recorded in the fourth quarter of 2017, which was the predominant factor contributing to our recognition of an \$849 million income tax benefit for 2017, versus income tax expense of \$394 million in the prior year. Income tax expense decreased by \$44 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. For the years ended December 31, 2017, 2016 and 2015, our effective income tax rate was (157.2)%, 38.6% and 33.3%, respectively. The effective tax rate for the year ended December 31, 2017 reflects the benefit from the re-measurement of deferred taxes as noted above, a \$27 million tax expense related to the sale of our data centers and colocation business and a \$32 million tax impact of non-deductible transaction costs related to the Level 3 acquisition. The effective tax rate for the year ended December 31, 2016 reflects a tax impact of \$18 million from an intercompany dividend payment from one of our foreign subsidiaries to its domestic parent company that was made as part of our corporate restructuring in preparation for the sale of our colocation business. The effective tax rate for the year ended December 31, 2015 reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015, and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating loss carryforwards ("NOLs"). See Note 13—Income Taxes to our consolidated financial statements in Item 8 of Part II of this report and "Critical Accounting Policies and Estimates—Income Taxes" below for additional information.

Segment Results

The results for our business and consumer segments are summarized below for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Total segment revenues	\$ 16,924	16,766	17,171
Total segment expenses	9,390	9,081	9,025
Total segment income	\$ 7,534	7,685	8,146
Total margin percentage	45%	46%	47%
Business segment:			
Revenues	\$ 11,220	10,704	10,977
Expenses	6,847	6,391	6,395
Income	\$ 4,373	4,313	4,582
Margin percentage	39%	40%	42%
Consumer segment:			
Revenues	\$ 5,704	6,062	6,194
Expenses	2,543	2,690	2,630
Income	\$ 3,161	3,372	3,564
Margin percentage	55%	56%	58%

The following table reconciles our total segment revenues and total segment income presented above to consolidated operating revenues and consolidated operating income reported in our consolidated statements of operations.

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Total segment revenues	\$ 16,924	16,766	17,171
Regulatory revenues	732	704	729
Operating revenues reported in our consolidated statements of operations	<u>\$ 17,656</u>	<u>17,470</u>	<u>17,900</u>
Total segment income	\$ 7,534	7,685	8,146
Regulatory revenues	732	704	729
Depreciation and amortization	(3,936)	(3,916)	(4,189)
Non-segment expenses	(2,321)	(2,140)	(2,107)
Operating income reported in our consolidated statements of operations	<u>\$ 2,009</u>	<u>2,333</u>	<u>2,579</u>

Products and Services

In connection with our acquisition of Level 3 on November 1, 2017, we revised the way we categorize our products and services and now report our related revenues under the following categories: IP and data services, transport and infrastructure, voice and collaboration, IT and managed services and regulatory revenues. From time to time, we change the categorization of our products and services, and we may make similar changes in the future.

We offer our customers the ability to bundle together several products and services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Business Segment

The operations of our business segment have been impacted by several significant trends, including those described below:

Our mix of total business segment revenues continues to migrate from traditional wireline voice services to newer, lower cost more technologically advanced products and services as our small, medium and enterprise business, wholesale and government customers increasingly demand integrated data, broadband, hosting and voice services. Our Ethernet-based services in the wholesale market face competition from cable companies and competitive fiber-based telecommunications providers. We anticipate continued pricing pressure for our colocation services as our competitors continue to expand their enterprise colocation operations. In recent years, our competitors, as well as several large, diversified technology companies, have made substantial investments in cloud computing. This expansion in competitive cloud computing offerings has led to increased pricing pressure, a migration towards lower-priced cloud-based services and enhanced competition for contracts, and we expect these trends to continue. Customers' demand for new technology has also increased the number of competitors offering services similar to ours. Price compression from each of these above-mentioned competitive pressures has negatively impacted the operating margins of certain business product and service offerings, and we expect this trend to continue. Our traditional wireline products and services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. In particular, our access, local services and long-distance revenues have been, and we expect will continue to be, adversely affected by customer migration to more technologically advanced services, a substantial increase in the use of non-voice communications, industry consolidation and price compression caused by regulation and rate reductions. For example, many of our business segment customers are substituting cable, wireless and Voice over Internet Protocol ("VoIP") services for traditional voice telecommunications services, resulting in continued access revenue loss. Demand for our private line services (including business data services) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. Although our traditional wireline services generally face fewer direct competitors than certain of our newer, lower cost more advanced products and services, customer migration and, to a lesser degree, price compression from competitive pressures have negatively impacted our traditional wireline revenues and the operating margins of these services. We expect this trend to continue. We expect both equipment sales and professional services revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local government customers, many of whom have experienced substantial budget cuts over the past several years, with the possibility of additional future budget cuts.

Our operating costs also impact the operating margins of all of our above-mentioned services, but to a lesser extent than price compression and customer disconnects. These operating costs include employee costs, sales commissions, software costs on selected services, installation costs and third-party facility costs. We believe increases in operating costs have generally had a greater impact on the operating margins of some of our newer, more technologically advanced services as compared to our traditional wireline services, principally because those newer services rely more heavily upon the above-listed support functions. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our traditional wireline products and services, but to a lesser extent than customer loss, customer migration and price compression.

We continue to evaluate our segment 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, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our business segment:

	Business Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2017	2016			
	(Dollars in millions)				
Segment revenues:					
IP & Data Services (1)	\$	3,595	2,851	744	26 %
Transport & Infrastructure (2)		3,680	3,929	(249)	(6)%
Voice & Collaboration (3)		3,294	3,284	10	— %
IT & Managed Services (4)		651	640	11	2 %
Total segment revenues		11,220	10,704	516	5 %
Segment expenses:					
Total expenses		6,847	6,391	456	7 %
Segment income	\$	4,373	4,313	60	1 %
Segment margin percentage		39%	40%		

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- (1) Includes primarily VPN data network, Ethernet, IP and ancillary revenues.
(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.
(3) Includes local, long-distance and other ancillary revenues.
(4) Includes IT services and managed services revenues.

	Business Segment			
	Years Ended December 31,		Increase / (Decrease)	% Change
	2016	2015		
	(Dollars in millions)			
Segment revenues:				
IP & Data Services (1)	\$ 2,851	2,704	147	5 %
Transport & Infrastructure (2)	3,929	4,157	(228)	(5)%
Voice & Collaboration (3)	3,284	3,429	(145)	(4)%
IT & Managed Services (4)	640	687	(47)	(7)%
Total segment revenues	10,704	10,977	(273)	(2)%
Segment expenses:				
Total expenses	6,391	6,395	(4)	— %
Segment income	\$ 4,313	4,582	(269)	(6)%
Segment margin percentage	40%	42%		

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- (1) Includes primarily VPN data network, Ethernet, IP and ancillary revenues.
(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.
(3) Includes local, long-distance and other ancillary revenues.
(4) Includes IT services and managed services revenues.

Segment Revenues

Business segment revenues increased by \$516 million, or 5%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 due to the inclusion of \$1.39 billion in post-acquisition Legacy Level 3 business segment revenues in our consolidated business segment revenues. Business segment revenues for Legacy CenturyLink decreased by \$874 billion for the year ended December 31, 2017 as compared to the year ended December 31, 2016 and by \$273 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decline in business segment revenues for both periods is attributable to a reduction in access lines and lower volumes of long-distance and access services resulting from the competitive and technological factors noted above and to reductions in the volume of private line (including business data services) services. Our business segment revenues for the year ended December 31, 2017 were also impacted by the May 1, 2017 sale of our data centers and colocation business, which resulted in a reduction of colocation revenues of \$396 million for the year ended December 31, 2017 as compared to the prior year period.

Segment Expenses

Business segment expenses increased by \$456 million, or 7%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016, primarily due to the inclusion of \$749 million in post-acquisition Legacy Level 3 business segment expenses in our consolidated business segment expenses. Business segment expenses for Legacy CenturyLink decreased by \$293 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to decreases in salaries and wages and employee benefits from lower headcount, real estate and power costs due to the sale of the data centers and colocation business, marketing and advertising expenses and network expense. These decreases were partially offset by an increase in facility costs. Business segment expenses for Legacy CenturyLink decreased by \$4 million, or less than 1%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease in our business segment expenses was primarily due to decreases in salaries and wages, professional fees and payment processing fees, which were substantially offset by increases in facility costs, network expense and real estate and power costs.

Segment Income

Business segment income increased by \$60 million, or 1%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to the inclusion of \$641 million in post-acquisition Legacy Level 3 business segment net income and decreased by \$269 million, or 6%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decrease of \$581 million in Legacy CenturyLink business segment income for the year ended December 31, 2017 was due to the loss of customers, lower service volumes and the loss of income generated by our colocation business. The decrease in business segment income for the year ended December 31, 2016 was due predominantly to the loss of customers and lower service volumes.

Consumer Segment

The operations of our consumer segment have been impacted by several significant trends, including those described below:

In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. 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 consumers already have broadband services and growth rates in new subscribers have slowed or declined. Moreover, as described further in Item 1A of Part I of this report, certain of our competitors continue to provide broadband services at higher average transmission speeds than ours or through advanced wireless data service offerings, both of which we believe have impacted the competitiveness of certain of our broadband offerings. The offering of our facilities-based video services in our markets has required us to incur substantial start-up expenses in advance of marketing and selling the service. Also, our associated content costs continue to increase and the video business has become more competitive as more options become available to customers to access video services through new technologies. The demand for new technology has increased the number of competitors offering services similar to ours. Price compression and new technology from our competitors have negatively impacted the operating margins of our newer, more technologically advanced products and services and we expect this trend to continue. Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses and lower long-distance voice service volumes. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of higher margin services associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below. Customer migration and price compression from competitive pressures have not only negatively impacted our traditional wireline services revenues, but they have also negatively impacted the operating margins of these services and we expect this trend to continue.

Operating costs also impact the operating margins of these services. These operating costs include employee costs, marketing and advertising expenses, sales commissions, TV content costs and installation costs. We believe increases in operating costs have generally had a greater impact on our operating margins of our newer, more technologically advanced products and services as compared to our traditional wireline services, principally because our newer, more technologically advanced products and services rely more heavily upon the above-listed operating expenses. Operating costs, such as installation costs and facility costs, have also negatively impacted the operating margins of our traditional wireline products and services, but to a lesser extent than customer migration and price compression. Operating costs also tend to impact our traditional wireline products and services margins to a lesser extent than our newer, more technologically advanced products and services as noted above.

Service bundling and product promotions. We offer our customers the ability to bundle multiple products and services. These customers can bundle broadband services with other services such as local voice, video and long-distance. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment due to the related discounts; and

Operating efficiencies. We continue to evaluate our segment 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. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

	Consumer Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2017	2016			
	(Dollars in millions)				
Segment revenues:					
IP & Data Services (1)	\$	448	506	(58)	(11)%
Transport & Infrastructure (2)		2,871	2,897	(26)	(1)%
Voice & Collaboration (3)		2,385	2,659	(274)	(10)%
Total segment revenues		5,704	6,062	(358)	(6)%
Segment expenses:					
Total expenses		2,543	2,690	(147)	(5)%
Segment income	\$	3,161	3,372	(211)	(6)%
Segment income margin percentage		55%	56%		

- (1) Includes retail video revenues (including our facilities-based video revenues).
(2) Includes primarily broadband and equipment sales and professional services revenues.
(3) Includes local, long-distance and other ancillary revenues.

	Consumer Segment				
	Years Ended December 31,		Increase / (Decrease)	% Change	
	2016	2015			
	(Dollars in millions)				
Segment revenues:					
IP & Data Services (1)	\$	506	468	38	8 %
Transport & Infrastructure (2)		2,897	2,829	68	2 %
Voice & Collaboration (3)		2,659	2,897	(238)	(8)%
Total segment revenues		6,062	6,194	(132)	(2)%
Segment expenses:					
Total expenses		2,690	2,630	60	2 %
Segment income	\$	3,372	3,564	(192)	(5)%
Segment income margin percentage		56%	58%		

- (1) Includes retail video revenues (including our facilities-based video revenues).
(2) Includes primarily broadband and equipment sales and professional services revenues.
(3) Includes local, long-distance and other ancillary revenues.

Segment Revenues

Consumer segment revenues decreased by \$358 million, or 6%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The decrease in our consumer segment revenues was primarily due to lower local and long-distance voice service volumes associated with access line losses resulting from the competitive and technological factors noted above and a decrease in the number of Prism TV customers. Consumer segment revenues decreased by \$132 million, or 2%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decline in consumer segment services revenues was primarily due to declines in local and long-distance services volumes associated with access line losses resulting from the competitive and technological factors as further described above. These declines were partially offset by an increase in the number of Prism TV customers and various pricing initiatives for broadband, Prism TV and other products and services, which were partially offset by a decline in broadband customers.

Segment Expenses

Consumer segment expenses decreased by \$147 million, or 5%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016. The decrease in our consumer segment expenses was primarily due to decreases in salaries and wages and employee benefits from lower headcount, external commissions and USF surcharges from rate decreases, which were partially offset by increases in marketing and advertising expenses. Consumer segment expenses increased by \$60 million, or 2%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. This increase in our consumer segment expenses was primarily due to increases in costs related to Prism TV (resulting from higher volume and rates), professional fees, sales commissions, bad debt expense and network costs, which were partially offset by reductions in salaries and wages from lower headcount and payment processing fees.

Segment Income

Consumer segment income decreased by \$211 million, or 6%, for the year ended December 31, 2017 as compared to the year ended December 31, 2016 and by \$192 million, or 5%, for the year ended December 31, 2016 as compared to the year ended December 31, 2015. The decline in our consumer segment income for both periods was primarily due to loss of customers and increases in the costs associated with Prism TV.

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) business combinations, (ii) goodwill, customer relationships and other intangible assets; (iii) property, plant and equipment; (iv) pension and post-retirement benefits; (v) loss contingencies and litigation reserves; (vi) Connect America Fund; and (vii) 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 were made. However, there can be no assurance that actual results will not differ from those estimates.

Business Combination

We have accounted for our acquisition of Level 3 on November 1, 2017, under the acquisition method of accounting, whereby the tangible and separately identifiable intangible assets acquired and liabilities assumed are recognized at their preliminary estimated fair values at the acquisition date. The portion of the purchase price in excess of the preliminary estimated fair value of the net tangible and separately identifiable intangible assets acquired represents goodwill. The preliminary estimates of fair value and resulting assignment of the purchase price related to our acquisition of Level 3 involved significant estimates and judgments by our management. In arriving at the preliminary fair values of assets acquired and liabilities assumed, we considered the following generally accepted valuation approaches: the cost approach, income approach and market approach. Our preliminary estimates also included assumptions about projected growth rates, cost of capital, effective tax rates, tax amortization periods, technology life cycles, the regulatory and legal environment and industry and economic trends. For additional information about our acquisition of Level 3, see Note 2—Acquisition of Level 3 to our consolidated financial statements in Item 8 of Part II of this report.

Goodwill, Customer Relationships and Other Intangible Assets

We amortize customer relationships primarily over an estimated life of 7 to 15 years, using either the sum-of-the-years-digits or the straight-line methods, depending on the customer retention patterns for the type of customer at the companies we acquire. We amortize capitalized software using the straight-line method over estimated lives ranging up to 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We annually review the estimated lives and methods used to amortize our other intangible assets, primarily capitalized software. The amount of future amortization expense may differ materially from current amounts, depending on the results of our annual reviews.

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. We assign goodwill to the reporting units using a relative fair value approach. We utilize the trailing twelve months earnings before interest, taxes, depreciation and amortization as our allocation methodology as we believe that it represents a reasonable proxy for the fair value of the operations being reorganized. The use of other fair value assignment methods could result in materially different results. For additional information on our segments, see Note 14—Segment Information to our consolidated financial statements in Item 8 of Part II of this report.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of our reporting units. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in any of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment test. Our annual assessment date for testing goodwill impairment is October 31.

As of October 31, 2017, we assessed goodwill for impairment for our three reporting units, which we determined to be enterprise (excluding wholesale), consumer and wholesale and determined that the estimated fair value of our wholesale reporting unit was substantially in excess of our carrying value of equity and the estimated fair value of our enterprise and consumer reporting units exceeded our carrying value of equity by approximately 9.0% and 4.0%, respectively.

For additional information on our goodwill balances by segment, see Note 4—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of Part II of this report.

We may be required to assess our goodwill for impairment before our next required assessment date of October 31, 2018 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 stock price and resulting market capitalization as a result of an adverse change to our overall business operations; (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 one or more of our subsidiaries that are a component of our segments. For additional information, see "Risk Factors" in Item 1A of Part I of this 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, 2018.

Property, Plant and Equipment

Property, plant and equipment acquired in connection with our acquisitions was recorded based on its estimated fair value as of its acquisition date, plus the estimated value of any associated legally or contractually required asset retirement obligation. Purchased and constructed property, plant and equipment is recorded at cost, plus the estimated value of any associated legally or contractually required asset retirement obligation. 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 3 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 and equipment 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 \$420 million annually or increased depreciation expense by approximately \$550 million annually, respectively.

Pension and Post-retirement Benefits

We sponsor a noncontributory qualified defined benefit pension plan (referred to as our qualified pension plan) for a substantial portion of our employees. In addition to this tax-qualified pension plan, we also maintain several non-qualified pension plans for certain eligible highly compensated employees. We also maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. On November 1, 2017, we assumed Level 3's pension and post-retirement plans, and certain obligations associated with these plans. Due to the insignificant impact of these plans on our consolidated financial statements, we have excluded them from the following pension and post-retirement benefits disclosures for 2017.

In 2017, approximately 58% of the qualified pension plan's January 1, 2017 net actuarial loss balance of \$3.134 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 9 to 10 years for the plan. The other 42% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2017. The entire beginning net actuarial loss of \$137 million for the post-retirement benefit plans was treated as indefinitely deferred during 2017.

In 2016, approximately 53% of the qualified pension plan's January 1, 2016 net actuarial loss balance of \$2.843 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 9 to 10 years for the plan. The other 47% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2016. The entire beginning net actuarial loss of \$147 million for the post-retirement benefit plans was treated as indefinitely deferred during 2016.

In 2015, approximately 45% of the qualified pension plan's January 1, 2015 net actuarial loss balance of \$2.740 billion was subject to amortization as a component of net periodic expense over the average remaining service period of participating employees expected to receive benefits, which ranges from 8 to 9 years for the plan. The other 55% of the qualified pension plan's beginning net actuarial loss balance was treated as indefinitely deferred during 2015. The entire beginning net actuarial loss of \$277 million for the post-retirement benefit plans was treated as indefinitely deferred during 2015.

In computing our pension and post-retirement health care and life insurance benefit obligations, our most significant assumptions are the discount rate and mortality rates. In computing our periodic pension and post-retirement benefit expense, our most significant assumptions are the discount rate and the expected rate of return on plan assets.

The discount rate for each plan is the rate at which we believe we could effectively settle the plan's benefit obligations as of the end of the year. We selected each plan's discount rate based on a cash flow matching analysis using hypothetical yield curves from U.S. corporate bonds rated high quality and projections of the future benefit payments that constitute the projected benefit obligation for the plans. This process establishes the uniform discount rate that produces the same present value of the estimated future benefit payments as is generated by discounting each year's benefit payments by a spot rate applicable to that year. The spot rates used in this process are derived from a yield curve created from yields on the 60th to 90th percentile of U.S. high quality bonds.

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2017 and 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by \$122 million and \$149 million in 2017 and 2016, respectively, when compared to the pre-2016 methodology. This change was treated as a change in accounting estimate and, accordingly, we did not adjust the amounts recorded in 2015.

Mortality rates help predict the expected life of plan participants and are based on historical demographic studies by the Society of Actuaries ("SOA"). The SOA publishes new mortality rates (mortality tables and projection scales) on a regular basis which reflect updates to projected life expectancies in North America. Historically, we have adopted the new projection tables immediately after publication. In 2017, we adopted the revised mortality tables and projection scale released by the SOA, which decreased the projected benefit obligation of our benefit plans by \$113 million. In 2016, we adopted the revised mortality table and projection scale released by the SOA, which decreased the projected benefit obligation of our benefit plans by \$268 million. The 2015 revised mortality table and projection scale decreased the 2015 projected benefit obligation of our benefit plans by \$379 million. The change in the projected benefit obligation of our benefit plans was recognized as part of the net actuarial loss and is included in accumulated other comprehensive loss, a portion of which is subject to amortization over the remaining estimated life of plan participants, which was approximately 9 to 10 years as of December 31, 2017.

The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets in the future, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations to which we then add a factor of 50 basis points to reflect the benefit we expect to result from our active management of the assets. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

To compute the expected return on pension and post-retirement benefit plan assets, we apply an expected rate of return to the fair value of the pension plan assets and to the fair value of the post-retirement benefit plan assets adjusted for contribution timing and for projected benefit payments to be made from the plan assets. Annual market volatility for these assets (higher or lower than expected return) is reflected in the net actuarial losses.

Changes in any of the above factors could significantly impact operating expenses in the consolidated statements of operations and other comprehensive income (loss) in the consolidated statements of comprehensive income as well as the value of the liability and accumulated other comprehensive loss of stockholders' equity on our consolidated balance sheets. The expected return on plan assets is reflected as a reduction to our pension and post-retirement benefit expense. If our assumed expected rates of return for 2017 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2017 would have increased by \$103 million. If our assumed discount rates for 2017 were 100 basis points lower, our qualified pension and post-retirement benefit expenses for 2017 would have increased by \$63 million and our projected benefit obligation for 2017 would have increased by approximately \$1.780 billion.

Loss Contingencies and Litigation Reserves

We are involved in several material legal proceedings, as described in more detail in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this report. We periodically assess potential losses in relation to these and other pending or threatened tax and legal matters. 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. To the extent these estimates are more or less than the actual liability resulting from the resolution of these matters, our earnings will be increased or decreased accordingly. If the differences are material, our consolidated financial statements could be materially impacted.

For matters related to income taxes, if we determine in our judgment 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 in our financial statements 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 we determine in our judgment that the position has less than a 50% likelihood of being sustained. Though the validity of any tax position is a matter of tax law, the body of statutory, regulatory and interpretive guidance on the application of the law is complex and often ambiguous. Because of this, whether a tax position will ultimately be sustained may be uncertain.

Connect America Fund

In 2015, we accepted CAF funding from the FCC of approximately \$500 million per year for six years to fund the deployment of voice and broadband capable infrastructure for approximately 1.2 million rural households and businesses (living units) in 33 states under the CAF Phase 2 high-cost support program. This program provides a monthly high-cost subsidy similar to the support provided by the FCC's previous cost reimbursement programs. Although we believe that there is no specific authoritative U.S. GAAP guidance for the treatment of government assistance, we identified three acceptable methods to account for these funds: (1) recognize revenue when entitled to receive cash, (2) defer cash received until the living units are enabled to receive the service at the FCC specified level, or (3) record the cash received as contra capital. After assessing these alternatives, we have determined that we will recognize CAF Phase 2 funds each month as revenue when we are entitled to receive the cash less a deferred amount. The amount of revenue deferred in 2017 was approximately \$94 million. We believe our recognition methodology is consistent with other companies in our industry in the United States, but may not necessarily be consistent with companies outside the United States that receive similar government funding, and we cannot provide assurances to this effect.

In computing the amount of revenue to recognize, we assume that we will not be able to economically enable 100% of the required living units in every state with voice and broadband capabilities under the CAF Phase 2 program. We defer recognition of the funds related to potential living units that we estimate we will not enable until we can with reasonable assurance determine that we can fully meet the enablement targets. As disclosed elsewhere herein, in some limited instances, a portion of the funds must be returned if enablement targets are not attained. Based on estimated enablement, a hypothetical 1% decrease in our estimate of living units we will not enable with voice and broadband capabilities under the CAF Phase 2 program would have increased our revenue by \$7 million in 2017, and a 1% increase would have decreased our revenue by \$29 million in 2017.

For additional information about the CAF Phase 2 support program, see "Business—Regulations" in Item 1 of Part I of this report.

Income Taxes

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, differences between the financial statement carrying value of assets and liabilities and the tax bases of those assets and liabilities and tax net operating loss carryforwards, or NOLs. 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. 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.

In connection with recording deferred income tax assets and liabilities, we establish valuation allowances when necessary to reduce deferred income tax assets to amounts that we believe are more likely than not to be realized. We evaluate our deferred tax assets quarterly to determine whether adjustments to our valuation allowance are appropriate in light of changes in facts or circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law. In making this evaluation, we rely on our recent history of pre-tax earnings. We also rely on our forecasts of future earnings and the nature and timing of future deductions and benefits represented by the deferred tax assets, all which involve the exercise of significant judgment. At December 31, 2017, we established a valuation allowance of \$1.341 billion primarily related to foreign and state NOLs that we acquired from Level 3, as it is more likely than not that these NOLs will expire unused. If forecasts of future earnings and the nature and estimated timing of future deductions and benefits change in the future, we may determine that a valuation allowance for certain deferred tax assets is appropriate, which could materially impact our financial condition or results of operations. See Note 13—Income Taxes to our consolidated financial statements in Item 8 of Part II of this report for additional information.

Liquidity and Capital Resources

Overview of Sources and Uses of Cash

We are a holding company that is dependent on the capital resources of our subsidiaries to satisfy our parent company liquidity requirements. Several of our significant operating subsidiaries have borrowed funds either on a standalone basis or as part of a separate restricted group with certain of its subsidiaries or affiliates. The terms of the instruments governing the indebtedness of these borrowers or borrowing groups may restrict our ability to access their accumulated cash. In addition, our ability to access the liquidity of these and other subsidiaries may be limited by tax and legal considerations and other factors.

At December 31, 2017, we held cash and cash equivalents of \$551 million and we had \$1.595 billion of borrowing capacity available under the then existing terms of our revolving credit facility. We had approximately \$186 million of cash and cash equivalents outside the United States at December 31, 2017. We currently believe we have the ability to repatriate cash and cash equivalents into the United States without paying or accruing U.S. taxes, other than the possible payment of the Deemed Repatriation Transition Tax discussed elsewhere herein and other limited exceptions. We do not currently intend to repatriate to the United States any of our foreign cash and cash equivalents from operating entities outside of Latin America. We have no material restrictions on our ability to repatriate to the United States foreign cash and cash equivalents.

Our acquisition of Level 3 on November 1, 2017, resulted in significant changes in our consolidated financial position, our debt structure and our future cash requirements.

Our executive officers and our Board of Directors periodically review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from operating activities, and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic stock repurchases, periodic pension contributions and other benefits payments. As discussed further below, the amount of cash we paid in 2017 for income taxes and retiree healthcare benefits increased substantially compared to prior periods. We currently expect our cash income tax payments will be lower in 2018 due to the utilization of the NOLs acquired in the Level 3 acquisition, and we expect that our cash paid for retiree healthcare benefits will remain flat.

Based on our current capital allocation objectives, during 2018 we project expending approximately \$3.8 billion to \$3.9 billion (excluding integration capital) of cash for capital investment in property, plant and equipment and approximately \$2.3 billion of cash for dividends on our common stock (based on the assumptions described below under "Dividends"). At December 31, 2017, we have debt maturities of \$188 million, scheduled debt principal payments of \$157 million and capital lease and other fixed payments of \$98 million, each due during 2018. Each of the expenditures is described further below.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our revolving credit facility as a source of liquidity for operating activities and our other cash requirements.

For additional information, see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources".

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets, expand and improve our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase 2 infrastructure buildout requirements). Based on current circumstances, we estimate that our total capital expenditures for 2018 will be approximately \$3.8 billion to \$3.9 billion, inclusive of CAF Phase 2 related capital expenditures, but excludes integration capital.

Our capital expenditures continue to be focused on keeping the network operating efficiently and supporting new service developments. For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1 of Part 1 of this report.

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation and Level 3 Financing, Inc. debt securities to refinance their maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned by credit rating agencies, among other factors.

Following the closing of our acquisition of Level 3, the rating agencies took action on the ratings of the debt in the table below. Generally, the agencies downgraded ratings of the CenturyLink, Inc. debt from previous levels as they indicated they intended to at the time of the announcement of the transaction. Additionally, Standard and Poor's and Moody's Investors Service, Inc. placed such ratings on negative outlook while Fitch Ratings placed them on stable outlook. As for the Level 3 debt, Moody's Investors Service, Inc. upgraded the unsecured debt and affirmed the rating of the secured debt, with all ratings placed on negative outlook. Standard and Poor's affirmed all previous Level 3 ratings with negative outlook, and Fitch Ratings affirmed all previous Level 3 ratings with stable outlook.

As of the date of this report, the credit ratings for the senior unsecured debt of CenturyLink, Inc., Qwest Corporation, Level 3 Parent, LLC and Level 3 Financing, Inc. were as follows:

Borrower	Moody's Investors Service, Inc.	Standard & Poor's	Fitch Ratings
CenturyLink, Inc.:			
Unsecured	B2	B+	BB
Secured	Ba3	BBB-	BB+
Qwest Corporation:			
Unsecured	Ba2	BBB-	BB+
Level 3 Parent, LLC:			
Unsecured	B1	B+	BB-
Level 3 Financing, Inc.			
Unsecured	Ba3	BB	BB
Secured	Ba1	BBB-	BBB-

Our credit ratings are reviewed and adjusted from time to time by the rating agencies. Any future downgrades of the senior unsecured or secured debt ratings of us or our subsidiaries could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part I of this report.

Net Operating Loss Carryforwards

As of December 31, 2017, CenturyLink had approximately \$9.1 billion of net operating loss carryforwards. ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income. These NOLs are primarily related to federal NOLs we acquired through the Level 3 acquisition on November 1, 2017, and are subject to prior limitations under Section 382 of the Internal Revenue Code ("Code") and related U.S. Treasury Department regulations. Additionally, these NOLs are subject to a current Section 382 limitation as a result of our acquisition of Level 3. Prior to this acquisition, the amounts of our cash flows dedicated to or required for the payment of federal taxes increased substantially in 2017. As a result of the completion of this acquisition we expect to significantly reduce our federal cash taxes for the next several years. Additionally, we are seeking a significant refund of federal income taxes related to 2017 that we hope to receive in the first quarter of 2018. The amounts of our near-term future tax payments will depend upon many factors, including our future earnings and tax circumstances and results of any corporate tax reform. Based on current laws and our current estimates of 2018 earnings, exclusive of the pending refund request noted previously, we estimate our cash income tax liability related to 2018 will be approximately \$100 million.

We cannot assure you that we will be able to use these NOL carryforwards fully. See "Risk Factors—Risks Relating to Our Recently-Completed Acquisition of Level 3—We cannot assure you, whether, when or in what amounts we will be able to use Level 3's net operating loss carryforwards" in Item 1A of Part I of this report.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is \$0.54 per share, as approved by our Board of Directors, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing our business, paying our fixed commitments and returning a substantial portion of our cash to our shareholders. We paid an average of almost \$294 million of dividends during each of the first three quarters of 2017. Based on our issuance of shares in connection with the Level 3 acquisition on November 1, 2017, we paid \$572 million of dividends in the fourth quarter. Assuming continued payment during 2018 at this rate of \$0.54 per share, our average total dividend paid each quarter would be approximately \$575 million to \$580 million based on our current number of outstanding shares (assuming no increases or decreases in the number of shares, except in connection with the vesting of currently outstanding equity awards). See Risk Factors—"Risks Affecting Our Business" in Item 1A of Part I of this report.

Revolving Facilities and Other Debt Instruments

To substantially fund our recent acquisition of Level 3, on June 19, 2017, one of our affiliates entered into a credit agreement (the "2017 CenturyLink Credit Agreement") providing for \$9.945 billion in senior secured credit facilities, consisting of a new \$2 billion revolving credit facility (which replaced our 2012 credit facility upon consummation of the Level 3 acquisition) and \$7.945 billion of term loan facilities, of which approximately \$6.0 billion were funded into escrow on such date, and \$1.945 billion of which were funded upon the closing of the acquisition on November 1, 2017. On November 1, 2017, CenturyLink, Inc. also, among other things, (i) assumed all rights and obligations under the 2017 CenturyLink Credit Agreement, (ii) borrowed \$400 million under the new \$2.0 billion revolving credit facility and (iii) received \$6.0 billion of Term Loan B loan proceeds from escrow. On January 29, 2018, the 2017 CenturyLink Credit Agreement was amended to increase the borrowing capacity of the new revolving credit facility from \$2.0 billion to \$2.168 billion, and to increase the borrowing capacity under one of the term loan tranches by \$132 million. For additional information, see (i) Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report, (ii) our current report on Form 8-K filed with the SEC on June 20, 2017 and (iii) our current report on Form 8-K filed with the SEC on November 1, 2017.

On November 1, 2017, we also amended our uncommitted revolving letter of credit facility to secure the facility and to permit us to draw up to \$225 million of letters of credit thereunder. At December 31, 2017, we had \$104 million of letters of credit outstanding under this facility.

For information on the terms and conditions of other debt instruments of ours and our subsidiaries, including financial and operating covenants, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report.

Future Contractual Obligations

The following table summarizes our estimated future contractual obligations as of December 31, 2017:

	2018	2019	2020	2021	2022	2023 and thereafter	Total
	(Dollars in millions)						
Long-term debt ⁽¹⁾⁽²⁾	\$ 404	593	1,178	3,109	5,033	27,137	37,454
Interest on long-term debt and capital leases ⁽²⁾	2,116	2,096	2,030	1,915	1,705	16,611	26,473
Data centers obligation ⁽³⁾	84	86	28	—	—	—	198
Operating leases	666	533	467	367	326	2,116	4,475
Purchase commitments ⁽⁴⁾	343	158	107	56	47	242	953
Post-retirement benefit obligation ⁽⁵⁾	92	88	86	83	79	680	1,108
Non-qualified pension obligations ⁽⁵⁾	5	5	5	4	4	19	42
Unrecognized tax benefits ⁽⁶⁾	—	—	—	—	—	96	96
Asset retirement obligations	24	14	11	4	3	59	115
Total future contractual obligations ⁽⁷⁾	\$ 3,734	3,573	3,912	5,538	7,197	46,960	70,914

- (1) Includes current maturities and capital lease obligations, but excludes unamortized discounts, net, unamortized debt issuance costs and data centers benefit obligation.
- (2) Actual principal and interest paid in all years may differ due to future refinancing of outstanding debt or issuance of new debt. Interest on our floating rate debt was calculated for all years using the rates effective at December 31, 2017. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this report for additional information regarding the future commitments for capital leases related to our colocation operations.
- (3) Future minimum payments of principal, interest and executory costs less future imputed lease income on certain of the real estate assets associated with the data centers obligation. See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 8 of Part II of this report.
- (4) 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 purchase commitments with third-party vendors for operating, installation and maintenance services for facilities. In addition, we 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.
- (5) Reflects only the portion of total obligation that is contractual in nature. See Note 6 below.
- (6) Represents the amount of tax and interest we would pay for our unrecognized tax benefits. The \$96 million is composed of unrecognized tax benefits of \$40 million and related estimated interest of \$56 million, which would result in future cash payments if our tax positions were not upheld. See Note 13—Income Taxes to our consolidated financial statements in Item 8 of Part II of this report for additional information. The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "2023 and thereafter" column in the above table.
- (7) The table is limited solely to contractual payment obligations and does not include:
- contingent liabilities;
 - our open purchase orders as of December 31, 2017. 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;
 - cash funding requirements for qualified pension benefits payable to certain eligible current and future retirees. Benefits paid by our qualified pension plan are paid through a trust. Cash funding requirements for this trust are not included in this table as we are not able to reliably estimate required contributions to this trust. Our funding projections are discussed further below;
 - certain post-retirement benefits payable to certain eligible current and future retirees. Not all of our post-retirement benefit obligation amount is a contractual obligation and only the portion that we believe is a contractual obligation is reported in the table. See additional information on our benefits plans in Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this report;

- 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 use the network facilities of other carriers and to purchase other goods and services. Our contracts to use other carriers' network facilities generally have no minimum volume requirements and pricing is based upon volumes and usage. Assuming we terminate these contracts in 2018, the contract termination fees would be \$360 million. Under the same assumption, we estimate that our termination fees for these contracts to purchase goods and services would be \$89 million. In the normal course of business, we do not believe payment of these fees is likely;
- service level commitments to our customers, the violation of which typically results in service credits rather than cash payments; 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.

For information on debt that we expect to assume or incur in connection with consummating the Level 3 acquisition, see "Risk Factors" in Item 1A of Part I of this report and Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2017, the accounting unfunded status of our qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was \$2.062 billion and \$3.352 billion, respectively. See Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this report for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during 2018. The amount of required contributions to our qualified pension plan in 2019 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions. We made a voluntary contribution of \$100 million to the trust for our qualified pension plan during 2017. Based on current circumstances, we currently anticipate making a voluntary contribution of \$100 million to the trust for our qualified pension plan in 2018.

Substantially all of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2017, assets in the post-retirement trusts had been substantially depleted and had a fair value of \$23 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited our ability to continue paying benefits from the trusts; however, we plan to continue paying certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by us with available cash. As described further in Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of this report, aggregate benefits paid by us under these plans (net of participant contributions and direct subsidy receipts) were \$237 million, \$129 million and \$116 million for the years ended December 31, 2017, 2016 and 2015, respectively, while the amounts paid from the trust were \$31 million, \$145 million and \$163 million, respectively. For additional information on our expected future benefits payments for our post-retirement benefit plans, please see Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II in this report.

For 2017, our annual long-term rates of return were 6.5% and 5.0% for the pension plan trust assets and post-retirement plans' trust assets, respectively, based on the assets held. For 2018, our annual long-term rates of return are 6.5% and 4.0% for the pension plan trust assets and post-retirement plans' trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

Connect America Fund

As a result of accepting CAF Phase 2 support payments, we must meet certain specified infrastructure buildout requirements in 33 states over the next several years. In order to meet these specified infrastructure buildout requirements, we may be obligated to make substantial capital expenditures. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of this report and see "Risk Factors—Risks Affecting Our Liquidity and Capital Resources" in Item 1A of Part I of this report.

Historical Information

The following tables summarize our consolidated cash flow activities:

	Years Ended December 31,		Increase /
	2017	2016	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 3,878	4,608	(730)
Net cash used in investing activities	(8,871)	(2,994)	5,877
Net cash provided by (used in) financing activities	5,358	(1,518)	(6,876)

	Years Ended December 31,		Increase /
	2016	2015	(Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	\$ 4,608	5,153	(545)
Net cash used in investing activities	(2,994)	(2,853)	141
Net cash used in financing activities	(1,518)	(2,301)	(783)

Operating Activities

Net cash provided by operating activities decreased by \$730 million for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to a negative variance in net income adjusted for non-cash items and from negative variances in the changes in accounts payable, other current assets and liabilities, net and other noncurrent assets and liabilities, net, which were partially offset with a positive variance in the change in accounts receivable. Net cash provided by operating activities decreased by \$545 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily due to a significant negative variance in net income adjusted for non-cash items (attributable to higher cash taxes paid and lower profitability), which was partially offset by a positive variance in the change in accounts payable. For additional information about our operating results, see "Results of Operations" above.

Investing Activities

Net cash used in investing activities increased by \$5.877 billion for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to cash paid for the acquisition of Level 3 on November 1, 2017, which was partially offset with the cash proceeds from the May 2017 sale of our data centers and colocation business. Net cash used in investing activities increased by \$141 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 substantially due to an increase in payments for property, plant and equipment.

Financing Activities

Net cash provided by (used in) financing activities changed by \$6.876 billion for the year ended December 31, 2017 as compared to the year ended December 31, 2016 primarily due to net proceeds from issuance of new debt, which was slightly offset by an increase in dividend payments related to the issuance of common shares, both of which were in connection with the acquisition of Level 3. Net cash used in financing activities decreased by \$783 million for the year ended December 31, 2016 as compared to the year ended December 31, 2015 primarily due to a reduction of common stock repurchases.

On November 1, 2017, CenturyLink, Inc. entered into a \$1.575 billion senior secured term loan in exchange for net proceeds, after deducting debt issuance costs of \$28 million, and a \$370 million senior secured term loan in exchange for net proceeds, after deducting an immaterial amount of debt issuance costs.

On November 1, 2017, CenturyLink, Inc. repaid the outstanding principal amount of \$319 million under its 2012 term loan.

On August 1, 2017, subsidiaries of Embarq Corporation paid at maturity the \$72 million principal amount and accrued and unpaid interest due under their 8.77% Notes.

On June 19, 2017, CenturyLink Escrow, LLC entered into a \$6 billion term loan, net of an original issue discount of 0.5%.

On June 15, 2017, CenturyLink, Inc. paid at maturity the \$350 million principal and accrued and unpaid interest due under its 5.15% Notes.

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

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

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

On April 3, 2017, CenturyLink, Inc. paid at maturity the \$500 million principal and accrued and unpaid interest due under its 6.00% Notes.

See Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of this report, for additional information on our outstanding debt securities.

Other Matters

Recent Tax Changes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act significantly changes U.S. tax law. The Act reduces the U.S. corporate income tax rate from a maximum of 35% to 21% for all corporations, effective January 1, 2018, and makes certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures and various other items.

As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$1.1 billion in our consolidated statement of operations for the year ended December 31, 2017.

The Act imposed a one-time repatriation tax on certain earnings of foreign subsidiaries. Although we have not determined a reasonable estimate of the impact of the one-time repatriation tax, we do not expect this one-time tax to materially impact us, but we cannot provide any assurance that upon completion of the analysis the amount will not be material.

Because of our net operating loss carryforwards, we do not expect to experience a further material immediate reduction in the amount of cash income taxes paid by us. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Changes from our current provisional estimates described above will be reflected in our future statements of operations and could be material. For a more detailed description of the Act and its impact on us, please see Note 13 to the accompanying consolidated financial statements included in Item 8.

Other

We have cash management arrangements with certain of our principal subsidiaries, in which substantial portions of the subsidiaries' cash is regularly advanced to us. Although we periodically repay these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time we may owe a substantial sum to our subsidiaries under these advances, which, in accordance with generally accepted accounting principles, are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

We also are involved in various legal proceedings that could substantially impact our financial position. See Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this report for the current status of such legal proceedings.

Market Risk

As of December 31, 2017, we are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. 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 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, 2017, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. As of December 31, 2017, we did not hold or issue derivative financial instruments for trading or speculative purposes.

As further discussed in Note 5—Long-Term Debt and Credit Facilities, on June 19, 2017, and on November 1, 2017, we borrowed substantial sums under a credit agreement dated June 19, 2017 with various lending institutions to provide a substantial amount of the funding for the Level 3 acquisition. As further noted in Note 5—Long-Term Debt and Credit Facilities, loans under the term loan facilities and new revolving credit facility under the June 19, 2017 credit agreement bear interest at floating rates. A hypothetical increase in 100 basis points in LIBOR relative to this debt would decrease our annual pre-tax earnings by \$131 million.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, including the British Pound, the Euro, the Brazilian Real, the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar, in each case as of December 31, 2017. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are immaterial, our consolidated results of operations could be adversely impacted by volatility in exchange rates or an increase in the number of foreign currency transactions, which substantially increased upon the consummation of our acquisition of Level 3 discussed elsewhere herein. We use a sensitivity analysis to estimate our exposure to this foreign currency risk, measuring the change in financial position arising from a hypothetical 10% change in the exchange rates of these currencies, relative to the U.S. dollar, with all other variables held constant. The aggregate potential change in the fair value of financial assets resulting from a hypothetical 10% change in these exchange rates was \$178 million at December 31, 2017.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at December 31, 2017.

Off-Balance Sheet Arrangements

As of the date of this report, 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 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of this 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 report is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The stockholders and board of directors
CenturyLink, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CenturyLink, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 1977.

Shreveport, Louisiana
February 28, 2018

Report of Independent Registered Public Accounting Firm

The stockholders and board of directors
CenturyLink, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited CenturyLink Inc.'s (the Company) internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2017, and the related notes, and our report dated February 28, 2018 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Level 3 Communications, Inc., which was renamed Level 3 Parent, LLC during 2017, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, Level 3 Parent, LLC's internal control over financial reporting representing 15% of total assets (excluding goodwill and intangibles which are included within the scope of the assessment) and 8% of total revenues included in the consolidated financial statements of the Company as of and for the year ended December 31, 2017. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Level 3 Parent, LLC.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Shreveport, Louisiana
February 28, 2018

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions, except per share amounts and shares in thousands)		
OPERATING REVENUES	\$ 17,656	17,470	17,900
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	8,203	7,774	7,778
Selling, general and administrative	3,508	3,447	3,354
Depreciation and amortization	3,936	3,916	4,189
Total operating expenses	15,647	15,137	15,321
OPERATING INCOME	2,009	2,333	2,579
OTHER (EXPENSE) INCOME			
Interest expense	(1,481)	(1,318)	(1,312)
Other income, net	12	5	49
Total other expense, net	(1,469)	(1,313)	(1,263)
INCOME BEFORE INCOME TAX EXPENSE	540	1,020	1,316
Income tax (benefit) expense	(849)	394	438
NET INCOME	\$ 1,389	626	878
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$ 2.21	1.16	1.58
DILUTED	\$ 2.21	1.16	1.58
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	627,808	539,549	554,278
DILUTED	628,693	540,679	555,093

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
NET INCOME	\$ 1,389	626	878
OTHER COMPREHENSIVE INCOME (LOSS):			
Items related to employee benefit plans:			
Change in net actuarial gain (loss), net of \$(60), \$113 and \$(12) tax	83	(168)	21
Change in net prior service credit, net of \$(4), \$(4) and \$(47) tax	8	6	76
Foreign currency translation adjustment and other, net of \$(17), \$— and \$— tax	31	(21)	(14)
Other comprehensive income (loss)	122	(183)	83
COMPREHENSIVE INCOME	\$ 1,511	443	961

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2017	2016
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 551	222
Restricted cash - current	5	—
Accounts receivable, less allowance of \$164 and \$178	2,557	2,017
Assets held for sale	140	2,376
Other	941	547
Total current assets	4,194	5,162
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	51,204	39,194
Accumulated depreciation	(24,352)	(22,155)
Net property, plant and equipment	26,852	17,039
GOODWILL AND OTHER ASSETS		
Goodwill	30,475	19,650
Restricted cash	31	2
Customer relationships, net	10,876	2,797
Other intangible assets, net	1,897	1,531
Other, net	1,286	836
Total goodwill and other assets	44,565	24,816
TOTAL ASSETS	\$ 75,611	47,017
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 443	1,503
Accounts payable	1,555	1,179
Accrued expenses and other liabilities		
Salaries and benefits	890	802
Income and other taxes	370	301
Interest	363	260
Other	344	213
Current liabilities associated with assets held for sale	—	419
Advance billings and customer deposits	892	672
Total current liabilities	4,857	5,349
LONG-TERM DEBT	37,283	18,185
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,413	3,471
Benefit plan obligations, net	5,178	5,527
Other	2,389	1,086
Total deferred credits and other liabilities	9,980	10,084
COMMITMENTS AND CONTINGENCIES (Note 16)		
STOCKHOLDERS' EQUITY		
Preferred stock — non-redeemable, \$25.00 par value, authorized 2,000 and 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 1,069,169 and 546,545 shares	1,069	547
Additional paid-in capital	23,314	14,970
Accumulated other comprehensive loss	(1,995)	(2,117)

Retained earnings (accumulated deficit)	1,103	(1)
Total stockholders' equity	23,491	13,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 75,611	47,017

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income	\$ 1,389	626	878
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,936	3,916	4,189
Impairment of assets	—	13	9
Deferred income taxes	(931)	6	350
Loss on the sale of data centers and colocation business	82	—	—
Provision for uncollectible accounts	176	192	177
Net long-term debt issuance costs and premium amortization	9	2	(3)
Net loss on early retirement of debt	5	27	—
Share-based compensation	111	80	73
Changes in current assets and liabilities:			
Accounts receivable	31	(266)	(132)
Accounts payable	(123)	109	(168)
Accrued income and other taxes	54	(43)	32
Other current assets and liabilities, net	(614)	92	(53)
Retirement benefits	(202)	(152)	(141)
Changes in other noncurrent assets and liabilities, net	(174)	(18)	(77)
Other, net	129	24	19
Net cash provided by operating activities	3,878	4,608	5,153
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(3,106)	(2,981)	(2,872)
Cash paid for Level 3 acquisition, net of \$2.3 billion cash acquired	(7,289)	—	—
Cash paid for other acquisitions	(5)	(39)	(4)
Proceeds from sale of property and intangible assets	1,529	30	31
Other, net	—	(4)	(8)
Net cash used in investing activities	(8,871)	(2,994)	(2,853)
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	8,398	2,161	989
Proceeds from financing obligation (Note 3)	356	—	—
Payments of long-term debt	(1,963)	(2,462)	(966)
Net proceeds (payments) on credit facility and revolving line of credit	35	(40)	(315)
Dividends paid	(1,453)	(1,167)	(1,198)
Repurchase of common stock and shares withheld to satisfy tax withholdings	(17)	(16)	(819)
Other, net	2	6	8
Net cash provided by (used in) financing activities	5,358	(1,518)	(2,301)
Effect of exchange rate changes on cash and cash equivalents	(2)	—	—
Net increase (decrease) in cash, cash equivalents and restricted cash	363	96	(1)
Cash, cash equivalents and restricted cash at beginning of period	224	128	129
Cash, cash equivalents and restricted cash at end of period	\$ 587	224	128
Supplemental cash flow information:			
Income taxes paid, net	\$ (392)	(397)	(63)
Interest paid (net of capitalized interest of \$78, \$54 and \$52)	\$ (1,401)	(1,301)	(1,310)

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
COMMON STOCK (represents dollars and shares)			
Balance at beginning of period	\$ 547	544	569
Issuance of common stock to acquire Level 3, including replacement of Level 3's share-based compensation awards	517	—	—
Issuance of common stock through dividend reinvestment, incentive and benefit plans	5	3	2
Repurchase of common stock	—	—	(27)
Balance at end of period	1,069	547	544
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of period	14,970	15,178	16,324
Issuance of common stock to acquire Level 3, including replacement of Level 3's share-based compensation awards	9,462	—	—
Issuance of common stock through dividend reinvestment, incentive and benefit plans	—	7	9
Repurchase of common stock	—	—	(767)
Shares withheld to satisfy tax withholdings	(20)	(15)	(19)
Share-based compensation and other, net	79	79	77
Dividends declared	(1,177)	(279)	(446)
Balance at end of period	23,314	14,970	15,178
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period	(2,117)	(1,934)	(2,017)
Other comprehensive income (loss)	122	(183)	83
Balance at end of period	(1,995)	(2,117)	(1,934)
RETAINED EARNINGS (ACCUMULATED DEFICIT)			
Balance at beginning of period	(1)	272	147
Net income	1,389	626	878
Cumulative effect of adoption of ASU 2016-09, <i>Improvements to Employee Share-Based Payment Accounting</i>	3	—	—
Dividends declared	(288)	(899)	(753)
Balance at end of period	1,103	(1)	272
TOTAL STOCKHOLDERS' EQUITY	\$ 23,491	13,399	14,060

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the content otherwise requires and except in Note 5, where such references refer solely to CenturyLink, Inc. References in the Notes to "Level 3" refer to Level 3 Communications, Inc. prior to our acquisition thereof and to its successor-in-interest Level 3 Parent, LLC after such acquisition, unless the context otherwise requires.

(1) Background and Summary of Significant Accounting Policies

General

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our residential and business customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services.

On November 1, 2017, we acquired Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. See Note 2—Acquisition of Level 3 for additional information. On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital for a combination of cash and equity. See Note 3—Sale of Data Centers and Colocation Business for additional information.

Basis of Presentation

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries. These subsidiaries include Level 3 on and after November 1, 2017. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated. In connection with our acquisition of Level 3, we acquired its deconsolidated Venezuela subsidiary and due to exchange restrictions and other conditions we have assigned no value to the assets acquired. Additionally, we have excluded this subsidiary from our consolidated financial statements.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income (expense), net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting for 2016 and 2015. See Note 14—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

Changes in Estimates

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2017 and 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by \$122 million and \$149 million in 2017 and 2016, respectively. This change was treated as a change in accounting estimate and accordingly, we did not adjust the amounts recorded in 2015. The reduction in expense described above, net of tax, increased net income by \$75 million and \$91 million, or \$0.12 and \$0.17 per basic and diluted common share, for the years ended December 31, 2017 and 2016, respectively.

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 specific items and matters, including, but not limited to, investments, long-term contracts, customer retention patterns, allowance for doubtful accounts, depreciation, amortization, asset valuations, 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 are made. These estimates, judgments and assumptions can materially affect the reported amounts of assets, liabilities and components of stockholders' equity 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 other consolidated financial statements. We also make estimates in our assessments of potential losses in relation to threatened or pending tax and legal matters. See Note 13—Income Taxes and Note 16—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 materially 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 three years to over seven 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. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term.

We offer bundle discounts to our customers who receive certain groupings of services. These bundle discounts are 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 do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other optical capacity assets.

In connection with offering products and services provided 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.

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

USF Surcharges, 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 USF surcharges, 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 \$218 million, \$216 million and \$210 million for the years ended December 31, 2017, 2016 and 2015, 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

We file a consolidated federal income tax return with our eligible subsidiaries. The provision for income taxes consists of an amount for taxes currently payable, an amount for tax consequences deferred to future periods and adjustments to our liabilities for uncertain tax positions. We record deferred income tax assets and liabilities reflecting future tax consequences attributable to tax net operating loss carryforwards ("NOLs"), 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.

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 13—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. In evaluating investments for classification as cash equivalents, we require that individual securities have original maturities of ninety days or less and that individual investment funds have dollar-weighted average maturities of ninety days or less. To preserve capital and maintain liquidity, we invest with financial institutions we deem to be of sound financial condition and in high quality and relatively risk-free investment products. Our cash investment policy limits the concentration of investments with specific financial institutions or among certain products and includes criteria related to credit worthiness of any particular financial institution.

Book overdrafts occur when checks have been issued but have not been presented to our controlled disbursement bank accounts for payment. Disbursement bank accounts allow us to delay funding of issued checks until the checks are presented for payment. Until the issued checks are presented for payment, the book overdrafts are included in accounts payable on our consolidated balance sheet. This activity is included in the operating activities section in our consolidated statements of cash flows.

Accounts Receivable and Allowance for Doubtful Accounts

We record accounts receivable acquired in connection with our acquisitions based on their estimated fair value as of the applicable acquisition date. 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

We record property, plant and equipment acquired in connection with our acquisitions based on its estimated fair value as of its acquisition date plus the estimated value of any associated legally or contractually required retirement obligations. We record purchased and constructed property, plant and equipment at cost, plus the estimated value of any associated legally or contractually required retirement obligations. The majority of our property, plant and equipment is depreciated using the straight-line group method, but certain of our assets are depreciated using the straight-line method over their estimated useful lives. 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 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 and we determine there is no alternative use for the asset.

We have asset retirement obligations associated with the legally or contractually required removal of a limited group of property, plant and equipment assets from leased properties and the disposal of certain hazardous materials present in our owned properties. When an asset retirement obligation is identified, usually in association with the acquisition of the asset, we record the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated remaining useful life of the associated asset. Where the removal obligation is not legally binding, the net cost to remove assets is expensed in the period in which the costs are actually incurred.

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, capitalized software, trademarks and trade names, are initially recorded at estimated fair value. We amortize customer relationships primarily over an estimated life of 7 to 15 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 7 years, except for approximately \$237 million of our capitalized software costs, which represents costs to develop an integrated billing and customer care system which is amortized using the straight-line method over a 20 year period. We amortize our other intangible assets predominantly using the sum-of-the-years-digits method over an estimated life of 4 to 20 years. Other intangible assets not arising from business combinations are initially recorded at cost. Where there are no legal, regulatory, contractual or other factors that would reasonably limit the useful life of an intangible asset, we classify the intangible asset as indefinite-lived and such intangible assets are not amortized.

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.

Our long-lived intangible assets, other than goodwill, with indefinite lives are assessed for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be an impairment. These assets are carried at the estimated fair value at the time of acquisition and assets not acquired in acquisitions are recorded at historical cost. However, if their estimated fair value is less than the carrying amount, other indefinite-lived intangible assets are reduced to their estimated fair value through an impairment charge to our consolidated statements of operations.

We are required to assess goodwill for impairment at least annually, or more frequently, if an event occurs or circumstances change that would indicate 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 reporting units are not discrete legal entities with discrete financial statements. Therefore, the equity carrying value and future cash flows must be estimated each time a goodwill impairment assessment is performed on a reporting unit. As a result, our assets, liabilities and cash flows are assigned to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these assignments. We believe these estimates, judgments and assumptions to be reasonable, but changes in any of these can significantly affect each reporting unit's equity carrying value and future cash flows utilized for our goodwill impairment assessment.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in the composition of our reporting units. Goodwill is reassigned to the reporting units using a relative fair value approach. We utilize the earnings before interest, taxes, depreciation and amortization of each reporting unit as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized.

See Note 4—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

Pension and Post-Retirement Benefits

We recognize the funded status of our defined benefit and post-retirement plans as an asset or a liability on our consolidated balance sheet. Each year's actuarial gains or losses are a component of our other comprehensive income (loss), which is then included in our accumulated other comprehensive loss. Pension and post-retirement benefit expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits. We make significant assumptions (including the discount rate, expected rate of return on plan assets, mortality and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 9—Employee Benefits for additional information.

Foreign Currency

Our results of operations include foreign subsidiaries, which are translated from the applicable functional currency to the United States Dollar using the average exchange rates during the reporting period, while assets and liabilities are translated at the reporting date. We include gains or losses from foreign currency re-measurement in other income, net in our consolidated statements of operations. Certain non-U.S. subsidiaries designate the local currency as their functional currency, and we record the translation of their assets and liabilities into U.S. dollars at the balance sheet date as translation adjustments and include them as a component of accumulated other comprehensive loss in our consolidated balance sheets. We consider the majority of our investments in our foreign subsidiaries to be long-term in nature.

Common Stock

At December 31, 2017, we had 4 million unissued shares of CenturyLink, Inc. common stock reserved for acquisitions. In addition, we had 45 million shares authorized for future issuance under our equity incentive plans.

Preferred stock

Holders of outstanding CenturyLink, Inc. preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon CenturyLink, Inc.'s liquidation and vote as a single class with the holders of common stock.

Dividends

We pay dividends out of retained earnings to the extent we have retained earnings on the date the dividend is declared. If the dividend is in excess of our retained earnings on the declaration date, then the excess is drawn from our additional paid-in capital.

Recently Adopted Accounting Pronouncements

In 2017, we adopted Accounting Standards Update ("ASU") 2016-18, "Restricted Cash (a consensus of the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force)" ("ASU 2016-18"). In the first quarter of 2017, we adopted ASU 2016-09, "Improvements to Employee Share Based Compensation" ("ASU 2016-09") and ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). Each of these is described further below.

Restricted Cash

On November 17, 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents as compared to the previous presentation, which explains only the change in cash and cash equivalents. ASU 2016-18 is effective January 1, 2018, but early adoption is permitted and requires retrospective application of the requirements to all previous periods presented. We early adopted ASU 2016-18 in the second quarter of 2017.

Share-based Compensation

ASU 2016-09 modified the accounting and associated income tax accounting for share-based compensation in order to reduce the cost and complexity associated with previous U.S. generally accepted accounting principles ("GAAP"). The primary provisions of ASU 2016-09 that affect our consolidated financial statements for the year ended December 31, 2017 are:

1. A reclassification of the income tax effect associated with the difference between the expense recognized for share-based payments and the related tax deduction from additional paid-in capital to income tax expense. This change was applied on a prospective basis and resulted in a \$5 million increase in income tax expense for the year ended December 31, 2017.
2. We elected to change our accounting policy to account for forfeitures of share-based payment grants as they occur as opposed to our previous policy of estimating the forfeitures on the grant date. The cumulative effect of adopting this policy as of January 1, 2017 resulted in an increase of \$3 million, net of a \$2 million tax effect, in accumulated deficit.

Net Periodic Pension and Postretirement Benefit Costs

ASU 2017-07 modified the presentation of net periodic pension and postretirement benefit costs and requires the service cost component to be reported separately from the other components in order to provide more useful information. Under ASU 2017-07, the service cost component of net periodic pension and postretirement benefit costs is required to be presented in the same expense category as the related salary and wages for the employee. The other components of the net periodic pension and postretirement benefit costs are required to be recognized below operating income in other income (expense), net in our consolidated statements of operations. This change was applied on a retrospective basis to all previous periods to match the current period presentation. This retrospective application resulted in a \$2 million increase in operating income and a corresponding increase in total other expense, net for the year ended December 31, 2016 and a \$26 million reduction in operating income and a corresponding decrease in total other expense, net for the year ended December 31, 2015.

Recent Accounting Pronouncements

Comprehensive Income

On February 14, 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). Under current accounting guidance, the income tax effects for changes in income tax rates and certain other transactions are recognized in income from continuing operations resulting in income tax effects recognized in accumulated other comprehensive income that don't reflect the current tax rate of the entity ("stranded tax effects"). ASU 2018-02 allows us the option to reclassify these stranded tax effects related to the change in the federal income tax rate as a result of the Tax Cuts and Jobs Act to retained earnings.

We currently plan to adopt the provisions of ASU 2018-02 in the first quarter of 2018 and elect to reclassify the stranded tax effects related to the Tax Cuts and Job Act from accumulated comprehensive income to retained earnings in first quarter of 2018. We currently estimate that our retained earnings and accumulated other comprehensive loss will increase by approximately \$400 million as a result of the adoption of ASU 2018-02.

Goodwill Impairment

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

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

Income Taxes

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

We plan to adopt the provisions of ASU 2016-16 on January 1, 2018. The adoption of ASU 2016-16 is not expected to have a material impact to our consolidated financial statements.

Financial Instruments

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

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

Leases

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

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

We have completed our initial assessment of our business and system requirements and we are currently developing and implementing a new lease accounting and administrative system to comply with the requirements of ASU 2016-02. We plan to adopt the standard when it becomes effective for us beginning January 1, 2019 and the adoption of the standard will result in the recognition of right of use assets and lease liabilities that have not previously been recorded. Although we believe it is premature as of the date of this report to provide any estimate of the impact of adopting ASU 2016-02, we do expect that it will have a material impact on our consolidated financial statements. Additionally, upon the January 1, 2019, implementation of ASU 2016-02, accounting for the failed-sale-leaseback transaction described in Note 3—Sale of Data Centers and Colocation Business will no longer be applicable based on our facts and circumstances, and the real estate assets and corresponding financing obligation will be derecognized from our consolidated balance sheet.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 replaces virtually all existing 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.

On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year until January 1, 2018, which is the date we plan to adopt this standard. ASU 2014-09 may be adopted by applying the provisions of this standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2018. We adopted the new revenue recognition standard under the modified retrospective transition method.

The most significant judgments and impacts upon adoption of the standard include the following items:

Upon adoption, we will defer (i.e. capitalize) incremental contract acquisition costs and recognize (i.e. amortize) them over the term of the initial contract and anticipated renewal contracts to which the costs relate. Our deferred contract costs for our business and consumer customers have average amortization periods of approximately 49 months and 30 months, respectively, and are subject to being monitored every period to reflect any significant change in assumptions. In addition, we will assess our deferred contract cost asset for impairment on a periodic basis.

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

We are in the process of implementing a new revenue accounting system, as well as, new processes and internal controls over revenue recognition to assist us in the application of the new standard.

The cumulative effect of initially applying the new revenue standard on January 1, 2018 is estimated to be an increase to retained earnings of approximately \$400 million to \$600 million.

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

(2) Acquisition of Level 3

On November 1, 2017, CenturyLink acquired Level 3 through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. We entered into this acquisition to, among other things, realize certain strategic benefits, including enhanced financial and operational scale, market diversification and an enhanced combined network. As a result of the acquisition, Level 3 shareholders received \$26.50 per share in cash and 1.4286 shares of CenturyLink common stock, with cash paid in lieu of fractional shares, for each outstanding share of Level 3 common stock they owned at closing, subject to certain limited exceptions. We issued this consideration with respect to all of the outstanding common stock of Level 3, with the exception of shares held by the dissenting common shareholders. Upon closing, CenturyLink shareholders owned approximately 51% and former Level 3 shareholders owned approximately 49% of the combined company.

In addition, each outstanding Level 3 restricted stock unit award granted prior to April 1, 2014 or granted to an outside director of Level 3 was converted into \$26.50 in cash and 1.4286 shares of CenturyLink common stock (and cash in lieu of fractional shares) with respect to each Level 3 share covered by such award (the "Converted RSU Awards"). Each outstanding Level 3 restricted stock unit award granted on or after April 1, 2014 (other than those granted to outside directors of Level 3) was converted into a CenturyLink restricted stock unit award using a conversion ratio of 2.8386 to 1 as determined in accordance with a formula set forth in the merger agreement ("the Continuing RSU Awards").

The preliminary estimated amount of aggregate consideration of \$19.617 billion is based on:

- the 517.3 million shares of CenturyLink's common stock (including those issued in connection with the Converted RSU Awards) issued to consummate the acquisition and the closing stock price of CenturyLink common stock at October 31, 2017 of \$18.99;
- the cash consideration of \$26.50 per share on the 362.1 million common shares of Level 3 issued and outstanding as of October 31, 2017, and the cash consideration of \$1 million paid on the Converted RSUs awards;
- the estimated value of \$136 million the Continuing RSU Awards, which represents the pre-combination portion of Level 3's share-based compensation awards replaced by CenturyLink; and
- the estimated liability of \$60 million for the dissenting common shares issued and outstanding as of October 31, 2017; and

At closing, CenturyLink assumed Level 3's long-term debt of approximately \$10.6 billion.

The aggregate cash payments required to be paid on or about the closing date were funded with the proceeds of \$7.945 billion of term loans and \$400 million of funds borrowed under our new revolving credit facility together with other available funds, which included \$1.825 billion borrowed from Level 3 Parent, LLC. For additional information regarding CenturyLink's financing of the Level 3 acquisition see Note 5—Long-Term Debt and Credit Facilities.

We have recognized the assets and liabilities of Level 3 based on CenturyLink's preliminary estimates of the fair value of the acquired tangible and intangible assets and assumed liabilities of Level 3 as of November 1, 2017, the consummation date of the acquisition, with the excess aggregate consideration recorded as goodwill. The final determination of the allocation of the aggregate consideration paid by CenturyLink in the combination will be based on the fair value of such assets and liabilities as of the acquisition date with any excess aggregate consideration to be recorded as goodwill. The estimation of such fair values and the estimation of lives of depreciable tangible assets and amortizable intangible assets will require significant judgment. As such, we have not completed our valuation analysis and calculations in sufficient detail necessary to arrive at the final estimates of the fair value of Level 3's assets acquired and liabilities assumed, along with the related allocation to goodwill. The fair values of certain tangible assets, intangible assets, certain liabilities and residual goodwill are the most significant areas not yet finalized and therefore are subject to change. We expect to complete our final fair value determinations prior to the anniversary date of the acquisition. Our final fair value determinations may be significantly different than those reflected in our consolidated financial statements at December 31, 2017.

Based solely on our preliminary estimates, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities by \$10.837 billion, which we have recognized as goodwill. The 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 following is our preliminary assignment of the preliminary estimated aggregate consideration:

	November 1, 2017
	(Dollars in millions)
Cash, accounts receivable and other current assets ⁽¹⁾	\$ 3,317
Property, plant and equipment	9,311
Identifiable intangible assets ⁽²⁾	
Customer relationships	8,964
Other	391
Other noncurrent assets	782
Current liabilities, excluding current maturities of long-term debt	(1,461)
Current maturities of long-term debt	(7)
Long-term debt	(10,888)
Deferred credits and other liabilities	(1,629)
Goodwill	10,837
Total estimated aggregate consideration	<u>\$ 19,617</u>

⁽¹⁾ Includes a preliminary estimated fair value of \$866 million for accounts receivable, which had a gross contractual value of \$884 million on November 1, 2017. The \$18 million difference between the gross contractual value and the preliminary estimated fair value assigned represents our best estimate as of November 1, 2017 of contractual cash flows that will not be collected.

⁽²⁾ The preliminary estimate of the weighted-average amortization period for the acquired intangible assets is approximately 12.0 years.

On the acquisition date, we assumed Level 3's contingencies. For more information on our contingencies, see Note 16—Commitments and Contingencies.

Acquisition-Related Expenses

We have incurred acquisition-related expenses related to our acquisition of Level 3. The table below summarizes our acquisition-related expenses, which consist of integration-related expenses, including severance and retention compensation expenses, and transaction-related expenses:

	Years Ended December 31,	
	2017	2016
	(Dollars in millions)	
Transaction-related expenses	\$ 174	47
Integration-related expenses	97	5
Total acquisition-related expenses	<u>\$ 271</u>	<u>52</u>

At December 31, 2017, we had incurred cumulative acquisition-related expenses of \$323 million for Level 3. The total amounts of these expenses are included in our selling, general and administrative expenses.

Level 3 incurred transaction-related expenses of \$47 million on the date of acquisition. This amount is not included in our results of operations.

References to Acquired Businesses

In the discussion that follows, we refer to the incremental business activities that we now operate as a result of the Level 3 acquisition as “Legacy Level 3”. References to “Legacy CenturyLink”, when used to a comparison of our consolidated results for the years ended December 31, 2017 and 2016, mean the business we operated prior to the Level 3 acquisition.

Combined Pro Forma Operating Results (Unaudited)

For the year ended December 31, 2017, CenturyLink's results of operations included operating revenues (net of intercompany eliminations) attributable to Level 3 of \$1.39 billion. The addition of Level 3's post-acquisition operations contributed a net loss of \$144 million to our consolidated net income.

The following unaudited pro forma financial information presents the combined results of CenturyLink as if the Level 3 acquisition had been consummated as of January 1, 2016.

	Years Ended December 31,	
	2017	2016
	(Dollars in millions, except per share amounts)	
Operating revenues	\$ 24,321	25,378
Net income	1,632	883
Basic earnings per common share	1.54	0.84
Diluted earnings per common share	1.54	0.84

This pro forma information reflects certain adjustments to previously-reported operating results, consisting of primarily:

- decreased operating revenues and expenses due to the elimination of deferred revenues associated with installation activities that were preliminarily assigned no value at the acquisition date (excluding certain deferred revenue associated with certain long-term prepaid customer capacity arrangements, which have been included at its current carrying value) and the elimination of transactions among CenturyLink and Level 3 that are now subject to intercompany elimination;
- increased amortization expense related to identifiable intangible assets, net of decreased depreciation expense to reflect the preliminary fair value of property, plant and equipment;
- increased interest expense resulting from (i) interest on the new debt to finance the combination and amortization of the related debt discount and debt issuance costs, (ii) the elimination of Level 3's historical amortization of debt discount and debt issuance costs and (iii) a reduction in interest expense due to the accretion of an adjustment to reflect the increased preliminary fair value of the long-term debt of Level 3 recognized on the acquisition date; and

- the related income tax effects.

The pro forma information is presented for illustrative purposes only and does not necessarily reflect the actual results of operations had the Level 3 acquisition been consummated at January 1, 2016, nor is it necessarily indicative of future operating results. The pro forma information excludes transaction costs incurred by us and Level 3 during 2017 (which are further described above in this note) and does not reflect integration costs to be incurred by us in future periods. In addition, the pro forma information does not give effect to any potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisitions (other than those realized in our historical consolidated financial statements after November 1, 2017).

(3) Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital in exchange for cash and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies ("Cyxtera").

We received pre-tax cash proceeds of \$1.8 billion, and we have valued our minority stake at \$150 million, which was based upon the total amount of equity contributions to the limited partnership on the date made. Due to the sale and related restructuring actions we have taken regarding certain subsidiaries involved in the data centers and colocation business, we have estimated a cumulative current tax impact relating to the sale totaling \$65 million, \$18 million of which was accrued in 2016 and \$47 million of which was accrued in 2017.

In connection with our sale of the data centers and colocation business to Cyxtera, we agreed to lease back from Cyxtera a portion of the data center space to provide data hosting services to our customers. Because we have continuing involvement in the business through our minority stake in Cyxtera's parent, we do not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, *Leases - Sale-Leaseback Transactions*. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera, which we must continue to reflect on our consolidated balance sheet and depreciate over the assets' remaining useful life. We must also treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation on our consolidated balance sheet, and our consolidated results of operations must include imputed revenue associated with the portion of the real estate assets that we have not leased back and imputed interest expense on the financing obligation. A portion of the rent payments required under our leaseback arrangement with Cyxtera is recognized as a reduction of the financing obligation, resulting in lower recognized rent expense than the amounts actually paid each period. At the end of the lease term, the remaining imputed financing obligation and the remaining net book value of the real estate assets will be derecognized. Please see "Leases" (ASU 2016-02) in Note 1—Background for additional information on the impact the new lease standard will have on the accounting for the failed-sale-leaseback.

The following table reflects the assets sold to and the liabilities assumed by Cyxtera on May 1, 2017, including the impact of failed-sale-leaseback:

	Dollars in millions
Goodwill	\$ 1,142
Property, plant and equipment	1,051
Other intangible assets	249
Other assets	66
Less assets not removed as a result of the failed-sale-leaseback	(526)
Total net amount of assets derecognized	\$ 1,982
Capital lease obligations	294
Other liabilities	274
Less imputed financing obligations from the failed-sale-leaseback	(628)
Total net imputed liabilities recognized	\$ (60)

In addition, the failed-sale-leaseback accounting treatment had the following effects on our consolidated results of operations for the year ended December 31, 2017:

	Positive (Negative) Impact to Net Income	
	Dollars in millions	
Increase in revenue	\$	49
Decrease in cost of sales		15
Increase in loss on sale of business included in selling, general and administrative expense		(102)
Increase in depreciation expense (one-time)		(44)
Increase in depreciation expense (ongoing)		(47)
Increase in interest expense		(39)
Decrease in income tax expense		65
Decrease in net income	\$	(103)

After factoring in the costs to sell the data centers and colocation business, excluding the impact from the failed-sale-leaseback accounting treatment, the sale resulted in a \$20 million gain as a result of the aggregate value of the proceeds we received exceeding the carrying value of the assets sold and liabilities assumed. Based on the fair market values of the failed-sale-leaseback assets, the failed-sale-leaseback accounting treatment resulted in a loss of \$102 million as a result of the requirement to treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation. The combined net loss of \$82 million was included in selling, general and administrative expenses in our consolidated statement of operations for the year ended December 31, 2017. The sale also resulted in a significant capital loss carryforward, which was entirely offset by a valuation allowance due to our determination that we are not likely to be able to utilize this carryforward prior to its expiration.

We evaluated our minority stake in the limited partnership and determined that we were not the primary beneficiary of the entity. As a result, we classified our \$150 million investment in the limited partnership in other assets on our consolidated balance sheet as of December 31, 2017. In addition to our investment, we have a receivable for \$49 million from Cyxtera, classified primarily in other current assets on our consolidated balance sheet as of December 31, 2017. We will continue to have an ongoing obligation to Cyxtera related to our lease of data center space from them. From May 1, 2017 through December 31, 2017, we paid rent to Cyxtera totaling \$80 million.

Effective November 3, 2016, which is the date we entered into the agreement to sell our data centers and colocation business, we ceased recording depreciation of the property, plant and equipment to be sold and amortization of the business's intangible assets in accordance with applicable accounting rules. Otherwise, we estimate that we would have recorded additional depreciation and amortization expense of \$67 million from January 1, 2017 through May 1, 2017.

(4) Goodwill, Customer Relationships and Other Intangible Assets

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

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Goodwill	\$ 30,475	19,650
Customer relationships, less accumulated amortization of \$7,096 and \$6,318	\$ 10,876	2,797
Indefinite-life intangible assets	\$ 269	269
Other intangible assets subject to amortization:		
Capitalized software, less accumulated amortization of \$2,294 and \$2,019	1,469	1,227
Trade names and patents, less accumulated amortization of \$31 and \$23	159	35
Total other intangible assets, net	\$ 1,897	1,531

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired (including the acquisition described in Note 2—Acquisition of Level 3). At December 31, 2017, the net carrying amounts of goodwill, customer relationships and other intangibles assets included preliminary estimates of \$20.060 billion as a result of our Level 3 acquisition. As of December 31, 2017, the preliminary estimate of the weighted average remaining useful lives of the intangible assets acquired in the acquisition of Level 3 was approximately 12 years in total, approximately 12 years for customer relationships, 5 years for capitalized software and 5 years for trade names.

Total amortization expense for intangible assets for the years ended December 31, 2017, 2016 and 2015 was \$1.226 billion, \$1.225 billion and \$1.353 billion, respectively. As of December 31, 2017, the gross carrying amount of goodwill, customer relationships, indefinite-life and other

intangible assets was \$52.669 billion.

We estimate that total amortization expense for intangible assets (which include preliminary estimates for the intangible assets acquired from Level 3) for the years ending December 31, 2018 through 2022 will be as follows:

	(Dollars in millions)
2018	\$ 1,802
2019	1,701
2020	1,590
2021	1,149
2022	977

We assess our goodwill and other indefinite-lived intangible assets for impairment annually, or, under certain circumstances, more frequently, such as when events or changes in circumstances indicate there may be impairment. We are required to write down the value of goodwill only when our assessment determines the recorded amount of goodwill exceeds the implied fair value. Our annual impairment assessment date for goodwill is October 31, at which date we assessed our reporting units, which were enterprise (excluding wholesale), consumer and wholesale. Our annual impairment assessment date for indefinite-lived intangible assets other than goodwill is December 31.

Our reporting units are not discrete legal entities with discrete financial statements. Our assets and liabilities are employed in and relate to the operations of multiple reporting units. For each reporting unit, we compare its estimated fair value of equity to its carrying value of equity that we assign to the reporting unit. If the estimated fair value of the reporting unit is greater than the carrying value, we conclude that no impairment exists. If the estimated fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to the carrying value of goodwill that we assigned to the reporting unit. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

At October 31, 2017, we utilized a level 3 valuation technique to estimate the fair value of our enterprise (excluding wholesale), consumer and wholesale reporting units by considering both a market approach and a discounted cash flow method. 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 of the reporting units beyond the cash flows from the discrete projection period. We reconciled the estimated fair values of the reporting units to our market capitalization as of October 31, 2017 and concluded that the indicated implied control premium of approximately 36% was reasonable based on recent transactions in the market place. As of October 31, 2017, based on our assessment performed with respect to these reporting units as described above, we concluded that our goodwill for our three reporting units was not impaired as of that date.

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2015 through December 31, 2017.

	<u>Business</u>	<u>Consumer</u>	<u>Total</u>
	(Dollars in millions)		
As of December 31, 2015 ⁽¹⁾	\$ 10,464	10,278	20,742
Purchase accounting and other adjustments	49	—	49
Goodwill attributable to the colocation business and data centers reclassified to assets held for sale	(1,141)	—	(1,141)
As of December 31, 2016 ⁽¹⁾	9,372	10,278	19,650
Purchase accounting and other adjustments	10,825	—	10,825
As of December 31, 2017 ⁽¹⁾	<u>\$ 20,197</u>	<u>10,278</u>	<u>30,475</u>

⁽¹⁾ Goodwill is net of accumulated impairment losses of \$1.1 billion that related to our former hosting segment now included in our business segment.

As of December 31, 2017, the \$20.197 billion of goodwill assigned to our business reportable segment has not been allocated to our expected future reporting units ((i) medium and small business, (ii) enterprise, (iii) international and global accounts, (iv) wholesale and indirect and (v) consumer) as we have not completed our valuation analysis and calculation in sufficient detail necessary to allocate the goodwill to these reporting units.

During 2016, we acquired all of the outstanding stock of three companies for total consideration of \$53 million, including future deferred or contingent cash payments of \$14 million, of which \$49 million has been attributed to goodwill. We have completed our valuations of the fair values of assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets for these three acquisitions. These acquisitions were consummated to expand the product offerings of our business segment and therefore the goodwill has been assigned to that segment. The majority of the goodwill is attributed primarily to expected future increases in business segment revenue from the sale of new products. The majority of the goodwill from these acquisitions is expected to be deductible for tax purposes.

None of the above-described acquisitions materially impacted the consolidated results of operations from the dates of the acquisitions and would not materially impact pro forma results of operations.

For additional information on our segments, see Note 14—Segment Information.

We completed our qualitative assessment of our indefinite-lived intangible assets other than goodwill as of December 31, 2017 and concluded it is more likely than not that our indefinite-lived intangible assets are not impaired; thus, no impairment charge was recorded in 2017.

As of October 31, 2016 and 2015, based on our assessments performed, we concluded that our goodwill for our then three reporting units was not impaired as of those dates.

(5) Long-Term Debt and Credit Facilities

The following chart reflects the consolidated long-term debt of CenturyLink, Inc. and its subsidiaries, including unamortized discounts and premiums and unamortized debt issuance costs, but excluding intercompany debt:

			As of December 31,	
	Interest Rates ⁽¹⁾	Maturities	2017	2016
			(Dollars in millions)	
Senior Secured Debt:				
CenturyLink, Inc.				
2017 Revolving Credit Facility ⁽²⁾	4.153% - 4.285%	2022	\$ 405	—
Term Loan A	4.319%	2022	1,575	—
Term Loan A-1	4.319%	2022	370	—
Term Loan B	4.319%	2025	6,000	—
Subsidiaries:				
Level 3 Financing, Inc.				
Tranche B 2024 Term Loan	3.696%	2024	4,611	—
Embarq Corporation subsidiaries				
First mortgage bonds	7.125% - 8.770%	2018 - 2025	151	223
Senior Notes and Other Debt:				
CenturyLink, Inc.				
Senior notes	5.625% - 7.650%	2019 - 2042	8,125	8,975
2012 Credit facility and revolving line of credit ⁽²⁾	—	—	—	370
2012 Term loan	—	—	—	336
Subsidiaries:				
Level 3 Financing, Inc.				
Senior notes	5.125% - 6.125%	2021 - 2026	5,315	—
Level 3 Parent, LLC				
Senior notes	5.750%	2022	600	—
Qwest Corporation				
Senior notes	6.125% - 7.750%	2018 - 2057	7,294	7,259
Term loan	3.570%	2025	100	100
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation and subsidiary				
Senior note	7.995%	2036	1,485	1,485
Other	9.000%	2019	150	150
Capital lease and other obligations ⁽³⁾	Various	Various	891	440
Unamortized discounts and other, net			23	(133)
Unamortized debt issuance costs			(350)	(193)
Total long-term debt			37,726	19,993
Less current maturities not associated with assets held for sale			(443)	(1,503)
Less capital lease obligations associated with assets held for sale			—	(305)
Long-term debt, excluding current maturities and capital leases obligations associated with assets held for sale			\$ 37,283	18,185

- (1) As of December 31, 2017.
- (2) The aggregate amount outstanding on our 2017 revolving credit facility at December 31, 2017 was \$405 million with a weighted-average interest rate of 4.186%. These amounts change on a regular basis. The aggregate amount outstanding on our 2012 credit facility and revolving line of credit borrowings at December 31, 2016 was \$370 million with weighted-average interest rate of 4.500%. As described under "2017 CenturyLink Credit Agreement" below, we discharged and terminated our 2012 credit facility on November 1, 2017.
- (3) As a result of not meeting the sale leaseback accounting requirements, we must treat a certain amount of the pre-tax cash proceeds from the sale of our real estate assets as though it were the result of a financing obligation on our consolidated balance sheet. Also, the capital lease obligations that were shown as held for sale as of December 31, 2016 are retained and revalued. Please see Note 3—Sale of Data Centers and Colocation Business for additional information on our most current estimate of the financing obligation.

Debt of CenturyLink, Inc. and its Subsidiaries

At December 31, 2017, most of our outstanding consolidated debt had been incurred by CenturyLink, Inc. or one of the following four other primary borrowers or "borrowing groups," each of which has borrowed funds either on a standalone basis or as part of a separate restricted group with certain of its subsidiaries:

- Qwest Corporation;
- Qwest Capital Funding, Inc. (including its parent guarantor, Qwest Communications International Inc.);
- Embarq Corporation; and
- Level 3 Parent, LLC (including its finance subsidiary, Level 3 Financing, Inc.).

Each of these borrowers or borrowing groups has entered into one or more credit agreements with certain financial institutions or other institutional lenders, or issued senior notes. Certain of these debt instruments are described further below.

Level 3 Long-Term Debt Acquired

As a result of the acquisition of Level 3 on November 1, 2017, Level 3's pre-existing debt obligations, which consisted of senior notes and a term loan issued by Level 3 Parent, LLC and Level 3 Financing, Inc., are now included in our consolidated debt balances. Level 3 Financing, Inc.'s Tranche B 2024 Term Loan is further described below under "Term Loans and Certain Other Debt of Subsidiaries". On the acquisition date, Level 3's debt securities had (i) stated principal balances totaling \$10.526 billion, (ii) fixed contractual interest rates on senior notes ranging from 5.125% to 6.125% (with a weighted average of 5.47%) and a floating interest rate on the term loan and (iii) maturities ranging from 2021 to 2026. In accounting for the Level 3 acquisition, we recorded Level 3's debt securities at their estimated fair values, which totaled \$10.716 billion as of November 1, 2017. In addition, we assumed Level 3's capital lease obligations of \$179 million. Our acquisition date fair value estimates were based primarily on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates. The amount by which the fair value of Level 3 debt securities exceeded their stated principal balances on the acquisition date of \$190 million is being recognized as a reduction to interest expense over the remaining terms of the debt.

2017 CenturyLink Credit Agreement

As further described in Note 2—Acquisition of Level 3, CenturyLink, Inc. completed its acquisition of Level 3 on November 1, 2017. To finance a substantial portion of its acquisition of Level 3, on June 19, 2017, CenturyLink, Inc. caused its wholly-owned subsidiary, CenturyLink Escrow, LLC (the "Escrow Borrower"), to enter into a credit agreement (the "2017 CenturyLink Credit Agreement") with, among others, Bank of America, N.A., as administrative agent and collateral agent, initially providing for \$9.945 billion in senior secured credit facilities (the "2017 Senior Secured Credit Facilities"). These facilities consist of the following:

- a \$2 billion revolving credit facility ("2017 Revolving Credit Facility"), which originally had 18 lenders, each with allocations ranging from \$36.4 million to \$167.8 million, which we initially drew upon on November 1, 2017;
- a \$1.575 billion senior secured Term Loan A credit facility, which originally had 17 lenders, each with commitments ranging from \$28.6 million to \$132.2 million, which we drew in full on November 1, 2017;
- a \$370 million senior secured Term Loan A-1 credit facility with CoBank, ACB, which we drew in full on November 1, 2017; and
- a \$6 billion senior secured Term Loan "B" credit facility, which we fully pre-funded the proceeds, net of a discount, into escrow on June 19, 2017 and released to us on November 1, 2017.

Loans under the Term Loan A and A-1 facilities and the 2017 Revolving Credit Facility bear interest at a rate equal to, at our option, the London Interbank Offered Rate ("LIBOR") or the alternative base rate (each as defined in the 2017 CenturyLink Credit Agreement) plus an applicable margin between 2.25% to 3.00% per annum for LIBOR loans and 1.25% to 2.00% per annum for alternative base rate loans, depending on our then current total leverage ratio. Borrowings under the Term Loan B facility bore interest at 1.375% per annum through July 18, 2017 and at 2.75% per annum thereafter through November 1, 2017. Subsequent to November 1, 2017, borrowings under the Term Loan B facility bear interest at LIBOR plus 2.75% per annum. Loans under each of the term loan facilities require certain specified quarterly amortization payments and certain specified mandatory prepayments in connection with certain asset sales and debt issuances and out of excess cash flow, among other things, subject in each case to certain significant exceptions.

CenturyLink, Inc. used the proceeds of the borrowings under the 2017 Senior Secured Credit Facilities, together with other available funds (including \$1.825 billion borrowed from Level 3), (i) to fund the cash portion of the consideration and transaction costs payable in connection with the Level 3 acquisition and (ii) to repay all indebtedness outstanding under its 2012 term loan. The 2017 Revolving Credit Facility and borrowings under the Term Loan A and A-1 facilities will mature on November 1, 2022. Borrowings under the Term Loan B facility will mature on January 31, 2025.

By virtue of merging the Escrow Borrower into CenturyLink, Inc. on November 1, 2017, CenturyLink, Inc. assumed all rights and obligations under the 2017 CenturyLink Credit Agreement, including the right to borrow funds under the 2017 Revolving Credit Facility on the terms and conditions specified in the 2017 CenturyLink Credit Agreement.

All of CenturyLink, Inc.'s obligations under the 2017 Senior Secured Credit Facilities are guaranteed by certain of its subsidiaries. The guarantees by certain of those guarantors are secured by a first priority security interest in substantially all assets (including certain subsidiaries stock) directly owned by them, subject to certain exceptions and limitations.

The 2017 Revolving Credit Facility replaced CenturyLink, Inc.'s 2012 revolving credit facility. A portion of the 2017 Revolving Credit Facility in an amount not to exceed \$100 million is available for swingline loans, and a portion in an amount not to exceed \$400 million is available for the issuance of letters of credit. In addition, on November 1, 2017, CenturyLink, Inc. discharged its 2012 term loan scheduled to mature in 2019 and entered into Term Loan A-1 with the same lender.

CenturyLink, Inc. is permitted under the 2017 CenturyLink Credit Agreement to request certain incremental borrowings subject to the satisfaction of various conditions and to certain other limitations. Any incremental borrowings would be subject to the same terms and conditions under the 2017 CenturyLink Credit Agreement.

Term Loans and Certain Other Debt of Subsidiaries

Qwest Corporation

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

Level 3 Financing, Inc.

At November 1, 2017 and December 31, 2017, Level 3 Financing, Inc. owed \$4.611 billion under the Tranche B 2024 Term Loan, which matures on February 22, 2024. The Tranche B 2024 Term Loan carries an interest rate, in the case of base rate borrowings, equal to (i) the greater of the Prime Rate, the Federal Funds Effective Rate plus 50 basis points, or LIBOR plus 100 basis points (with all such terms and calculations as defined or further specified in the applicable credit agreement) plus (ii) 1.25% per annum. Any Eurodollar borrowings under the Tranche B 2024 Term Loan bear interest at LIBOR plus 2.25% per annum.

The Tranche B 2024 Term Loan requires certain specified mandatory prepayments in connection with certain asset sales and other transactions, subject to certain significant exceptions. The obligations of Level 3 Financing, Inc. under the Tranche B 2024 Term Loan are, subject to certain exceptions, secured by certain assets of Level 3 Parent, LLC and, subject to pending regulatory approvals, certain of its material domestic telecommunication subsidiaries. Also, Level 3 Parent, LLC has guaranteed and, upon receipt of pending regulatory approvals, certain of its subsidiaries will guarantee the obligations of Level 3 Financing, Inc. under the Tranche B 2024 Term Loan. Subject to the receipt of pending regulatory approvals, Level 3 Communications, LLC and its material domestic subsidiaries will guarantee and, subject to certain exceptions, will pledge certain of their assets to secure the obligations of Level 3 Financing, Inc. under the Tranche B 2024 Term Loan.

Embarq Subsidiaries

At December 31, 2017, two of our Embarq subsidiaries had outstanding first mortgage bonds. Each issue of these first mortgage bonds is secured by substantially all of the property, plant and equipment of the issuing subsidiary.

Revolving Letters of Credit

CenturyLink, Inc. maintains an uncommitted revolving letter of credit facility separate from the letter of credit facility included in the 2017 Revolving Credit Facility noted above. On November 1, 2017, this facility was amended to increase its size from \$160 million to \$225 million and to provide the lender with credit enhancements in the form of secured guarantees issued by certain CenturyLink subsidiaries. As of December 31, 2017 and 2016, CenturyLink, Inc.'s outstanding letters of credit under this credit facility totaled \$104 million and \$105 million, respectively.

As of December 31, 2017, Level 3 Parent, LLC had outstanding letters of credit or other similar obligations of approximately \$36 million of which \$30 million is collateralized by cash that is reflected on the consolidated balance sheets in restricted cash and securities.

Senior Notes

CenturyLink, Inc., Level 3 Financing, Inc., Level 3 Parent, LLC, Qwest Corporation, Qwest Capital Funding, Inc. and Embarq Corporation have each issued unsecured senior notes. All of these notes carry fixed interest rates and all principal is due on the notes' respective maturity dates, which rates and maturity dates are summarized in the table above. The senior notes issued by Level 3 Financing, Inc. are guaranteed by its parent, Level 3 Parent, LLC and another of its affiliates. The senior notes issued by Qwest Capital Funding, Inc. are guaranteed by its parent, Qwest Communications International Inc. Except for a limited number of senior notes issued by Qwest Corporation, the issuer generally can redeem the notes, at its option, in whole or in part, (i) pursuant to a fixed schedule of pre-established redemption prices, (ii) pursuant to a "make whole" redemption price or (iii) under certain other specified limited conditions. Under certain circumstances in connection with a "change of control" of CenturyLink, Inc., it will be required to make an offer to repurchase each series of these senior notes (other than two of its older series of notes) at a price of 101% of the principal amount redeemed, plus accrued and unpaid interest. Also, under certain circumstances in connection with a "change of control" of Level 3 Parent, LLC, it, as well as Level 3 Financing, Inc., will be required to make an offer to repurchase each series of its outstanding senior notes at a price of 101% of the principal amount redeemed, plus accrued and unpaid interest.

New Issuances

2017

As described above under “2017 CenturyLink Credit Agreement”, on June 19, 2017, CenturyLink, Inc. caused one of its wholly-owned subsidiaries to enter into the 2017 CenturyLink Credit Agreement initially providing for \$9.945 billion of senior secured credit facilities. Upon the execution of the 2017 CenturyLink Credit Agreement, the \$6 billion Term Loan B credit facility was fully funded. On November 1, 2017, CenturyLink, Inc. assumed the obligations and borrowed additional sums under such credit agreement.

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

2016

On August 22, 2016, Qwest Corporation issued \$978 million aggregate principal amount of 6.5% Notes due 2056, including \$128 million principal amount that was sold pursuant to an over-allotment option, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$946 million. All of the 6.5% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after September 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On April 6, 2016, CenturyLink, Inc. issued \$1 billion aggregate principal amount of 7.5% Notes due 2024, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$988 million. All of the 7.5% Notes are unsecured obligations and may be redeemed by CenturyLink, Inc., in whole or in part, on or after January 1, 2024, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date. At any time before January 1, 2024, the Notes are redeemable, in whole or in part, at CenturyLink, Inc.'s option, at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2019, CenturyLink, Inc. may redeem up to 35% of the aggregate principal amount of the Notes at a redemption price of 107.5% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with the net proceeds of certain equity offerings. Under certain circumstances, CenturyLink, Inc. will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date.

On January 29, 2016, Qwest Corporation issued \$235 million aggregate principal amount of 7% Notes due 2056, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$227 million. All of the 7% Notes are unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after February 1, 2021, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

Repayments

2017

As described above under “2017 CenturyLink Credit Agreement”, on November 1, 2017, CenturyLink, Inc. repaid the outstanding principal amount of \$319 million under its 2012 term loan.

On August 1, 2017, subsidiaries of Embarq Corporation paid at maturity the \$72 million principal amount and accrued and unpaid interest due under their 8.77% Notes.

On June 15, 2017, CenturyLink, Inc. paid at maturity the \$350 million principal and accrued and unpaid interest due under its 5.15% Notes.

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

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

On April 3, 2017, CenturyLink, Inc. paid at maturity the \$500 million principal and accrued and unpaid interest due under its 6.00% Notes.

2016

On December 23, 2016, a subsidiary of Embarq Corporation redeemed \$5 million of its 8.375% Notes due 2025, which resulted in an immaterial loss.

On September 19, 2016, a subsidiary of Embarq Corporation redeemed all of its 8.77% Notes due 2017, which was less than \$4 million and resulted in an immaterial loss.

On September 15, 2016, Qwest Corporation redeemed \$287 million of its 7.5% Notes due 2051, which resulted in a loss of \$9 million.

On August 29, 2016, Qwest Corporation redeemed all \$661 million of its 7.375% Notes due 2051, which resulted in a loss of \$18 million.

On June 1, 2016, Embarq Corporation paid at maturity the \$1.184 billion principal amount and accrued and unpaid interest due under its 7.082% Notes.

On May 2, 2016, Qwest Corporation paid at maturity the \$235 million principal amount and accrued and unpaid interest due under its 8.375% Notes.

Aggregate Maturities of Long-Term Debt

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

	(Dollars in millions)⁽¹⁾⁽²⁾
2018	\$ 443
2019	638
2020	1,194
2021	3,109
2022	5,033
2023 and thereafter	27,137
Total long-term debt	\$ 37,554

⁽¹⁾ The amount outstanding on the data centers obligation at December 31, 2017 was \$598 million. The aggregate maturities of long-term debt do not include \$499 million of this obligation, which, at the end of the lease term on April 30, 2020, will be derecognized along with the remaining net book value of the associated real estate assets. Also, the aggregate maturities of long-term debt do not include future imputed lease income of \$173 million attributable to the accounting for certain of the real estate assets under the failed-sale-leaseback. See Note 3—Sale of Data Centers and Colocation Business for additional information.

⁽²⁾ Actual principal paid in any year may differ due to the possible future refinancing of outstanding debt or the issuance of new debt. The projected amounts in the table also exclude any impacts from any further acquisitions.

Interest Expense

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

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$ 1,559	1,372	1,364
Capitalized interest	(78)	(54)	(52)
Total interest expense	\$ 1,481	1,318	1,312

Covenants

CenturyLink, Inc.

With respect to the Term Loan A and A-1 facilities and the 2017 Revolving Credit Facility, the 2017 CenturyLink Credit Agreement requires us to maintain (i) a maximum total leverage ratio of not more than 5.00 to 1.00 between the closing date of the Level 3 acquisition and the second anniversary thereof and 4.75 to 1.00 thereafter and (ii) a minimum consolidated interest coverage ratio of at least 2.00 to 1.00, with such ratios being determined and calculated in the manner described in the 2017 CenturyLink Credit Agreement.

The 2017 Senior Secured Credit Facilities contain various representations and warranties and extensive affirmative and negative covenants. Such covenants include, among other things and subject to certain significant exceptions, restrictions on our ability to declare or pay dividends, repurchase stock, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with its affiliates, dispose of assets and merge or consolidate with any other person.

The senior notes of CenturyLink, Inc. were issued under an indenture dated March 31, 1994. This indenture restricts our ability to (i) incur, issue or create liens upon the property of CenturyLink, Inc. and (ii) consolidate with or merge into, or transfer or lease all or substantially all of our assets to any other party. The indenture does not contain any provisions that are impacted by our credit ratings or that restrict the issuance of new securities in the event of a material adverse change to us. However, as indicated above under "Senior Notes", CenturyLink, Inc. will be required to offer to purchase certain of its long-term debt securities issued under this indenture under certain circumstances in connection with a "change of control" of CenturyLink, Inc.

Level 3 Companies

The term loan and senior notes of Level 3 Parent, LLC and Level 3 Financing, Inc. contain extensive affirmative and negative covenants. Such covenants include, among other things and subject to certain significant exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates, dispose of assets and merge or consolidate with any other person. Also, as indicated above under "Senior Notes", Level 3 Parent, LLC, as well as Level 3 Financing, Inc., will be required to offer to purchase certain of its long-term debt securities under certain circumstances in connection with a "change of control" of Level 3 Parent, LLC.

Qwest Companies

Under its term loan, Qwest Corporation must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in such term loan) ratio of not more than 2.85:1.0, as of the last day of each fiscal quarter for the four quarters then ended. The term loan also contains a negative pledge covenant, which generally requires Qwest Corporation to secure equally and ratably any advances under the term loan if it pledges assets or permit liens on its property for the benefit of other debtholders.

The senior notes of Qwest Corporation were issued under indentures dated April 15, 1990 and October 15, 1999. These indentures contain restrictions on the incurrence of liens and the consummation of certain transactions substantially similar to the above-described covenants in CenturyLink, Inc.'s March 31, 1994 indenture (but contain no mandatory repurchase provisions). The senior notes of Qwest Capital Funding, Inc. were issued under an indenture dated June 29, 1998 containing terms substantially similar to those set forth in Qwest Corporation's indentures.

Embarq

Embarq's senior note was issued pursuant to an indenture dated as of May 17, 2006. While Embarq is generally prohibited from creating liens on its property unless its senior notes are secured equally and ratably, Embarq can create liens on its property without equally and ratably securing its senior notes so long as the sum of all indebtedness so secured does not exceed 15% of Embarq's consolidated net tangible assets. The indenture also contains restrictions on the consummation of certain transactions substantially similar to CenturyLink, Inc.'s above-described covenants (but without mandatory repurchase provision), as well as certain customary covenants to maintain properties and pay all taxes and lawful claims.

Impact of Covenants

The debt covenants applicable to CenturyLink, Inc. and its subsidiaries could materially adversely affect their ability to operate or expand their respective businesses, to pursue strategic transactions, or to otherwise pursue their plans and strategies. The covenants of the Level 3 companies may significantly restrict the ability of CenturyLink, Inc. to receive cash from the Level 3 companies, to distribute cash from the Level 3 companies to other of CenturyLink, Inc.'s affiliated entities, or to enter into other transactions among CenturyLink, Inc.'s wholly-owned entities.

Certain of the debt instruments of CenturyLink, Inc. and its subsidiaries contain 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.

The ability of CenturyLink, Inc. and its subsidiaries to comply with the financial covenants in their respective debt instruments could be adversely impacted by a wide variety of events, including unforeseen contingencies, many of which are beyond their control.

Compliance

At December 31, 2017, CenturyLink, Inc. believes it and its subsidiaries were in compliance with the provisions and covenants contained in their respective material debt agreements.

Guarantees

CenturyLink, Inc. does not guarantee the debt of any unaffiliated parties, but, as noted above, certain of its largest subsidiaries guarantee (i) its debt outstanding under the 2017 CenturyLink Credit Agreement and (ii) the outstanding term loans or senior notes issued by certain other subsidiaries. As further noted above, several of the subsidiaries guaranteeing the 2017 CenturyLink Credit Agreement have pledged substantially all of their assets to secure their respective guarantees.

Subsequent Events

On January 21, 2018, a subsidiary of Embarq Corporation redeemed all \$13 million of its 8.77% Notes due 2019, which resulted in an immaterial loss.

On January 29, 2018, the 2017 CenturyLink Credit Agreement was amended to:

- Add a lender to the 2017 Revolving Credit Facility and to increase CenturyLink, Inc.'s borrowing capacity thereunder to approximately \$2.168 billion; and
- Add a lender to the Term Loan A credit facility and to increase CenturyLink, Inc.'s borrowing capacity thereunder to approximately \$1.707 billion.

In connection with this amendment, the new lender provided approximately \$132 million of Term Loan A loan proceeds, which CenturyLink used, together with available cash, to reduce its borrowings under the 2017 Revolving Credit Facility.

(6) Accounts Receivable

The following table presents details of our accounts receivable balances:

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Trade and purchased receivables	\$ 2,245	1,882
Earned and unbilled receivables	436	299
Other	40	14
Total accounts receivable	2,721	2,195
Less: allowance for doubtful accounts	(164)	(178)
Accounts receivable, less allowance	\$ 2,557	2,017

We are exposed to concentrations of credit risk from residential and business customers within our local service area, business customers outside of our local service area and from other telecommunications service providers. 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)			
2017	\$ 178	176	(190)	164
2016	\$ 152	192	(166)	178
2015	\$ 162	177	(187)	152

(7) Property, Plant and Equipment

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

	Depreciable Lives	As of December 31,	
		2017	2016
		(Dollars in millions)	
Land	N/A	\$ 883	563
Fiber, conduit and other outside plant ⁽¹⁾	15-45 years	22,798	16,996
Central office and other network electronics ⁽²⁾	3-10 years	18,538	13,768
Support assets ⁽³⁾	3-30 years	7,586	6,623
Construction in progress ⁽⁴⁾	N/A	1,399	1,244
Gross property, plant and equipment		51,204	39,194
Accumulated depreciation		(24,352)	(22,155)
Net property, plant and equipment		<u>\$ 26,852</u>	<u>17,039</u>

⁽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, cable landing stations, data centers, 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 \$2.710 billion, \$2.691 billion and \$2.836 billion for the years ended December 31, 2017, 2016 and 2015, respectively.

Asset Retirement Obligations

At December 31, 2017, our asset retirement obligations balance was primarily related to estimated future costs of removing equipment from leased properties and estimated future costs of properly disposing of asbestos and other hazardous materials upon remodeling or demolishing buildings. Asset retirement obligations are included in other long-term liabilities on our consolidated balance sheets.

As of the Level 3 acquisition date, we recorded liabilities to reflect our preliminary estimates of fair values of Level 3's asset retirement obligations. Our preliminary fair value estimates were determined using discounted cash flow method.

The following table provides asset retirement obligation activity:

Years Ended December 31,		
2017	2016	2015

	(Dollars in millions)		
Balance at beginning of year	\$	95	91
Accretion expense		6	6
Liabilities assumed in acquisition of Level 3		45	—
Liabilities settled		(3)	(2)
Liabilities transferred to Cyxtera		(20)	—
Change in estimate		(8)	—
Balance at end of year	\$	115	95

We revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$8 million and \$21 million, for the years ended December 31, 2017 and 2015, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment, and revisions to assets specifically identified are recorded as a reduction to accretion expense. We did not revise our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations during 2016.

(8) Severance and Leased Real Estate

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

We report severance liabilities within accrued expenses and other liabilities - salaries and benefits in our consolidated balance sheets and report severance expenses in selling, general and administrative expenses in our consolidated statements of operations. As described in Note 14—Segment Information, we do not allocate these severance expenses to our segments.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. As of the Level 3 acquisition date, we recorded liabilities to reflect our preliminary estimates of the fair values of the existing lease obligations for real estate for which we had ceased using, net of estimated sublease rentals. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities-other and report the noncurrent portion in deferred credits and other liabilities-other in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At December 31, 2017, the current and noncurrent portions of our leased real estate accrual were \$11 million and \$53 million, respectively. The remaining lease terms range from 0.16 years to 7.9 years, with a weighted average of 6.7 years.

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2015	\$ 14	80
Accrued to expense	173	4
Payments, net	(89)	(20)
Reversals and adjustments	—	3
Balance at December 31, 2016	98	67
Accrued to expense	42	4
Liabilities assumed in acquisition of Level 3	1	4
Payments, net	(108)	(13)
Reversals and adjustments	—	2
Balance at December 31, 2017	\$ 33	64

(9) Employee Benefits

Pension, Post-Retirement and Other Post-Employment Benefits

We sponsor various defined benefit pension plans (qualified and non-qualified) which, in the aggregate, cover a substantial portion of our employees including legacy CenturyLink, legacy Qwest Communications International, Inc. ("Qwest") and legacy Embarq employees. On December 31, 2015, we merged our existing qualified pension plans, which included merging the Qwest Pension Plan and Embarq Retirement Pension Plan into the CenturyLink Retirement Plan. The CenturyLink Retirement Plan was renamed the CenturyLink Combined Pension Plan ("Combined Plan"). Pension benefits for participants of the new Combined Plan who are represented by a collective bargaining agreement are based on negotiated schedules. All other participants' pension benefits are based on each individual participant's years of service and compensation. We

also maintain non-qualified pension plans for certain current and former highly compensated employees. We maintain post-retirement benefit plans that provide health care and life insurance benefits for certain eligible retirees. We also provide other post-employment benefits for certain eligible former employees. We use a December 31 measurement date for all our plans.

Pension Benefits

In connection with the acquisition of Level 3 Communications, Inc. on November 1, 2017, we assumed defined benefit pension plans sponsored by various Level 3 companies for their employees. Based on a valuation analysis, we recognized a \$20 million liability on November 1, 2017 for the unfunded status of the Level 3 pension plans, reflecting projected benefit obligations of 167 million, in excess of the \$147 million fair value of plan assets.

Current funding laws require a company with a pension shortfall to fund the annual cost of benefits earned in addition to a seven-year amortization of the shortfall. Our funding policy for our Combined Plan is to make contributions with the objective of accumulating sufficient assets to pay all qualified pension benefits when due under the terms of the plan. The accounting unfunded status of our qualified pension plan was \$2.004 billion and \$2.352 billion as of December 31, 2017 and 2016, respectively.

We made a voluntary cash contribution to our qualified pension plan of \$100 million in both 2017 and 2016, and paid \$5 million and \$7 million of benefits directly to participants of our non-qualified pension plans in 2017 and 2016, respectively. Based on current laws and circumstances, we are not required to make any contributions to our qualified pension plan in 2018, but we currently expect to make a voluntary contribution of \$100 million to the trust for our qualified pension plan in 2018. We estimate that in 2018 we will pay \$5 million of benefits directly to participants of our non-qualified pension plans.

As mentioned above, we assumed in the Level 3 acquisition certain contributory and non-contributory employee pension plans, both qualified and non-qualified plans (the “Level 3 Pensions”). At December 31, 2017, the fair value of the Level 3 Pensions’ plan assets was \$147 million, and the associated benefit obligation was \$167 million. We recognized the unfunded status of Level 3’s pension plans of \$20 million on our consolidated balance sheet as of December 31, 2017, and the net periodic benefit expense of less than \$1 million for the period November 1, 2017 to December 31, 2017, in our consolidated income statement for the year ended December 31, 2017. Due to the insignificant amount of these pension plans, we have predominantly excluded them from the remaining employee benefit disclosures in this Note.

Post-Retirement Benefits

In connection with our acquisition of Level 3 Communications, Inc. on November 1, 2017, we assumed post-retirement benefit plans sponsored by Level 3 Communications, L.L.C. and Continental Level 3, Inc. for certain of its current and former employees. Based on a valuation analysis, we recognized less than \$1 million in liability for the unfunded status of Level 3’s post-retirement benefit plans.

Our post-retirement benefit plans provide post-retirement benefits to qualified retirees and allow (i) eligible employees retiring before certain dates to receive benefits at no or reduced cost and (ii) eligible employees retiring after certain dates to receive benefits on a shared cost basis. The post-retirement benefits not paid by the trusts are funded by us and we expect to continue funding these post-retirement obligations as benefits are paid. The accounting unfunded status of our qualified post-retirement benefit plan was \$3.352 billion and \$3.360 billion as of December 31, 2017 and 2016, respectively.

Assets in the post-retirement trusts have been substantially depleted as of December 31, 2016; however we will continue to pay certain post-retirement benefits through the trusts. No contributions were made to the post-retirement trusts in 2017 and 2016. Benefits not paid from the trusts are expected to be paid directly by us with available cash. In 2017, we paid \$237 million of post-retirement benefits, net of participant contributions and direct subsidies. In 2018, we expect to pay \$283 million of post-retirement benefits, net of participant contributions and direct subsidies. The increase in anticipated post-retirement benefit payments is the result of increased utilization coupled with a continued rise in the cost of care.

We expect our health care cost trend rate to range from 5.0% to 6.5% in 2018, 5.0% to 7.0% in 2019, 5.0% to 6.5% in 2020 and grading to 4.50% by 2025. Our post-retirement benefit cost, for certain eligible legacy Qwest retirees and certain eligible legacy CenturyLink retirees, is capped at a set dollar amount. Therefore, those health care benefit obligations are not subject to increasing health care trends after the effective date of the caps.

As mentioned above, we assumed in the Level 3 acquisition certain post-retirement plans. Though largely unfunded, these post-retirement plans, in the aggregate, are immaterial to our consolidated financial statements. Due to the insignificant amount of these post-retirement plans, we have predominantly excluded them from the remaining employee benefit disclosures in this Note.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2017:

	100 Basis Points Change	
	Increase	(Decrease)
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit expense (consolidated statement of operations)	\$ 2	(2)
Effect on benefit obligation (consolidated balance sheet)	60	(57)

Expected Cash Flows

The qualified pension, non-qualified pension and post-retirement health care benefit payments and premiums and life insurance premium payments are paid by us or distributed from plan assets. The estimated benefit payments provided below are based on actuarial assumptions using the demographics of the employee and retiree populations and have been reduced by estimated participant contributions.

	Pension Plans	Post-Retirement Benefit Plans	Medicare Part D Subsidy Receipts
	(Dollars in millions)		
Estimated future benefit payments:			
2018	\$ 1,031	293	(7)
2019	973	280	(7)
2020	951	271	(7)
2021	929	262	(7)
2022	908	253	(7)
2023 - 2027	4,170	1,122	(31)

Net Periodic Benefit Expense

In 2016, we changed the method we use to estimate the service and interest components of net periodic benefit expense for pension and other postretirement benefit obligations. This change resulted in a decrease in the service and interest components in 2017 and 2016. Beginning in 2016, we utilized a full yield curve approach in connection with estimating these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows, as opposed to the single weighted-average discount rate derived from the yield curve that we have used in the past. We believe this change more precisely measures service and interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. This change did not affect the measurement of our total benefit obligations but lowered our annual net periodic benefit cost by \$122 million and \$149 million in 2017 and 2016, respectively, when compared to pre-2016 methodology. This change was treated as a change in accounting estimate and accordingly, we did not adjust the amounts recorded in 2015.

The actuarial assumptions used to compute the net periodic benefit expense for our qualified pension, non-qualified pension and post-retirement benefit plans are based upon information available as of the beginning of the year, as presented in the following table.

	Pension Plans			Post-Retirement Benefit Plans		
	2017	2016	2015	2017	2016	2015
Actuarial assumptions at beginning of year:						
Discount rate	3.50% - 4.10%	3.50% - 4.50%	3.50% - 4.10%	3.90%	4.15%	3.80%
Rate of compensation increase	3.25%	3.25%	3.25%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	6.50%	7.00%	7.50%	5.00%	7.00%	7.50%
Initial health care cost trend rate	N/A	N/A	N/A	7.00% / 5.00%	5.00% / 5.25%	6.00% / 6.50%
Ultimate health care cost trend rate	N/A	N/A	N/A	4.50%	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	N/A	2025	2025	2025

N/A-Not applicable

Net periodic benefit expense (income) for our qualified and non-qualified pension plans includes the following components:

	Pension Plans		
	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Service cost	\$ 63	64	83
Interest cost	411	427	568
Expected return on plan assets	(666)	(732)	(898)
Special termination benefits charge	—	13	—
Recognition of prior service (credit) cost	(8)	(8)	5
Recognition of actuarial loss	205	175	161
Net periodic pension benefit expense (income)	<u>\$ 5</u>	<u>(61)</u>	<u>(81)</u>

Net periodic benefit expense for our post-retirement benefit plans includes the following components:

	Post-Retirement Plans		
	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Service cost	\$ 18	19	24
Interest cost	100	111	140
Expected return on plan assets	(2)	(7)	(21)
Special termination benefits charge	—	3	—
Recognition of prior service cost	20	20	19
Net periodic post-retirement benefit expense	<u>\$ 136</u>	<u>146</u>	<u>162</u>

We report service costs for our qualified pension, non-qualified pension and post-retirement benefit plans in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015. Additionally, a portion of the service cost is also allocated to certain assets under construction, which are capitalized and reflected as part of property, plant and equipment in our consolidated balance sheets. The remaining components of net periodic benefit expense (income) are reported in other income (expense), net in our consolidated statements of operations. In 2016, we announced plans to reduce our workforce, initially through voluntary severance packages and the balance through involuntary reductions, as a result we recognized a one-time charge of \$16 million for special termination benefit enhancements paid to certain eligible employees upon voluntary retirement.

Benefit Obligations

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2017 and 2016 and are as follows:

	Pension Plans		Post-Retirement Benefit Plans	
	December 31,		December 31,	
	2017	2016	2017	2016
Actuarial assumptions at end of year:				
Discount rate	3.44% - 3.70%	3.50% - 4.10%	3.53%	3.90%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	7.00% / 5.00%	5.00% / 5.50%
Ultimate health care cost trend rate	N/A	N/A	4.50%	4.50%
Year ultimate trend rate is reached	N/A	N/A	2025	2025

N/A-Not applicable

In 2017, 2016 and 2015, we adopted the revised mortality tables and projection scales released by the Society of Actuaries ("SOA"), which decreased the projected benefit obligation of our benefit plans by \$113 million, \$268 million and \$379 million, respectively. The change in the projected benefit obligation of our benefit plans was recognized as part of the net actuarial loss and is included in accumulated other comprehensive loss, a portion of which is subject to amortization over the remaining estimated life of plan participants, which was approximately 9 to 10 years as of December 31, 2017.

The following tables summarize the change in the benefit obligations for the pension and post-retirement benefit plans:

	Pension Plans		
	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 13,301	13,349	15,042
Service cost	63	64	83
Interest cost	411	427	568
Plan amendments	—	2	(100)
Special termination benefits charge	—	13	—
Actuarial loss (gain)	590	487	(800)
Benefits paid by company	(5)	(7)	(6)
Benefits paid from plan assets	(1,238)	(1,034)	(1,438)
Benefit obligation at end of year	\$ 13,122	13,301	13,349

	Post-Retirement Benefit Plans Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 3,413	3,567	3,830
Service cost	18	19	24
Interest cost	100	111	140
Participant contributions	54	57	57
Direct subsidy receipts	7	5	8
Special termination benefits charge	—	3	—
Actuarial loss (gain)	112	(13)	(148)
Benefits paid by company	(298)	(191)	(181)
Benefits paid from plan assets	(31)	(145)	(163)
Benefit obligation at end of year	\$ 3,375	3,413	3,567

Our aggregate benefit obligation as of December 31, 2017, 2016 and 2015 was \$16.497 billion, \$16.714 billion and \$16.916 billion, respectively.

Plan Assets

We maintain plan assets for our qualified pension plan and certain post-retirement benefit plans. The qualified pension plan's assets are used for the payment of pension benefits and certain eligible plan expenses. The post-retirement benefit plan's assets are used to pay health care benefits and premiums on behalf of eligible retirees and to pay certain eligible plan expenses. As discussed further above, the liquid plan assets in our post-retirement trust have been substantially depleted as of December 31, 2017. The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets, net of administrative expenses paid from plan assets. The rate of return is determined by the strategic allocation of plan assets and the long-term risk and return forecast for each asset class. The forecasts for each asset class are generated primarily from an analysis of the long-term expectations of various third party investment management organizations. The expected rate of return on plan assets is reviewed annually and revised, as necessary, to reflect changes in the financial markets and our investment strategy.

The following tables summarize the change in the fair value of plan assets for the pension and post-retirement benefit plans:

Pension Plans Years Ended December 31,			
	2017	2016	2015
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 10,892	11,072	12,571
Return on plan assets	1,306	754	(161)
Employer contributions	100	100	100
Benefits paid from plan assets	(1,238)	(1,034)	(1,438)
Fair value of plan assets at end of year	<u>\$ 11,060</u>	<u>10,892</u>	<u>11,072</u>

Post-Retirement Benefit Plans Years Ended December 31,			
	2017	2016	2015
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 53	193	353
Return on plan assets	1	5	3
Benefits paid from plan assets	(31)	(145)	(163)
Fair value of plan assets at end of year	<u>\$ 23</u>	<u>53</u>	<u>193</u>

Pension Plans: Our investment objective for the qualified pension plan assets is to achieve an attractive risk-adjusted return over time that will provide for the payment of benefits and minimize the risk of large losses. Our pension plan investment strategy is designed to meet this objective by broadly diversifying plan assets across numerous strategies with differing expected returns, volatilities and correlations. The pension plan assets have target allocations of 45% to interest rate sensitive investments and 55% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 30% of plan assets targeted primarily to long-duration investment grade bonds, 10% targeted to high yield and emerging market bonds and 5% targeted to diversified strategies, which primarily have exposures to global bonds, as well as some exposures to global stocks and commodities. Assets expected to provide higher returns than the interest rate sensitive assets include broadly diversified equity investments with targets of approximately 15% to U.S. equity markets and 15% to non-U.S. developed and emerging markets. Approximately 7% is targeted to broadly diversified multi-asset class strategies that have the flexibility to adjust exposures to different asset classes. Approximately 10% is allocated to private markets investments including funds primarily invested in private equity, private debt and hedge funds. Real estate investments are targeted at 8% of plan assets. At the beginning of 2018, our expected annual long-term rate of return on pension assets before consideration of administrative expenses is assumed to be 7.0%. However, projected increases in PBGC (Pension Benefit Guaranty Corporation) premium rates have now become large enough to reduce the annual long-term expected return net of administrative expenses to 6.5%.

Our non-qualified pension plans are not funded. We pay benefits directly to the participants of these plans.

Post-Retirement Benefit Plans: Our investment objective for the post-retirement benefit plans' assets is to achieve an attractive risk-adjusted return and minimize the risk of large losses over the expected life of the assets. At the beginning of 2018, our expected annual long-term rate of return on post-retirement benefit plan assets is assumed to be 4.0%.

Permitted investments: Plan assets are managed consistent with the restrictions set forth by the Employee Retirement Income Security Act of 1974, as amended, which requires diversification of assets and also generally prohibits defined benefit and welfare plans from investing more than 10% of their assets in securities issued by the sponsor company. At December 31, 2017 and 2016, the post-retirement benefit plans did not directly own any shares of our common stock or debt instruments. At December 31, 2017, the pension benefit plan directly held approximately \$4 million of our equity securities and approximately \$2 million of CenturyLink, Inc. debt securities. At December 31, 2016 the pension benefit plan held approximately \$1 million of our debt securities.

Derivative instruments: Derivative instruments are used to reduce risk as well as provide return. The pension plan uses exchange traded futures and swaps to gain exposure to equity and interest rate markets consistent with target asset allocations and to reduce risk relative to measurement of the benefit obligation, which is sensitive to interest rate changes. Foreign exchange forward contracts are used to manage currency exposures. Credit default swaps are used to manage credit risk exposures in a cost effective and targeted manner relative to transacting with physical corporate fixed income securities. Options are currently used to manage interest rate exposure taking into account the implied volatility and current pricing of the specific underlying market instrument. Some derivative instruments subject the plans to counterparty risk. The external investment managers, along with Plan Management, monitor counterparty exposure and mitigate this risk by diversifying the exposure among multiple high credit quality counterparties, requiring collateral and limiting exposure by periodically settling contracts.

The gross notional exposure of the derivative instruments directly held by the pension benefit plan is shown below. The notional amount of the derivatives corresponds to market exposure but does not represent an actual cash investment. Our post-retirement plans were not invested in derivative instruments for the years ended December 31, 2017 or 2016.

	Gross Notional Exposure	
	Pension Plan	
	Years Ended December 31,	
	2017	2016
	(Dollars in millions)	
Derivative instruments:		
Exchange-traded U.S. equity futures	\$ 256	104
Exchange-traded Treasury and other interest rate futures	1,830	1,813
Interest rate swaps	137	260
Credit default swaps	100	240
Equity index swaps	1	—
Foreign exchange forwards	293	778
Options	259	206

Fair Value Measurements: 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. For additional information on the fair value hierarchy, see Note 12—Fair Value Disclosure.

At December 31, 2017, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2017:

- Level 1—Assets were valued using the closing price reported in the active market in which the individual security was traded.
- Level 2—Assets were valued using quoted prices in markets that are not active, broker dealer quotations, net asset value of shares held by the plans and other methods by which all significant inputs were observable at the measurement date.

- Level 3—Assets were valued using unobservable inputs in which little or no market data exists as reported by the respective institutions at the measurement date.

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2017. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivables, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2017				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 432	1,315	—	\$ 1,747
High yield bonds (b)	—	575	7	582
Emerging market bonds (c)	217	219	1	437
U.S. stocks (e)	1,030	2	3	1,035
Non-U.S. stocks (f)	706	—	—	706
Private debt (i)	—	—	15	15
Multi-asset strategies (l)	440	—	—	440
Derivatives (m)	2	—	—	2
Cash equivalents and short-term investments (n)	—	476	1	477
Total investments, excluding investments valued at NAV	\$ 2,827	2,587	27	5,441
Investments valued at NAV				5,619
Total pension plan assets				\$ 11,060

Fair Value of Post-Retirement Plan Assets at December 31, 2017				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ —	—	—	\$ —
High yield bonds (b)	—	—	—	—
U.S. stocks (e)	1	—	—	1
Non-U.S. stocks (f)	—	—	—	—
Cash equivalents and short-term investments (n)	—	—	—	—
Total investments, excluding investments valued at NAV	\$ 1	—	—	1
Investments valued at NAV				22
Total post-retirement plan assets				\$ 23

The tables below present the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2016. It is important to note that the asset allocations do not include market exposures that are gained with derivatives. Investments include dividend and interest receivable, pending trades and accrued expenses.

Fair Value of Pension Plan Assets at December 31, 2016				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 420	1,404	—	\$ 1,824
High yield bonds (b)	7	597	11	615
Emerging market bonds (c)	212	212	—	424
U.S. stocks (e)	1,146	1	—	1,147
Non-U.S. stocks (f)	721	1	—	722
Multi-asset strategies (l)	389	—	—	389
Cash equivalents and short-term investments (n)	—	207	—	207
Total investments, excluding investments valued at NAV	\$ 2,895	2,422	11	5,328
Investments valued at NAV				5,564
Total pension plan assets				\$ 10,892

Fair Value of Post-Retirement Plan Assets at December 31, 2016				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$ 1	2	—	\$ 3
High yield bonds (b)	—	1	—	1
U.S. stocks (e)	2	—	—	2
Non-U.S. stocks (f)	1	—	—	1
Cash equivalents and short-term investments (n)	—	5	—	5
Total investments, excluding investments valued at NAV	\$ 4	8	—	12
Investments valued at NAV				41
Total post-retirement plan assets				\$ 53

The table below presents the fair value of plan assets valued at NAV by category for our pension and post-retirement plans at December 31, 2017 and 2016.

	Fair Value of Plan Assets Valued at NAV			
	Pension Plans at December 31,		Post-Retirement Benefit Plans at December 31,	
	2017	2016	2017	2016
	(Dollars in millions)			
Investment grade bonds (a)	\$ 163	106	—	—
High yield bonds (b)	483	521	—	1
Emerging market bonds (c)	14	6	—	—
Diversified strategies (d)	538	522	—	1
U.S. stocks (e)	73	58	—	—
Non-U.S. stocks (f)	627	560	—	1
Emerging market stocks (g)	98	76	—	—
Private equity (h)	460	506	10	14
Private debt (i)	374	369	1	1
Market neutral hedge funds (j)	769	739	—	1
Directional hedge funds (j)	636	657	—	1
Real estate (k)	903	926	1	8
Multi-asset strategies (l)	424	412	—	—
Cash equivalents and short-term investments (n)	57	106	10	13
Total investments valued at NAV	\$ 5,619	5,564	22	41

The plans' assets are invested in various asset categories utilizing multiple strategies and investment managers. Interests in commingled funds are valued using the net asset value ("NAV") per unit of each fund. The NAV reported by the fund manager is based on the market value of the underlying investments owned by each fund, minus its liabilities, divided by the number of shares outstanding. Commingled funds can be redeemed at NAV, generally within a year of the financial statement date. Investments in private funds, primarily limited partnerships, represent long-term commitments with a fixed maturity date and are also valued at NAV. Valuation inputs for these private fund interests are generally based on assumptions and other information not observable in the market. The assumptions and valuation methodologies of the pricing vendors, account managers, fund managers and partnerships are monitored and evaluated for reasonableness. Below is an overview of the asset categories, the underlying strategies and valuation inputs used to value the assets in the preceding tables:

(a) *Investment grade bonds* represent investments in fixed income securities as well as commingled bond funds comprised of U.S. Treasury securities, agencies, corporate bonds, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities. Treasury securities are valued at the bid price reported in the active market in which the security is traded and are classified as Level 1. The valuation inputs of other investment grade bonds primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. The primary observable inputs include references to the new issue market for similar securities, the secondary trading markets and dealer quotes. Option adjusted spread models are utilized to evaluate securities such as asset backed securities that have early redemption features. These securities are classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying fixed income securities using the same valuation inputs previously described.

(b) *High yield bonds* represent investments in below investment grade fixed income securities as well as commingled high yield bond funds. The valuation inputs for the securities primarily utilize observable market information and are based on a spread to U.S. Treasury securities and consider yields available on comparable securities of issuers with similar credit ratings. These securities are primarily classified as Level 2. Securities whose valuation inputs are not based on observable market information are classified as Level 3. The commingled funds are valued at NAV based on the market value of the underlying high yield instruments using the same valuation inputs previously described.

(c) *Emerging market bonds* represent investments in securities issued by governments and other entities located in developing countries as well as registered mutual funds and commingled emerging market bond funds. The valuation inputs for the securities utilize observable market information and are primarily based on dealer quotes or a spread relative to the local government bonds. The registered mutual fund is classified as Level 1 while individual securities are primarily classified as Level 2. Securities whose valuation inputs are not based on observable market information are classified as Level 3. The commingled funds are valued at NAV based on the market value of the underlying emerging market bonds using the same valuation inputs previously described.

(d) *Diversified strategies* represent an investment in a commingled fund that primarily has exposures to global government, corporate and inflation linked bonds, global stocks and commodities. This asset category includes investments in a registered mutual fund which is classified at Level 1, and a commingled fund which is valued at NAV based on the market value of the underlying investments. The valuation inputs utilize observable market information including published prices for exchange traded securities, bid prices for government bonds, and spreads and yields available for comparable fixed income securities with similar credit ratings.

(e) *U.S. stocks* represent investments in stocks of U.S. based companies as well as commingled U.S. stock funds. The valuation inputs for U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are primarily classified as Level 1. Securities whose valuation inputs are not based on observable market information are classified as Level 3. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs previously described.

(f) *Non-U.S. stocks* represent investments in stocks of companies based in developed countries outside the U.S. as well as commingled funds. The valuation inputs for non-U.S. stocks are based on the last published price reported on the major stock market on which the securities are traded and are primarily classified as Level 1. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs previously described.

(g) *Emerging market stocks* represent investments in commingled funds comprised of stocks of companies located in developing markets. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described previously for individual stocks.

(h) *Private equity* represents non-public investments in domestic and foreign buy out and venture capital funds. Private equity funds are primarily structured as limited partnerships and are valued according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The partnerships are valued at NAV using valuation methodologies that consider a range of factors, including but not limited to the price at which investments were acquired, the nature of the investments, market conditions, trading values on comparable public securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investments. These valuation methodologies involve a significant degree of judgment.

(i) *Private debt* represents non-public investments in distressed or mezzanine debt funds and pension group insurance contracts. Pension group insurance contracts are valued based on actuarial assumptions, and are classified as Level 3. Mezzanine debt instruments are debt instruments that are subordinated to other debt issues and may include embedded equity instruments such as warrants. Private debt funds are primarily structured as limited partnerships and are valued at NAV according to the valuation policy of each partnership, subject to prevailing accounting and other regulatory guidelines. The valuation of underlying fund investments are based on factors including the issuer's current and projected credit worthiness, the security's terms, reference to the securities of comparable companies, and other market factors. These valuation methodologies involve a significant degree of judgment.

(j) *Market neutral hedge funds* hold investments in a diversified mix of instruments that are intended in combination to exhibit low correlations to market fluctuations. These investments are typically combined with futures to achieve uncorrelated excess returns over various markets. *Directional hedge funds*—This asset category represents investments that may exhibit somewhat higher correlations to market fluctuations than the market neutral hedge funds. Investments in hedge funds include both direct investments and investments in diversified funds of funds. Hedge funds are valued at NAV based on the market value of the underlying investments which include publicly traded equity and fixed income securities and privately negotiated debt securities. The hedge funds are valued by third party administrators using the same valuation inputs previously described.

(k) *Real estate* represents investments in commingled funds and limited partnerships that invest in a diversified portfolio of real estate properties. These investments are valued at NAV according to the valuation policy of each fund or partnership, subject to prevailing accounting and other regulatory guidelines. The valuation inputs of the underlying properties are generally based on third-party appraisals that use comparable sales or a projection of future cash flows to determine fair value.

(l) *Multi-asset strategies* represent broadly diversified strategies that have the flexibility to tactically adjust exposures to different asset classes through time. This asset category includes investments in a registered mutual fund which is classified as Level 1 and a commingled fund which is valued at NAV based on the market value of the underlying investments.

(m) *Derivatives* include exchange traded futures contracts which are classified as Level 1, as well as privately negotiated over the counter swaps and options that are valued based on the change in interest rates or a specific market index and are classified as Level 2. The market values represent gains or losses that occur due to fluctuations in interest rates, foreign currency exchange rates, security prices, or other factors.

(n) *Cash equivalents and short-term investments* represent investments that are used in conjunction with derivatives positions or are used to provide liquidity for the payment of benefits or other purposes. The valuation inputs of securities are based on a spread to U.S. Treasury Bills, the Federal Funds Rate, or London Interbank Offered Rate and consider yields available on comparable securities of issuers with similar credit ratings and are primarily classified as Level 2. The commingled funds are valued at NAV based on the market value of the underlying investments using the same valuation inputs described above.

Concentrations of Risk: Investments, in general, are exposed to various risks, such as significant world events, interest rate, credit, foreign currency and overall market volatility risk. These risks are managed by broadly diversifying assets across numerous asset classes and strategies with differing expected returns, volatilities and correlations. Risk is also broadly diversified across numerous market sectors and individual companies. Financial instruments that potentially subject the plans to concentrations of counterparty risk consist principally of investment contracts with high quality financial institutions. These investment contracts are typically collateralized obligations and/or are actively managed, limiting the amount of counterparty exposure to any one financial institution. Although the investments are well diversified, the value of plan assets could change materially depending upon the overall market volatility, which could affect the funded status of the plans.

The table below presents a rollforward of the pension plan assets valued using Level 3 inputs:

	Pension Plan Assets Valued Using Level 3 Inputs					
	High Yield Bonds	Emerging Market Bonds	U.S. Stocks	Private Debt	Cash	Total
	(Dollars in millions)					
Balance at December 31, 2015	\$ 13	1	—	—	—	14
Net transfers	(2)	—	—	—	—	(2)
Acquisitions	1	—	—	—	—	1
Dispositions	(1)	(1)	—	—	—	(2)
Balance at December 31, 2016	11	—	—	—	—	11
Net transfers	(1)	—	—	14	—	13
Acquisitions	2	1	—	1	1	5
Actual return on plan assets	(5)	—	3	—	—	(2)
Balance at December 31, 2017	\$ 7	1	3	15	1	27

Certain gains and losses are allocated between assets sold during the year and assets still held at year-end based on transactions and changes in valuations that occurred during the year. These allocations also impact our calculation of net acquisitions and dispositions.

For the year ended December 31, 2017, the investment program produced actual gains on qualified pension and post-retirement plan assets of \$1.307 billion as compared to expected returns of \$668 million for a difference of \$639 million. For the year ended December 31, 2016, the investment program produced actual losses on pension and post-retirement plan assets of \$759 million as compared to the expected returns of \$739 million for a difference of \$20 million. The short-term annual returns on plan assets will almost always be different from the expected long-term returns and the plans could experience net gains or losses, due primarily to the volatility occurring in the financial markets during any given year.

Unfunded Status

The following table presents the unfunded status of the pensions and post-retirement benefit plans:

	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2017	2016	2017	2016
	(Dollars in millions)			
Benefit obligation	\$ (13,122)	(13,301)	(3,375)	(3,413)
Fair value of plan assets	11,060	10,892	23	53
Unfunded status	(2,062)	(2,409)	(3,352)	(3,360)
Current portion of unfunded status	\$ (5)	(6)	(262)	(236)
Non-current portion of unfunded status	\$ (2,057)	(2,403)	(3,090)	(3,124)

The current portion of our post-retirement benefit obligations is recorded on our consolidated balance sheets in accrued expenses and other current liabilities-salaries and benefits.

Accumulated Other Comprehensive Loss-Recognition and Deferrals

The following table presents cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2016, items recognized as a component of net periodic benefits expense in 2017, additional items deferred during 2017 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2017. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

	As of and for the Years Ended December 31,				
		Recognition of Net Periodic Benefits Expense		Net Change in AOCL	
	2016		Deferrals		2017
			(Dollars in millions)		
Accumulated other comprehensive loss:					
Pension plans:					
Net actuarial (loss) gain	\$ (3,148)	205	51	256	(2,892)
Prior service benefit (cost)	62	(8)	—	(8)	54
Deferred income tax benefit (expense)	1,191	(72)	(12)	(84)	1,107
Total pension plans	(1,895)	125	39	164	(1,731)
Post-retirement benefit plans:					
Net actuarial (loss) gain	(137)	—	(113)	(113)	(250)
Prior service (cost) benefit	(127)	20	—	20	(107)
Deferred income tax benefit (expense)	102	(7)	27	20	122
Total post-retirement benefit plans	(162)	13	(86)	(73)	(235)
Total accumulated other comprehensive loss \$	(2,057)	138	(47)	91	(1,966)

The following table presents cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2015, items recognized as a component of net periodic benefits expense in 2016, additional items deferred during 2016 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2016. The items not recognized as a component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

	As of and for the Years Ended December 31,				
		Recognition of Net Periodic Benefits Expense		Net Change in AOCL	
	2015		Deferrals		2016
	(Dollars in millions)				
Accumulated other comprehensive loss:					
Pension plans:					
Net actuarial (loss) gain	\$ (2,857)	175	(466)	(291)	(3,148)
Prior service benefit (cost)	72	(8)	(2)	(10)	62
Deferred income tax benefit (expense)	1,070	(67)	188	121	1,191
Total pension plans	(1,715)	100	(280)	(180)	(1,895)
Post-retirement benefit plans:					
Net actuarial (loss) gain	(147)	—	10	10	(137)
Prior service (cost) benefit	(147)	20	—	20	(127)
Deferred income tax benefit (expense)	114	(8)	(4)	(12)	102
Total post-retirement benefit plans	(180)	12	6	18	(162)
Total accumulated other comprehensive loss \$	(1,895)	112	(274)	(162)	(2,057)

The following table presents estimated items to be recognized in 2018 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	Pension Plans	Post-Retirement Plans
	(Dollars in millions)	
Estimated recognition of net periodic (cost) benefit income in 2018:		
Net actuarial loss	\$ (205)	—
Prior service income (cost)	8	(20)
Deferred income tax benefit	48	4
Estimated net periodic benefit expense to be recorded in 2018 as a component of other comprehensive (loss) income	\$ (149)	(16)

Medicare Prescription Drug, Improvement and Modernization Act of 2003

We sponsor post-retirement health care plans with several benefit options that provide prescription drug benefits that we deem actuarially equivalent to or exceeding Medicare Part D. We recognize the impact of the federal subsidy received under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 in the calculation of our 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 expense for current employees was \$341 million, \$399 million and \$381 million for the years ended December 31, 2017, 2016 and 2015, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$128 million, \$127 million and \$125 million for the years ended December 31, 2017, 2016 and 2015, respectively. Our group basic life insurance plans are fully insured and the premiums are paid by us.

401(k) Plans

We sponsor qualified defined contribution plans covering substantially all of our employees. Under these plans, employees may contribute a percentage of their annual compensation up to certain maximums, as defined by the plans and by the Internal Revenue Service ("IRS"). Currently, we match a percentage of employee contributions in cash. At December 31, 2017 and 2016, the assets of the plans included approximately 7 million shares and 7 million shares, respectively, of our common stock all of which were the result of the combination of previous employer match and participant directed contributions. We recognized expenses related to these plans of \$77 million, \$79 million and \$83 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Upon the November 1, 2017 closing of our acquisition of Level 3, we assumed various defined contribution plans covering substantially all eligible employees of Level 3. On December 31, 2017, we merged the Level 3 Communications, Inc. 401(k) Plan into the CenturyLink Dollar & Sense 401(k) Plan. The resulting plan covers substantially all eligible non-represented employees of the combined company in the US.

Deferred Compensation Plans

We sponsored non-qualified deferred compensation plans for various groups that included certain of our current and former highly compensated employees. The value of liabilities related to these plans was not significant.

(10) Share-based Compensation

We maintain equity programs that allow our Board of Directors (through its Compensation Committee or our Chief Executive Officer as its delegate) to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options, stock appreciation rights, restricted stock awards, restricted stock units and market and performance shares. Stock options generally expire ten years from the date of grant.

Acquisition of Level 3

Upon the November 1, 2017 closing of our acquisition of Level 3, and pursuant to the terms of the merger agreement, we replaced certain of Level 3's share-based compensation awards with our share-based compensation awards. Specifically:

- each outstanding Level 3 restricted stock unit award granted prior to April 1, 2014 or granted to an outside director of Level 3 was converted into \$26.50 in cash and 1.4286 shares of our common stock (and cash in lieu of fractional shares) with respect to each Level 3 share covered by such award (the "Converted RSU Awards"); and
- each outstanding Level 3 restricted stock unit award granted on or after April 1, 2014 (other than these granted to outside directors of Level 3) was converted into a CenturyLink restricted stock unit award using a conversion ratio of 2.8386 to 1 as determined in accordance with a formula set forth in the merger agreement (the "Continuing RSU Awards").

The preliminary aggregate fair value of the replaced Level 3 awards was \$239 million, of which \$103 million was attributable to service performed prior to the acquisition date and was included in the cost of the acquisition. The fair value of CenturyLink shares was determined based on the \$18.99 closing price of our common stock on November 1, 2017. The remaining \$137 million of the preliminary aggregate fair value of the replaced Level 3 awards was attributable to post-acquisition period and is being recognized as compensation expense, net of estimated forfeitures, over the remaining vesting period from 1 to 2 years.

Stock Options

The following table summarizes activity involving stock option awards for the year ended December 31, 2017:

	Number of Options (in thousands)	Weighted- Average Exercise Price
Outstanding and Exercisable at December 31, 2016	3,008	\$ 40.08
Exercised	(12)	10.75
Forfeited/Expired	(1,974)	46.82
Outstanding and Exercisable at December 31, 2017	<u>1,022</u>	27.41

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2017 was less than \$1 million. The weighted-average remaining contractual term for such options was 1.44 years.

During 2017, we received net cash proceeds of less than \$1 million in connection with our option exercises. The tax benefit realized from these exercises was less than \$1 million. The total intrinsic value of options exercised for the years ended December 31, 2017 and 2016, was less than \$1 million each year. The total intrinsic value of options exercised for the year ended December 31, 2015 was \$4 million.

Restricted Stock Awards

For equity based restricted stock awards that contain only service conditions for vesting (time-based awards), we calculate the award fair value based on the closing price of CenturyLink common stock on the accounting grant date. We also grant equity based awards that contain service conditions as well as additional market or performance conditions. For awards with service and market conditions, the award fair value is calculated using Monte-Carlo simulations. Awards with service as well as market or performance conditions specify a target number of shares for the award. Each recipient ultimately has the opportunity to receive between 0% and 200% of the target number of shares. For awards with service and market conditions, the percentage received is based on our total shareholder return over the three-year service period versus that of selected peer companies. For awards with service and performance conditions, the percentage received depends upon the attainment of two financial performance targets during the three-year service period.

Awards Granted in 2017

In 2017, we granted 6 million shares of restricted stock awards, of which 4.7 million shares contained only service conditions and 1.3 million target shares that contained service conditions and either market or performance conditions. The details of these grants are as follows:

During the first quarter of 2017, we granted 784 thousand shares of restricted stock to certain executive level employees as part of our long-term incentive program, of which 314 thousand shares contained only service conditions and will vest on a straight-line basis on February 21, 2018, 2019 and 2020. The remaining awards, 470 thousand target shares, contain service conditions and either market or performance conditions and are scheduled to vest on February 21, 2020.

During the first quarter of 2017, we also granted 2 million shares to certain key employees as part of our annual equity compensation program, of which 1.8 million shares contained only service conditions and will vest on a straight-line basis on February 20, 2018, 2019 and 2020. The remaining awards, 200 thousand target shares, contain service conditions and either market or performance conditions and are scheduled to vest on February 20, 2020.

During the second quarter of 2017, we granted 894 thousand shares to certain executive level employees as integration and retention awards related to the Level 3 acquisition, of which 647 thousand shares of the retention awards will vest on June 1, 2018, 2019 and 2020. The remaining retention awards, 125 thousand shares, will vest on December 15, 2018 and 2019. Integration awards, which contain service and performance conditions, specify a target number of shares for the award. Each recipient ultimately has the opportunity to receive from 80% to 120% of the target number of shares. Integration awards of 122 thousand target shares are scheduled to vest on December 15, 2018.

During the fourth quarter of 2017, we granted 948 thousand shares of restricted stock to certain executive level employees as part of our long-term equity retention program. Time-based awards totaled 493 thousand shares. The remaining awards, 455 thousand target shares, contain service conditions and either market or performance conditions are scheduled to vest on March 31, 2019 and November 1, 2020. We also granted 1.1 million shares to certain key employees as part of our special retention program. Of these, time-based awards totaled 911 thousand shares and will vest on November 1, 2019 and 2020. The remaining awards, 187 thousand shares, are scheduled to vest on November 1, 2018, 2019 and 2020.

Awards Granted in 2016

In 2016, we granted 3.8 million shares of restricted stock awards, of which 3.1 million shares contained only service conditions and 700 thousand target shares that contained service conditions and either market or performance conditions. The details of these grants are as follows:

During the first quarter of 2016, we granted 766 thousand shares of restricted stock to certain executive level employees as part of our long-term incentive program, of which 306 thousand contained only service conditions and will vest on a straight-line basis on February 23, 2017, 2018 and 2019. The remaining awards, 460 thousand target shares, contain service conditions and either market or performance conditions and are scheduled to vest on February 23, 2019.

During the first quarter of 2016, we also granted 1.9 million shares to certain key employees as part of our annual equity compensation program, of which 1.7 million contained only service conditions and will vest on a straight-line basis on February 25, 2017, 2018 and 2019. The remaining awards, 200 thousand target shares, contain service conditions and either market or performance conditions and are scheduled to vest on February 25, 2019. During the first and third quarter of 2016, we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with 113 thousand, 322 thousand and 209 thousand shares vesting on August 16, 2019, 2021 and 2023, respectively, and 22 thousand shares vesting on January 13, 2021 and 22 thousand shares vesting on January 13, 2023. The remaining awards granted throughout 2016 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

Awards Granted in 2015

In 2015, we granted 2.9 million shares of restricted stock awards, of which 2.6 million shares contained only service conditions and 300 thousand target shares that contained service conditions and either market or performance conditions. The details of these grants are as follows:

During the first quarter of 2015, we granted 496 thousand shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which 198 thousand contained only service conditions and will vest on a straight-line basis on February 23, 2016, 2017 and 2018. The remaining awards, 298 thousand target shares, contain service conditions and market or performance conditions and are scheduled to vest on February 23, 2018.

At the end of the first quarter of 2015, we granted 1.2 million shares to certain key employees as part of our annual equity compensation program. These awards contained only service conditions and will vest on a straight-line basis on March 12, 2016, 2017 and 2018. During the third quarter of 2015 we granted shares to certain key employees as part of our long-term equity retention program. These awards will vest over a three to seven year period with 193 thousand, 423 thousand and 230 thousand shares vesting on August 14, 2018, 2020 and 2022, respectively, and 55 thousand shares vesting equally on August 14, 2017, 2019, and 2021. The remaining awards granted throughout 2015 to certain other key employees and our outside directors were made as part of our equity compensation and retention programs. These awards require only service conditions for vesting and typically vest equally over a three year period.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2017:

	Number of Shares	Weighted- Average Grant Date Fair Value
	(in thousands)	
Non-vested at December 31, 2016	5,948	\$ 31.89
Level 3 replacement awards	12,530	18.99
Granted ⁽¹⁾	5,223	22.02
Vested	(2,762)	28.55
Forfeited	(1,165)	26.43
Non-vested at December 31, 2017	<u>19,774</u>	21.90

⁽¹⁾ Shares granted whose related performance conditions were not finalized at December 31, 2017, were excluded from this figure.

During 2016, we granted 3.6 million shares of restricted stock and restricted stock unit awards at a weighted-average price of \$30.83. During 2015, we granted 2.9 million shares of restricted stock and restricted stock unit awards at a weighted-average price of \$31.83. The total fair value of restricted stock that vested during 2017, 2016 and 2015, was \$60 million, \$47 million and \$59 million, respectively.

Compensation Expense and Tax Benefit

We recognize compensation expense related to our market and performance share-based awards with graded vesting that only have a service condition on a straight-line basis over the requisite service period for the entire award. Total compensation expense for all share-based payment arrangements for the years ended December 31, 2017, 2016 and 2015, was \$111 million, \$80 million and \$73 million, respectively. Our tax benefit recognized in the consolidated statements of operations for our share-based payment arrangements for the years ended December 31, 2017, 2016 and 2015, was \$28 million, \$31 million and \$28 million, respectively. At December 31, 2017, there was \$240 million of total unrecognized compensation expense related to our share-based payment arrangements, which we expect to recognize over a weighted-average period of 1.9 years.

(11) Earnings Per Common Share

Basic and diluted earnings per common share for the years ended December 31, 2017, 2016 and 2015 were calculated as follows:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions, except per share amounts, shares in thousands)		
Income (Numerator):			
Net income	\$ 1,389	626	878
Earnings applicable to non-vested restricted stock	—	—	—
Net income applicable to common stock for computing basic earnings per common share	1,389	626	878
Net income as adjusted for purposes of computing diluted earnings per common share	\$ 1,389	626	878
Shares (Denominator):			
Weighted average number of shares:			
Outstanding during period	635,576	545,946	559,260
Non-vested restricted stock	(7,768)	(6,397)	(4,982)
Weighted average shares outstanding for computing basic earnings per common share	627,808	539,549	554,278
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	10	10	10
Shares issuable under incentive compensation plans	875	1,120	805
Number of shares as adjusted for purposes of computing diluted earnings per common share	628,693	540,679	555,093
Basic earnings per common share	\$ 2.21	1.16	1.58
Diluted earnings per common share	\$ 2.21	1.16	1.58

Our calculation of diluted earnings per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are antidilutive as a result of unrecognized compensation cost. Such shares averaged 4.7 million, 3.3 million and 3.1 million for 2017, 2016 and 2015, respectively.

(12) Fair Value Disclosure

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

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

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

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

	Input Level	As of December 31, 2017		As of December 31, 2016	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities-Long-term debt, excluding capital lease and other obligations	2	\$ 36,835	36,402	19,553	19,639

(13) Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act significantly changes U.S. tax law. The Act reduces the U.S. corporate income tax rate from a maximum of 35% to 21% for all corporations, effective January 1, 2018, and makes certain changes to U.S. taxation of income earned by foreign subsidiaries, capital expenditures, interest expense and various other items.

As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we re-measured our net deferred tax liabilities at December 31, 2017 and recognized a provisional tax benefit of approximately \$1.1 billion in our consolidated statement of operations for the year ended December 31, 2017.

The Act imposed a one-time repatriation tax on certain earnings of foreign subsidiaries. The Act also includes certain anti-abuse and base erosion provisions that may impact the amounts of U.S. tax that we pay with respect to income earned by our foreign subsidiaries. We have not yet been able to make a reasonable estimate of the impact of these provisions and continue to account for these items based on our existing accounting under U.S. GAAP and the provisions of the tax laws that were in effect prior to the Act's enactment.

On December 22, 2017, the SEC staff addressed the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. We have provisionally recognized the tax impacts related to the re-measurement of deferred tax assets and liabilities in the amount noted above in our consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from our provisional amount due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our future statements of operations and could be material. We expect to complete the accounting by the time we file our 2017 U.S. corporate income tax return in the 4th quarter of 2018, although we cannot assure you of this.

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Income tax expense was as follows:			
Federal			
Current	\$ 82	335	28
Deferred	(988)	5	329
State			
Current	21	27	40
Deferred	16	8	21
Foreign			
Current	22	26	16
Deferred	(2)	(7)	4
Total income tax expense	\$ (849)	394	438

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Income tax (benefit) expense was allocated as follows:			
Income tax (benefit) expense in the consolidated statements of operations:			
Attributable to income	\$ (849)	394	438
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	—	(2)	(5)
Tax effect of the change in accumulated other comprehensive loss	81	(109)	59

The following is a reconciliation from the statutory federal income tax rate to our effective income tax rate:

	Years Ended December 31,		
	2017	2016	2015
	(Percentage of pre-tax income)		
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal income tax benefit	3.9 %	2.3 %	2.6 %
Change in liability for unrecognized tax position	1.0 %	0.2 %	0.4 %
Tax reform	(209.8)%	— %	— %
Net foreign income taxes	(0.7)%	0.1 %	0.7 %
Foreign dividend paid to a domestic parent company	0.2 %	1.8 %	— %
Affiliate debt rationalization	— %	— %	(2.6)%
Research and development credits	(1.4)%	(0.6)%	(2.1)%
Tax impact on sale of data centers and colocation business	5.0 %	— %	— %
Level 3 acquisition transaction costs	6.0 %	— %	— %
Other, net	3.6 %	(0.2)%	(0.7)%
Effective income tax rate	(157.2)%	38.6 %	33.3 %

The effective tax rate for the year ended December 31, 2017 reflects the benefit of approximately \$1.1 billion from the re-measurement of deferred taxes as noted above, a \$27 million tax expense related to the sale of our colocation business and \$32 million tax impact of non-deductible transaction costs related to the Level 3 acquisition. The effective tax rate for the year ended December 31, 2016 reflects a tax impact of \$18 million from an intercompany dividend payment from one of our foreign subsidiaries to its domestic parent company that was made as part of our corporate restructuring in preparation for the sale of

our colocation business. The 2015 rate reflects a tax benefit of approximately \$34 million related to affiliate debt rationalization, research and development tax credits of \$28 million for 2011 through 2015 and a \$16 million tax decrease due to changes in state taxes caused by apportionment changes, state tax rate changes and the changes in the expected utilization of net operating loss carryforwards ("NOLs").

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities were as follows:

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Deferred tax assets		
Post-retirement and pension benefit costs	\$ 1,321	2,175
Net operating loss carryforwards	3,951	473
Other employee benefits	112	125
Other	714	342
Gross deferred tax assets	6,098	3,115
Less valuation allowance	(1,341)	(375)
Net deferred tax assets	4,757	2,740
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(2,935)	(3,626)
Goodwill and other intangible assets	(3,785)	(2,577)
Other	(16)	—
Gross deferred tax liabilities	(6,736)	(6,203)
Net deferred tax liability	\$ (1,979)	(3,463)

Of the \$1.979 billion and \$3.463 billion net deferred tax liability at December 31, 2017 and 2016, respectively, \$2.413 billion and \$3.471 billion is reflected as a long-term liability and \$434 million and \$8 million is reflected as a net noncurrent deferred tax asset at December 31, 2017 and 2016, respectively.

At December 31, 2017, we had federal NOLs of \$9.1 billion and state NOLs of \$21 billion. If unused, the NOLs will expire between 2018 and 2033; however, no significant amounts expire until 2023. We also had foreign NOL carryforwards of \$5.8 billion as a result of the Level 3 acquisition. At December 31, 2017, we had an immaterial amount of federal tax credits. Our acquisitions of Level 3, Qwest and SAVVIS, Inc. ("Savvis") caused "ownership changes" within the meaning of Section 382 of the Internal Revenue Code ("Section 382"). As a result, our ability to use these NOLs and AMT credits are subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these tax attributes to reduce our future federal tax liabilities, although the timing of that use will depend upon our future earnings and future tax circumstances.

We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2017, a valuation allowance of \$1.341 billion was established as it is more likely than not that this amount of net operating loss, capital loss and tax credit carryforwards will not be utilized prior to expiration. Our valuation allowance at December 31, 2017 and 2016 is primarily related to foreign and state NOL carryforwards. This valuation allowance increased by \$966 million during 2017, primarily due to the acquisition of Level 3 and the related valuation allowances.

A reconciliation of the change in our gross unrecognized tax benefits (excluding both interest and any related federal benefit) from January 1 to December 31 for 2017 and 2016 is as follows:

	2017	2016
	(Dollars in millions)	
Unrecognized tax benefits at beginning of year	\$ 16	15
Assumed in the acquisition of Level 3	18	—
Tax position of prior periods netted against deferred tax assets assumed in the acquisition of Level 3	2	—
Increase in tax positions taken in the current year	1	1
Increase in tax positions taken in the prior year	3	—
Unrecognized tax benefits at end of year	\$ 40	16

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$66 million and \$34 million at December 31, 2017 and 2016, respectively.

Our policy is to reflect interest expense associated with unrecognized tax benefits in income tax expense. We had accrued interest (presented before related tax benefits) of approximately \$56 million and \$35 million at December 31, 2017 and 2016, respectively.

We, or at least one of our subsidiaries, file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2003. The Internal Revenue Service and state and local taxing authorities reserve the right to audit any period where net operating loss carryforwards are available.

Based on our current assessment of various factors, including (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, and (iv) the administrative practices of applicable taxing jurisdictions, it is reasonably possible that the related unrecognized tax benefits for uncertain tax positions previously taken may decrease by up to \$16 million within the next 12 months. The actual amount of such decrease, if any, will depend on several future developments and events, many of which are outside our control.

(14) Segment Information

In January 2017, we implemented a new organization structure designed to further strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as two segments, business and consumer. As a result of this reorganization, we changed the name of the predecessor business segment to "enterprise" segment. Additionally, we also reassigned our information technology, managed hosting, cloud hosting and hosting area network services from our business segment to a new non-reportable operating segment. We reported two segments, enterprise and consumer, from January 2017 through October 2017.

In connection with our acquisition of Level 3 (discussed further in Note 2—Acquisition of Level 3), effective November 1, 2017, we implemented a new organization structure and began managing our operations in two segments: business and consumer. Our consumer segment remains substantially unchanged under this reorganization, and our newly reorganized business segment includes the legacy CenturyLink enterprise segment operations and the legacy Level 3 operations. In addition, we reassigned our information technology, managed hosting, cloud hosting and hosting area network operations back into the business segment from the former non-reportable operating segment. At December 31, 2017, we had the following two segments:

- *Business Segment.* This segment consists generally of providing products and services to small, medium and enterprise business, wholesale and government customers, including other communication providers. Our products and services offered to these customers include our local and long-distance voice, VPN data network, private line (including business data services), Ethernet, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services, all of which are described further under "Products and Services Categories"; and
- *Consumer Segment.* This segment consists generally of providing products and services to residential customers. Our products and services offered to these customers include our broadband, local and long-distance voice, video and other ancillary services.

The following table summarizes our segment results for 2017, 2016 and 2015 based on the segment categorization we were operating under at December 31, 2017.

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Total segment revenues	\$ 16,924	16,766	17,171
Total segment expenses	9,390	9,081	9,025
Total segment income	\$ 7,534	7,685	8,146
Total margin percentage	45%	46%	47%
Business segment:			
Revenues	\$ 11,220	10,704	10,977
Expenses	6,847	6,391	6,395
Income	\$ 4,373	4,313	4,582
Margin percentage	39%	40%	42%
Consumer segment:			
Revenues	\$ 5,704	6,062	6,194
Expenses	2,543	2,690	2,630
Income	\$ 3,161	3,372	3,564
Margin percentage	55%	56%	58%

Product and Service Categories

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

- *IP and data services*, which include primarily VPN data networks, Ethernet, IP, video (including our facilities-based video services and Vyvx broadcast services) and other ancillary services;
- *Transport and infrastructure*, which include broadband, private line (including business data services), data center facilities and services, including cloud, hosting and application management solutions, wavelength, equipment sales and professional services, network security services and other ancillary services;
- *Voice and collaboration*, which includes primarily local and long-distance voice, including wholesale voice, and other ancillary service;
- *IT and managed services*, which include information technology services and managed services, which may be purchased in conjunction with our other network services;
- *Regulatory revenues*, which consists of Universal Service Fund ("USF") and Connect America Fund ("CAF") support payments, USF surcharges and other operating revenues. We receive federal support payments from both federal and state USF programs and from the federal CAF program. The USF and CAF support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services. We generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties and from rental income associated with the failed-sale-leaseback. Because we centrally manage the activities that generate these regulatory revenues, these revenues are not included in our segment revenues.

Our operating revenues for our products and services are presented as follows for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Business segment			
IP & Data Services (1)	\$ 3,595	2,851	2,704
Transport & Infrastructure (2)	3,680	3,929	4,157
Voice & Collaboration (3)	3,294	3,284	3,429
IT & Managed Services (4)	651	640	687
Total business segment revenues	11,220	10,704	10,977
Consumer segment			
IP & Data Services (5)	448	506	468
Transport & Infrastructure (6)	2,871	2,897	2,829
Voice & Collaboration (3)	2,385	2,659	2,897
Total consumer segment revenues	5,704	6,062	6,194
Non-segment revenues			
Regulatory revenues (7)	732	704	729
Total non-segment revenues	732	704	729
Total revenues	\$ 17,656	17,470	17,900

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- (1) Includes primarily VPN data network, Ethernet, IP and ancillary revenues.
 - (2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.
 - (3) Includes local, long-distance and other ancillary revenues.
 - (4) Includes IT services and managed services revenues.
 - (5) Includes retail video revenues (including our facilities-based video revenues).
 - (6) Includes primarily broadband and equipment sales and professional services revenues.
 - (7) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated to \$601 million, \$572 million and \$544 million for the years ended December 31, 2017, 2016 and 2015, respectively. These USF surcharges, where we record revenue, and transaction taxes are assigned to the products and services categories of each segments based on the underlying revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our IP and data services, transport and infrastructure services, voice and collaboration, colocation and security services and IT and managed services as described in more detail above. Our segment revenues are based upon each customer's classification. We report our segment revenues based upon all services provided to that segment's customers. Our segment expenses include specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are (i) directly associated with specific segment customers or activities, and (ii) allocated expenses which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses. We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Generally speaking, severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a consolidated basis and have not allocated assets or debt to specific segments. Other income and expense items are not monitored as a part of our segment operations and are therefore excluded from our segment results.

The following table reconciles segment income to net income for the years ended December 31, 2017, 2016 and 2015:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Total segment income	\$ 7,534	7,685	8,146
Regulatory revenues	732	704	729
Depreciation and amortization	(3,936)	(3,916)	(4,189)
Non-segment expenses	(2,321)	(2,140)	(2,107)
Other expenses, net	(1,469)	(1,313)	(1,263)
Income before income tax expense	540	1,020	1,316
Income tax benefit (expense)	849	(394)	(438)
Net income	\$ 1,389	626	878

We do not have any single customer that provides more than 10% of our consolidated total operating revenues. Approximately 2% of our consolidated total operating revenues come from customers located outside of the U.S. Approximately 10% of our consolidated total assets and approximately 10% of our consolidated long-lived assets are located outside of the U.S.

(15) Quarterly Financial Data (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Dollars in millions, except per share amounts)				
2017					
Operating revenues	\$ 4,209	4,090	4,034	5,323	17,656
Operating income	631	367	487	524	2,009
Net income	163	17	92	1,117	1,389
Basic earnings per common share	0.30	0.03	0.17	1.26	2.21
Diluted earnings per common share	0.30	0.03	0.17	1.26	2.21
2016					
Operating revenues	\$ 4,401	4,398	4,382	4,289	17,470
Operating income	688	647	593	405	2,333
Net income	236	196	152	42	626
Basic earnings per common share	0.44	0.36	0.28	0.08	1.16
Diluted earnings per common share	0.44	0.36	0.28	0.08	1.16

During the first quarter of 2017, we recognized \$10 million of expenses related to our acquisition of Level 3 followed by acquisition-related expenses of \$18 million, \$37 million and \$206 million in the second, third and fourth quarters of 2017, respectively. During the first quarter of 2017, depreciation and amortization expense of \$50 million was not recognized on colocation assets held for sale. During the second quarter, we recognized a combined loss of \$119 million resulting from the sale of the colocation business and data centers and the accounting treatment of the failed-sale-leaseback. During the second quarter of 2017, we recognized a one-time depreciation charge of \$44 million related to the failed-sale-leaseback accounting. During the third and fourth quarters of 2017, we recognized \$44 million and \$20 million, respectively, of interest expense related to CenturyLink, Inc.'s \$6 billion secured term loan utilized in the acquisition of Level 3. In the fourth quarter of 2017, we recognized a tax

benefit of approximately \$1.1 billion due to the change in the federal corporate tax rate from 35% to 21%.

During the fourth quarter of 2016, we recognized \$164 million of severance expenses and other one-time termination benefits associated with our workforce reductions and \$52 million of expenses related to our pending acquisition of Level 3.

(16) Commitments and Contingencies

We are vigorously defending against all of the matters described below (excluding those referred to under the heading "Hurricane Damage"). As a matter of course, we are prepared to both litigate these matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have established accrued liabilities for these matters described below where losses are deemed probable and reasonably estimable.

Shareholder Class Action Suit

CenturyLink and certain members of the CenturyLink Board of Directors have been named as defendants in a putative shareholder class action lawsuit filed on January 11, 2017 in the 4th Judicial District Court of the State of Louisiana, Ouachita Parish, captioned Jeffery Tomasulo v. CenturyLink, Inc., et al. The complaint asserts, among other things, that the members of CenturyLink's Board allegedly breached their fiduciary duties to the CenturyLink shareholders in approving the Level 3 merger agreement and, more particularly, that: the consideration that CenturyLink agreed to pay to Level 3 stockholders in the transaction is allegedly unfairly high; the CenturyLink directors allegedly had conflicts of interest in negotiating and approving the transaction; and the disclosures set forth in our preliminary joint proxy statement/prospectus filed in December 2016 are insufficient in that they allegedly fail to contain material information concerning the transaction. The complaint seeks, among other things, a declaration that the members of the CenturyLink Board have breached their fiduciary duties, corrective disclosure, rescissory or other damages and equitable relief, including rescission of the transaction. On February 13, 2017, the parties entered into a memorandum of understanding providing for the settlement of the lawsuit. The proposed settlement is subject to court approval, among other conditions, and the amount of the settlement is not material to our consolidated financial statements.

Retiree Benefits Suit

In *William Douglas Fulghum, et al. v. Embarq Corporation, et al.*, filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, were expected to reduce estimated future expenses for the subject benefits by more than \$300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefits plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The court certified classes on the claims for vested benefits and age discrimination, but rejected class certification on the claims for breach of fiduciary duty. On October 14, 2011, the Fulghum lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* In *Abbott*, approximately 1,500 plaintiffs alleged breach of fiduciary duty in connection with the changes in retiree benefits that were at issue in *Fulghum*. After extensive district court proceedings in *Fulghum*, and an interlocutory appeal to the United States Court of Appeals for the Tenth Circuit, defendants prevailed in 2015 on all age discrimination claims and on the majority of claims for vested benefits. The district court in *Fulghum* subsequently granted judgment in favor of defendants on all remaining vested benefits claims, and in July 2016 ordered that any affected class members could appeal this ruling. No appeal was taken, and all claims for vested benefits thus have lapsed. On August 31, 2016, the parties reached a settlement in principle on all remaining claims in *Fulghum* and *Abbott*. Since then, a settlement agreement has been finalized and, per its terms, the settlement funds have been distributed to class members. The settlement payments were not material to our consolidated financial statements.

Switched Access Disputes

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

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges, and also allowed the IXCs to refile state-law claims. Since then, many of the LECs and IXCs have filed revised pleadings and additional motions, which remain pending. Separately, some of the defendants, including CenturyLink, Inc.'s LECs, have petitioned the FCC to address these issues on an industry-wide basis.

As both an IXC and a LEC, we both pay and assess significant amounts of the charges in question. The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, 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.

State Tax Suits

CenturyLink, Inc. and several of its subsidiaries are defendants in lawsuits filed over the past few years in the Circuit Court of St. Louis County, Missouri by numerous Missouri municipalities alleging underpayment of taxes. These municipalities are seeking, among other things, (i) a declaratory judgment regarding the extent of our obligations to pay certain business license and gross receipts taxes and (ii) a monetary award of back taxes covering 2007 to the present, plus penalties and interest. In a February 2017 ruling in connection with one of these pending cases, the court entered into a final order awarding plaintiffs \$4 million and broadening the tax base on a going forward basis. We filed a notice of appeal on March 3, 2017. We expect the outcome of our appeal to reduce our ultimate exposure, although we can provide no assurances to this effect. In a June 9, 2017 ruling in connection with another one of these pending cases, the court made findings which, if not overturned, will result in a tax liability to us well in excess of the contingent liability we have established. Following further proceedings at the district court, we plan to file an appeal and continue to vigorously defend against these claims. For a variety of reasons, we expect the outcome of our appeal to significantly reduce our ultimate exposure, although we can provide no assurances to this effect.

Billing Practices Suits

In June 2017, a former employee filed an employment lawsuit against us claiming that she was wrongfully terminated for alleging that we charged some of our retail customers for products and services they did not authorize. Starting shortly thereafter and continuing since then, and based in part on the allegations made by the former employee, a series of consumer and shareholder putative class actions were filed against us, and we received several shareholder derivative demands. In July 2017, the Minnesota Attorney General also filed a civil suit on behalf of the Minnesota consumers alleging that we engaged in improper sales and billing practices. The filing of additional related lawsuits is possible. The consumer putative class actions have been transferred to the U.S. District Court for the District of Minnesota for coordinated and consolidated pretrial proceedings. The shareholder putative class actions have been consolidated into a single action that currently is pending in U.S. District Court for the Western District of Louisiana. In addition, a separate, related class action was filed in U.S. District Court for the Southern District of New York purportedly on behalf of persons who purchased certain of our Senior Notes. This class action suit has been transferred to the U.S. District Court for the Western District of Louisiana.

In late June 2017, the Board of Directors formed a special committee of outside directors to investigate improper sales and billing practices and related matters. In late 2017, the special committee concluded its review and issued its key findings. Among other things, the committee found that (i) our investment in consumer sales monitoring was insufficient, (ii) our ordering and billing software contributed to customer confusion and (iii) systems and human errors contributed to inaccurate billing. In August 2017, the Board of Directors formed a special litigation committee of outside directors to address the allegations of impropriety contained in the shareholder derivative demands. The investigation of the special litigation committee is ongoing.

Pending Litigation Matters Assumed in Level 3 Acquisition

Peruvian Tax Litigation

Beginning in 2005, one of Level 3's Peruvian subsidiaries received a number of assessments for tax, penalties and interest for calendar years 2001 and 2002. Peruvian tax authorities ("SUNAT") took the position that the Peruvian subsidiary incorrectly documented its importations resulting in additional income tax withholding and value-added taxes ("VAT"). The total amount of the asserted claims, including potential interest and penalties, was \$26 million, consisting of \$3 million for income tax withholding in connection with the import of services for calendar years 2001 and 2002, \$7 million for VAT in connection with the import of services for calendar years 2001 and 2002, and \$16 million in connection with the disallowance of VAT credits for periods beginning in 2005. After taking into account the developments described below, as well as the accrued interest and foreign exchange effects, the total amount of exposure is \$15 million at December 31, 2017.

Level 3 challenged the 2002 tax period assessments via administrative and then judicial review processes. In October 2011, the highest administrative review tribunal (the Tribunal) decided the central issue underlying the 2002 tax period assessments in the government's favor, while denying a portion of the assessment on procedural grounds. Level 3 then appealed the Tribunal's decision to the judicial court in Peru. After further development of the record, the first judicial level decided the central issue in favor of Level 3. SUNAT and Level 3 filed cross-appeals. In May 2017, the court of appeal issued a decision reversing the first judicial level. In June 2017, Level 3 filed an appeal of the decision to the Supreme Court of Justice, the final judicial level. That appeal is pending.

In October 2013, the Tribunal decided the central issue underlying the year 2001 tax period assessments in the government's favor, while denying a portion of the assessment on procedural grounds. Level 3 appealed that decision to the judicial court in Peru. After further development of the record, the first judicial court issued a ruling against Level 3. In June 2017, Level 3 filed an appeal with the court of appeal. An oral hearing took place before the court of appeals on October 18, 2017. In November 2017, the court of appeals issued a decision affirming the lower court's decision and Level 3 filed an appeal of the decision to the Supreme Court of Justice, the final judicial level. That appeal is pending.

In December 2013, SUNAT initiated an audit of calendar year 2001. In June 2014, Level 3 was served with SUNAT's assessments of the 2001 VAT credits declared null by the Tribunal and the corresponding fine. In July 2014, Level 3 challenged these assessments by filing administrative claims before SUNAT. In January 2015, SUNAT rejected the administrative claims, thereby confirming the assessments. Level 3 filed an appeal with the Tribunal in February 2015. In May 2015, the Tribunal notified Level 3 of its administrative resolution declaring the assessments and corresponding fines null. The time for SUNAT to appeal this resolution has closed. Under local practice, notification of an appeal can take several months. Counsel confirmed in the first quarter of 2016 that SUNAT has not filed an appeal to the resolution. Nevertheless, SUNAT retains the right to reissue the assessments declared null or start a new audit. However, Level 3 is under no obligation to provide additional information and any fine issued by SUNAT based on the same information that it has already used in the past would be declared null.

Employee Severance and Contractor Termination Disputes

A number of former employees and third-party contractors have asserted a variety of claims in litigation against certain of Level 3's Latin American subsidiaries for separation pay, severance, commissions, pension benefits, unpaid vacation pay, breach of employment contracts, unpaid performance bonuses, property damages, moral damages and related statutory penalties, fines, costs and expenses (including accrued interest, attorneys' fees and statutorily mandated inflation adjustments) as a result of their separation from Level 3 or termination of service relationships. Level 3 is vigorously defending itself against the asserted claims, which aggregate to approximately \$17 million at December 31, 2017.

Brazilian Tax Claims

In December 2004, March 2009, April 2009 and July 2014, the São Paulo state tax authorities issued tax assessments against one of Level 3's Brazilian subsidiaries for the Tax on Distribution of Goods and Services ("ICMS") with respect to revenue from leasing movable properties (in the case of the December 2004, March 2009 and July 2014 assessments) and revenue from the provision of Internet access services (in the case of the April 2009 and July 2014 assessments), by treating such activities as the provision of communications services, to which the ICMS tax applies. In September 2002, July 2009 and May 2012, the Rio de Janeiro state tax authorities issued tax assessments to the same Brazilian subsidiary on similar issues. Level 3 has filed objections to these assessments, arguing that the lease of assets and the provision of Internet access are not communication services subject to ICMS. The objections to the September 2002, December 2004 and March 2009 assessments were rejected by the respective state administrative courts, and Level 3 has appealed those decisions to the judicial courts. In October 2012 and June 2014, Level 3 received favorable rulings from the lower court on the December 2004 and March 2009 assessments regarding equipment leasing, but those rulings are subject to appeal by the state. No ruling has been obtained with respect to the September 2002 assessment. The objections to the April and July 2009 and May 2012 assessments are still pending final administrative decisions. The July 2014 assessment was confirmed during the fourth quarter of 2014 at the first administrative level and Level 3 appealed this decision to the second administrative level.

Level 3 is vigorously contesting all such assessments in both states and, in particular, views the assessment of ICMS on revenue from leasing movable properties to be without merit. Nevertheless, Level 3 believes it is reasonably possible that these assessments could result in a loss of up to \$53 million at December 31, 2017 in excess of the accruals established for these matters.

Other Level 3 Matters

Level 3 has recently been notified of a qui tam action pending against Level 3 Communications, Inc., certain former employees and others in the United States District Court for the Eastern District of Virginia, captioned *United States of America ex rel., Stephen Bishop v. Level 3 Communications, Inc. et al.* The original qui tam complaint was filed under seal on November 26, 2013, and an amended complaint was filed under seal on June 16, 2014. The court unsealed the complaints on October 26, 2017.

The amended complaint alleges that Level 3, principally through two former employees, submitted false claims and made false statements to the government in connection with two government contracts. The relator seeks damages in this lawsuit of approximately \$50 million, subject to trebling, plus statutory penalties, pre-and-post judgment interest, and attorney's fees. The case is currently stayed.

Level 3 is evaluating its defenses to the claims. At this time, Level 3 does not believe it is probable Level 3 will incur a material loss. If, contrary to its expectations, the plaintiff prevails in this matter and proves damages at or near \$50 million, and is successful in having those damages trebled, the outcome could have a material adverse effect on our results of operations in the period in which a liability is recognized and on our cash flows for the period in which any damages are paid.

The two former Level 3 employees named in the qui tam amended complaint and others were also indicted in the United States District Court for the Eastern District of Virginia on October 3, 2017, and charged with, among other things, accepting kickbacks from a subcontractor, who was also indicted, for work to be performed under a prime government contract. Level 3 is fully cooperating in the government's investigations in this matter.

Other Proceedings and Disputes

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.

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

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

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

Hurricane Damage

During the third quarter of 2017, multiple hurricanes struck portions of United States, which caused damage to our facilities and disruption of our services in certain areas of multiple states. We are still in the process of assessing the full extent of the damage. However, based on our current assessment, we estimate that expenditures required for the restoration of our network and physical plant may range from \$20 million to \$25 million, including repairs and equipment replacement. In addition, Level 3 incurred damage to certain of its facilities from multiple hurricanes, and estimate expenditures required for the restoration of their network and physical plant of \$6 million, including repairs and equipment replacement. These damage estimates are subject to many uncertainties and may change materially as we complete physical surveys.

The hurricanes did not have a significant impact on our financial condition or results of operations as of and for the year ended December 31, 2017, as the majority of the capital and repair expenditures will be recorded in the future periods as we incur the costs.

The ultimate outcome of the above-described matters may differ materially from the outcomes anticipated, estimated, projected or implied by us in certain of our forward-looking statements appearing above in this Note, and proceedings currently viewed as immaterial by us may ultimately materially impact us. For more information, see “Risk Factors—Risks Relating to Legal and Regulatory Matters—Our pending legal proceedings could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets” in Item 1A of Part II of this report.

Environmental Contingencies

In connection with our largely historical operations, we have responded to or been notified of potential environmental liability at approximately 200 properties. We are engaged in addressing or have liquidated environmental liabilities at many of those properties. We could potentially be held liable, jointly, or severally, and without regard to fault, for the costs of investigation and remediation of these sites. The discovery of additional environmental liabilities or changes in existing environmental requirements could have a material adverse effect on our business.

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:

	Years Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Assets acquired through capital leases	\$ 35	45	17
Depreciation expense	50	70	96
Cash payments towards capital leases	48	58	89

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Assets included in property, plant and equipment	\$ 342	705
Accumulated depreciation	153	351

The future annual minimum payments under capital lease arrangements as of December 31, 2017 were as follows:

	Future Minimum Payments ⁽¹⁾
	(Dollars in millions)
Capital lease obligations:	
2018	\$ 56
2019	45
2020	32
2021	25
2022	22
2023 and thereafter	203
Total minimum payments	383
Less: amount representing interest and executory costs	(117)
Present value of minimum payments	266
Less: current portion	(40)
Long-term portion	\$ 226

Operating Leases

CenturyLink leases 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, 2017, 2016 and 2015, our gross rental expense was \$550 million, \$482 million and \$467 million, respectively. We also received sublease rental income for the years ended December 31, 2017, 2016 and 2015 of \$13 million, \$12 million and \$12 million, respectively.

At December 31, 2017, our future rental commitments for operating leases were as follows:

	Future Minimum Payments	
	(Dollars in millions)	
2018	\$	666
2019		533
2020		467
2021		367
2022		326
2023 and thereafter		2,116
Total future minimum payments ⁽¹⁾	\$	4,475

⁽¹⁾ Minimum payments have not been reduced by minimum sublease rentals of \$92 million due in the future under non-cancelable subleases.

Purchase Commitments

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 \$953 million at December 31, 2017. Of this amount, we expect to purchase \$343 million in 2018, \$265 million in 2019 through 2020, \$103 million in 2021 through 2022 and \$242 million in 2023 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, 2017.

(17) Other Financial Information

Assets Held for Sale

Assets held for sale includes several assets that we expect to sell within the next twelve months. On January 22, 2018, we entered into an agreement to sell a block of Internet Protocol Addresses for aggregate consideration of \$68 million, which is to be paid in two equal installments. In addition, the U.S. Department of Justice ("DOJ") approved our acquisition of Level 3 subject to conditions of a consent decree on October 2, 2017, which requires the combined company to divest certain Level 3 metro network assets in the markets located in Albuquerque, New Mexico; Boise, Idaho; and Tucson, Arizona and to divest dark fiber connecting 30 specified city-pairs across the United States in the form of an Indefeasible Right of Use agreement. As of the date of this report, we have signed two letters of intent that the DOJ is reviewing.

Other Current Assets

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

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Prepaid expenses	\$ 294	206
Income tax receivable	258	51
Materials, supplies and inventory	128	134
Deferred activation and installation charges	128	101
Other	133	55
Total other current assets	<u>\$ 941</u>	<u>547</u>

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable and other current liabilities as follows:

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Accounts payable	\$ 1,555	1,179
Other current liabilities:		
Accrued rent	\$ 34	31
Legal contingencies	45	30
Other	265	152
Total other current liabilities	<u>\$ 344</u>	<u>213</u>

Included in accounts payable at December 31, 2017 and 2016, were (i) \$36 million and \$56 million, respectively, representing book overdrafts and (ii) \$225 million and \$196 million, respectively, associated with capital expenditures.

(18) Labor Union Contracts

As of December 31, 2017, approximately 28% of our employees were members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"). We believe that relations with our employees continue to be generally good. Less than 1,000 of our employees were subject to collective bargaining agreements that expired in 2017 and, as of December 31, 2017, were being renegotiated. In mid-2017, we reached new agreements with the CWA District 7 and IBEW Local 206, which represented at December 31, 2017 approximately 10,000, or 71%, of our represented employees. The new agreements were effective June 18, 2017 and will expire on March 8, 2020 and include terms substantially similar to those contained in the prior agreements. Approximately 1,000 of our employees are subject to collective bargaining agreements that are scheduled to expire in 2018.

(19) Accumulated Other Comprehensive Loss

Information Relating to 2017

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2017:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2016	\$ (1,895)	(162)	(60)	(2,117)
Other comprehensive income (loss) before reclassifications	39	(86)	31	(16)
Amounts reclassified from accumulated other comprehensive income	125	13	—	138
Net current-period other comprehensive income (loss)	164	(73)	31	122
Balance at December 31, 2017	\$ (1,731)	(235)	(29)	(1,995)

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2017:

Year Ended December 31, 2017	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 205	Other income (expense), net
Prior service cost	12	Other income (expense), net
Total before tax	217	
Income tax benefit	(79)	Income tax expense
Net of tax	\$ 138	

⁽¹⁾ See Note 9—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

Information Relating to 2016

The table below summarizes changes in accumulated other comprehensive loss recorded on our consolidated balance sheet by component for the year ended December 31, 2016:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2015	\$ (1,715)	(180)	(39)	(1,934)
Other comprehensive income (loss) before reclassifications	(280)	6	(22)	(296)
Amounts reclassified from accumulated other comprehensive income	100	12	1	113
Net current-period other comprehensive income (loss)	(180)	18	(21)	(183)
Balance at December 31, 2016	\$ (1,895)	(162)	(60)	(2,117)

The table below presents further information about our reclassifications out of accumulated other comprehensive loss by component for the year ended December 31, 2016:

Year Ended December 31, 2016	Decrease (Increase) in Net Loss	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans ⁽¹⁾		
Net actuarial loss	\$ 175	Other income (expense), net
Prior service cost	12	Other income (expense), net
Total before tax	187	
Income tax benefit	(75)	Income tax expense
Insignificant items	\$ 1	
Net of tax	\$ 113	

⁽¹⁾ See Note 9—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

(20) Dividends

Our Board of Directors declared the following dividends payable in 2017 and 2016:

Date Declared	Record Date	Dividend Per Share	Total Amount (in millions)	Payment Date
November 14, 2017	11/27/2017	\$ 0.540	\$ 577	12/11/2017
August 22, 2017	9/5/2017	0.540	296	9/15/2017
May 24, 2017	6/5/2017	0.540	297	6/16/2017
February 21, 2017	3/3/2017	0.540	295	3/17/2017
November 15, 2016	11/28/2016	0.540	294	12/12/2016
August 23, 2016	9/2/2016	0.540	295	9/16/2016
May 18, 2016	5/31/2016	0.540	294	6/14/2016
February 23, 2016	3/4/2016	0.540	295	3/18/2016

The declaration of dividends is solely at the discretion of our Board of Directors, which may change or terminate our dividend practice at any time for any reason without prior notice. On February 21, 2018, our Board of Directors declared a dividend of \$0.54 per share.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, Sunit S. Patel, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2017. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2017, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will

detect all errors or fraud. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2017 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

On November 1, 2017, the Company completed the acquisition of Level 3 Communications, Inc. ("Level 3"), which was renamed Level 3 Parent, LLC, and is currently integrating Level 3 into its operations, compliance programs and internal control processes. As permitted by Securities and Exchange Commission ("SEC") rules and regulations, the Company has excluded Level 3 from management's evaluation of internal control over financial reporting as of December 31, 2017. Level 3 constituted approximately 15% of the Company's total assets (excluding goodwill and intangibles which are included within the scope of the assessment) as of December 31, 2017, and approximately 8% of the Company's total consolidated revenues for the year then ended.

Internal Control Over Financial Reporting

Management's Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), a process designed 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 in the United States. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework (2013) issued by the COSO. Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective at December 31, 2017. The effectiveness of our internal control over financial reporting at December 31, 2017 has been audited by KPMG LLP, as stated in their report. See the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which is incorporated herein by reference.

On November 1, 2017, the Company completed the acquisition of Level 3 and is currently integrating Level 3 into its operations, compliance programs and internal control processes. As permitted by SEC rules and regulations, the Company has excluded Level 3 from management's evaluation of internal control over financial reporting as of December 31, 2017.

Management's Report on the Consolidated Financial Statements

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements for the year ended December 31, 2017. The consolidated financial statements included in this report have been prepared in accordance with accounting principles generally accepted in the United States and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

/s/ Glen F. Post, III

Glen F. Post, III
Chief Executive Officer

/s/ Sunit S. Patel

Sunit S. Patel
Executive Vice President and Chief Financial Officer

February 28, 2018

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**Equity Compensation Plan Information**

The following table provides information as of December 31, 2017 about our equity compensation plans under which Common Shares are authorized for issuance:

	Number of securities to be issued upon exercise of outstanding options and rights (a)	Weighted-average exercise price of outstanding options and rights (b)	Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	1,550,824 ⁽¹⁾	\$ 36.35 ⁽²⁾	8,565,514
Equity compensation plans not approved by shareholders ⁽³⁾	12,403,513	27.37	35,005,062
Totals	13,954,337 ⁽¹⁾	\$ 27.41 ⁽²⁾	43,570,576

⁽¹⁾ These amounts include restricted stock units, which represent the difference between the number of shares of restricted stock subject to market conditions granted at target and the maximum possible payout for these awards. Depending on performance, the actual share payout of these awards may range between 0-200% of target.

⁽²⁾ The amounts in column (a) include restricted stock units, which do not have an exercise price. Consequently, those awards were excluded from the calculation of this exercise price.

⁽³⁾ These amounts represent common shares to be issued upon exercise of options that were assumed in connection with certain acquisitions.

The balance of the information required by Item 12 is incorporated by reference to the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference to the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to the Proxy Statement.

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.

Exhibit Number	Description
2.1	<u>Agreement and Plan of Merger, dated as of October 31, 2016, by and among CenturyLink, Inc., Level 3 Communications, Inc., Wildcat Merger Sub 1 LLC and WWG Merger Sub LLC (incorporated by reference to Exhibit 2.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 3, 2016).</u>
3.1	<u>Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 30, 2012).</u>
3.2	<u>Bylaws of CenturyLink, Inc., as amended and restated through August 24, 2017 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on August 24, 2017).</u>
4.1	<u>Form of common stock certificate (incorporated by reference to Exhibit 4.10 of CenturyLink, Inc.'s Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 2, 2012 (Registration No. 333-179888)).</u>
4.2	Instrument relating to Credit Agreement assumed by CenturyLink, Inc. on November 1, 2017.
a.	<u>Credit Agreement, dated as of June 19, 2017, by and among CenturyLink Escrow, LLC and the lenders and agents named therein (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 20, 2017).</u>
b.*	<u>Incremental Assumption Agreement, dated as of January 29, 2018, by and among CenturyLink, Inc. and the lenders and agents named therein.</u>
4.3	Instruments relating to CenturyLink, Inc.'s public senior debt. ⁽¹⁾
a.	Indenture, dated as of March 31, 1994, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana), as Trustee.
(i).	Form of 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996).
(ii).	Form of 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 1998).
b.	<u>Fifth Supplemental Indenture, dated as of September 21, 2009, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).</u>
(i).	<u>Form of 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).</u>
c.	<u>Sixth Supplemental Indenture, dated as of June 16, 2011, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).</u>
(i).	<u>Form of 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).</u>

Exhibit Number	Description
d.	<u>Seventh Supplemental Indenture, dated as of March 12, 2012, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).</u>
(i).	<u>Form of 5.80% Senior Notes, Series T, due 2022 and 7.65% Senior Notes, Series U, due 2042 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 12, 2012).</u>
e.	<u>Eighth Supplemental Indenture, dated as of March 21, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).</u>
(i).	<u>Form of 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).</u>
f.	<u>Ninth Supplemental Indenture, dated as of November 27, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).</u>
(i).	<u>Form of 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).</u>
g.	<u>Tenth Supplemental Indenture, dated as of March 19, 2015, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit 4.2 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).</u>
(i).	<u>Form of 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).</u>
h.	<u>Eleventh Supplemental Indenture, dated as of April 6, 2016, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit 4.2 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).</u>
(i).	<u>Form of 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).</u>
4.4	Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries. ⁽¹⁾
a.	<u>Indenture, dated as of April 15, 1990, by and between The Mountain States Telephone and Telegraph Company (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.2 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
(i).	<u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
b.	<u>Indenture, dated as of April 15, 1990, by and between Northwestern Bell Telephone Company (predecessor to Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.5(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on May 10, 2012).</u>

Exhibit Number	Description
	(i). <u>First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).</u>
c.	Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and The First National Bank of Chicago, as trustee (incorporated by reference to Exhibit 4(a) of U S WEST, Inc.'s Current Report on Form 8-K (File No. 001-14087) filed with the Securities and Exchange Commission on November 18, 1998).
	(i). <u>First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.10 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-15577) filed with the Securities and Exchange Commission on August 11, 2000).</u>
d.	Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).
	(i). <u>Eighth Supplemental Indenture, dated as of September 21, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.9 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 20, 2011).</u>
	(ii). <u>Ninth Supplemental Indenture, dated as of October 4, 2011, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 of Qwest Corporation's Current Report on Form 8-K (File No. 001-03040) filed with the Securities and Exchange Commission on October 4, 2011).</u>
	(iii). <u>Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).</u>
	(iv). <u>Eleventh Supplemental Indenture, dated as of June 25, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.12 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on June 22, 2012).</u>
	(v). <u>Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).</u>
	(vi). <u>Thirteenth Supplemental Indenture, dated as of September 29, 2014, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.14 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 26, 2014).</u>
	(vii). <u>Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).</u>
	(viii). <u>Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).</u>
	(ix). <u>Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with Securities and Exchange Commission on August 22, 2016).</u>
	(x). <u>Seventeenth Supplemental Indenture dated as of April 27, 2017, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.18 of Qwest Corporation's Form 8-A (File No. 03040) filed with the Securities and Exchange Commission on April 27, 2017.</u>

Exhibit Number	Description
e.	<u>Credit Agreement, dated as of February 20, 2015, by and among Qwest Corporation, the several lenders from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.5 of Qwest Corporation's Annual Report on Form 10-K for the year ended December 31, 2014 (File No. 001-03040) filed with the Securities and Exchange Commission on February 27, 2015).</u>
4.5	Instruments relating to indebtedness of Embarq Corporation. ⁽¹⁾
a.	<u>Indenture, dated as of May 17, 2006, by and between Embarq Corporation and J.P. Morgan Trust Company, National Association, a national banking association, as trustee (incorporated by reference to Exhibit 4.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on May 18, 2006).</u>
b.	<u>7.995% Global Note due 2036 of Embarq Corporation (incorporated by reference to Exhibit 4.4 to Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).</u>
4.6	Instruments relating to indebtedness of Level 3 Communications, Inc. and its subsidiaries. ⁽¹⁾
a.	<u>Indenture, dated as of November 14, 2013, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 6.125% Senior Notes due 2021 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 18, 2013).</u>
(i).	<u>Supplemental Indenture, dated as of March 14, 2014, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 6.125% Senior Notes due 2021 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on March 17, 2014).</u>
(ii).	<u>Supplemental Indenture, dated as of March 14, 2014, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 6.125% Senior Notes due 2021 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on March 17, 2014).</u>
(iii).	<u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of November 14, 2013, governing the 6.125% Senior notes due 2021 (incorporated by reference to Exhibit 4.7 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
b.	<u>Indenture, dated as of August 12, 2014, by and between Level 3 Escrow II, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2022 of Level 3 Escrow II, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on August 14, 2014).</u>
(i).	<u>Securities Assumption Supplemental Indenture, dated as of October 31, 2014, by and between Level 3 Escrow II, Inc., Level 3 Financing, Inc., Level 3 Communications, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Financing, Inc.'s unconditional assumption of all of Level 3 Escrow II, Inc.'s obligations under the 5.375% Senior Notes due 2022 (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 5, 2014).</u>
(ii).	<u>Supplemental Indenture, dated as of October 31, 2013, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.375% Senior Notes due 2022 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.3 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 5, 2014).</u>

Exhibit Number	Description
	(iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of August 12, 2014, governing the 5.375% Senior Notes due 2022 (incorporated by reference to Exhibit 4.6 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
c.	<u>Indenture, dated as of December 1, 2014, by and between Level 3 Communications, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the 5.75% Senior Notes due 2022 of Level 3 Communications, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on December 2, 2014).</u>
	(i). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., and The Bank of New York Mellon Trust Company, N.A., amending the Indenture dated as of December 1, 2014, governing the 5.75% Senior Notes due 2022 (incorporated by reference to Exhibit 4.8 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
d.	<u>Indenture, dated as of January 29, 2015, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.625% Senior Notes due 2023 of Level Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on January 30, 2015).</u>
	(i). <u>Supplemental Indenture, dated as of June 3, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.625% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on June 4, 2015).</u>
	(ii). <u>Supplemental Indenture, dated as of June 3, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.625% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on June 4, 2015).</u>
	(iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of January 29, 2015 governing the 5.625% Senior Notes due 2023 (incorporated by reference to Exhibit 4.5 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
e.	<u>Indenture, dated as of April 28, 2015, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on April 30, 2015).</u>
	(i). <u>Supplemental Indenture, dated as of September 1, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 2, 2015).</u>

Exhibit Number	Description
	<p>(ii). <u>Supplemental Indenture, dated as of September 1, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.125% Senior Notes due 2023 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.3 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 2, 2015).</u></p> <p>(iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of April 28, 2015 governing the 5.125% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u></p>
f.	<p><u>Indenture, dated as of April 28, 2015, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on April 30, 2015).</u></p> <p>(i). <u>Supplemental Indenture, dated as of September 1, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 2, 2015).</u></p> <p>(ii). <u>Supplemental Indenture, dated as of September 1, 2015, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.375% Senior Notes due 2025 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.4 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 2, 2015).</u></p> <p>(iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of April 28, 2015 governing the 5.375% Senior Notes due 2025 (incorporated by reference to Exhibit 4.4 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u></p>
g.	<p><u>Indenture, dated as of November 13, 2015, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.375% Senior Notes due 2024 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 13, 2015).</u></p> <p>(i). <u>Supplemental Indenture, dated as of February 8, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.375% Senior Notes due 2024 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on February 8, 2016).</u></p> <p>(ii). <u>Supplemental Indenture, dated as of February 8, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.375% Senior Notes due 2024 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on February 8, 2016).</u></p>

Exhibit Number	Description
	<ul style="list-style-type: none"> (iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of November 13, 2015 governing the 5.375% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
h.	<p><u>Indenture, dated as of March 22, 2016, by and between Level 3 Communications, Inc., as Guarantor, Level 3 Financing, Inc., as Issuer, and The Bank of New York Mellon Trust Company, N.A., as Trustee, relating to the 5.25% Senior Notes due 2026 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on March 22, 2016).</u></p> <ul style="list-style-type: none"> (i). <u>Supplemental Indenture, dated as of September 16, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to Level 3 Communications, LLC's unconditioned, unsecured guarantee of the 5.25% Senior Notes due 2026 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.1 to Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 16, 2016).</u> (ii). <u>Supplemental Indenture, dated as of September 16, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the subordination in any bankruptcy, liquidation or winding up proceeding of the guarantee by Level 3 Communications, LLC of the 5.25% Senior Notes due 2026 of Level 3 Financing, Inc. (incorporated by reference to Exhibit 4.2 to Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on September 16, 2016).</u> (iii). <u>Supplemental Indenture, dated as of November 22, 2016, by and between Level 3 Communications, Inc., as guarantor, Level 3 Communications, LLC, as guarantor, Level 3 Financing, Inc., as issuer, and The Bank of New York Mellon Trust Company, N.A., as trustee, amending the Indenture dated as of March 22, 2016 governing the 5.25% Senior Notes due 2026 (incorporated by reference to Exhibit 4.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on November 28, 2016).</u>
i.	<p><u>Twelfth Amendment Agreement to the Amended and Restated Credit Agreement, dated as of February 22, 2017, by and between Level 3 Communications, Inc., Level 3 Financing, Inc., the Lenders party thereto and Merrill Lynch Capital Corporation (incorporated by reference to Exhibit 10.1 of Level 3 Communications, Inc.'s Current Report on Form 8-K (File No. 001-35134) filed with the Securities and Exchange Commission on February 27, 2017), including the Amended and Restated Loan Proceeds Notes issued on the same date by Level 3 Communications, LLC to Level 3 Financing, Inc. (incorporated by reference to Exhibit 10.2 and 10.3 of Level 3 Communications, Inc.'s Current Report on Form 8-K (file No. 001-35134) filed with the Securities and Exchange Commission on February 27, 2017).</u></p>
4.7	<p>Certain intercompany debt instruments.</p> <ul style="list-style-type: none"> a. <u>Revolving Promissory Note, dated as of April 2, 2012 pursuant to which Embarq Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$2.5 billion on a revolving basis (incorporated by reference to Exhibit 4.7(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2012), as amended and restated by the Amended and Restated Revolving Promissory Note, dated as of September 30, 2017, by and between Embarq Corporation and an affiliate of CenturyLink, Inc.*</u> b. <u>Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to \$1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2012), as amended and restated by the Amended and Restated Revolving Promissory Note, dated as of September 30, 2017, by and between Qwest Corporation and an affiliate of CenturyLink, Inc.*</u>

Exhibit Number	Description
c.	<u>Revolving Promissory Note, dated as of September 27, 2012, pursuant to which Qwest Communications International, Inc. may borrow from an affiliate of CenturyLink, Inc. up to \$3.0 billion on a revolving basis (incorporated by reference to Exhibit 4.8 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-15577) filed with the Securities and Exchange Commission on November 13, 2012), as amended and restated by the Amended and Restated Revolving Promissory Note, dated as of September 30, 2017, by and between Qwest Communications International Inc. and an affiliate of CenturyLink, Inc.*</u>
10.1	<p><u>CenturyLink 2011 Equity Incentive Plan, as amended through May 18, 2016 (incorporated by reference to Appendix A of CenturyLink, Inc.'s Proxy Statement for its 2016 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 5, 2016).</u></p> <ul style="list-style-type: none"> (i). <u>Form of Restricted Stock Agreement for non-management directors used since 2011 (incorporated by reference to Exhibit 10.1(a) (ii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).</u> (ii). <u>Form of Restricted Stock Agreement for executive officers used for annual recurring grants since May 2013 (incorporated by reference to Exhibit 10.2(i) (iii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013).</u> (iii). <u>Form of Restricted Stock Agreement for special retention award grants made to certain executive officers on June 1, 2017 (incorporated by reference to Exhibit 10.1(iii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2017).</u> (iv). <u>Form of Restricted Stock Agreement for special integration award grants made to certain executive officers on June 1, 2017 (incorporated by reference to Exhibit 10.1(iv) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2017).</u>
10.2	<u>Key Employee Incentive Compensation Plan, dated as of January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996) and amendment thereto dated as of November 21, 1996 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1996 (File No. 001-07784) filed with the Securities and Exchange Commission on March 17, 1997), amendment thereto dated as of February 25, 1997 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on May 8, 1997), amendment thereto dated as of April 25, 2001 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on May 15, 2001), amendment thereto dated as of April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002) and amendment thereto dated as of February 27, 2007 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2007).</u>
10.3	<u>Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009) and amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</u>
10.4	<u>Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).</u>
10.5	<u>Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1991).</u>
10.6	<u>2015 Executive Officer Short-Term Incentive Program (incorporated by reference to Exhibit A of CenturyLink's 2015 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 8, 2015).</u>

Exhibit Number	Description
10.7	<u>Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of February 24, 2016 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).</u>
10.8	<u>Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of February 24, 2016 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).</u>
10.9	<u>Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated by reference to Exhibit 10.11 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</u>
10.10	<u>Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive officers (incorporated by reference to Exhibit 10.12 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).</u>
10.11	<u>CenturyLink Executive Severance Plan (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2014 (File No. 001-07784) filed with the Securities and Exchange Commission on February 24, 2015.)</u>
10.12	<u>Amended and Restated CenturyLink, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008) and First Amendment thereto (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).</u>
10.13	<u>Form of integration award grant letter, dated June 1, 2017, entered into between CenturyLink, Inc. and certain officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 1, 2017).</u>
10.14	<u>Offer letter between CenturyLink, Inc. and Jeffrey K. Storey, effective April 27, 2017 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 1, 2017).</u>
10.15	<u>Offer letter between CenturyLink, Inc. and Sunit S. Patel, effective June 1, 2017 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 1, 2017).</u>
10.16	Certain Material Agreements and Plans of Key Subsidiaries <ul style="list-style-type: none"> a. <u>Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) filed with the Securities and Exchange Commission on July 1, 2009).</u> b. <u>Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on February 27, 2007).</u> c. <u>Form of Stock Option Award Agreement (incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008).</u> d. <u>Embarq Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.27 of Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009), amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.14(o) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011) and second amendment thereto as of dated as of November 15, 2011 (incorporated by reference to Exhibit 10.14(k) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).</u> e. <u>Equity Incentive Plan, as amended and restated (incorporated by reference to Annex A of Qwest Communications International Inc.'s Proxy Statement for the 2007 Annual Meeting of Stockholders (File No. 001-15577) filed with the Securities and Exchange Commission on March 29, 2007).</u>

Exhibit Number	Description
f.	<u>Forms of restricted stock, performance share and option agreements used under Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on October 24, 2005; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2005 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on May 3, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on February 8, 2007; Exhibit 10.3 of Qwest Communication International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on September 15, 2008; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on April 30, 2009; and Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-15577) filed with the Securities and Exchange Commission on February 15, 2011).</u>
g.	<u>Deferred Compensation Plan for Nonemployee Directors, as amended and restated, Amendment to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.2 of Qwest Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on December 16, 2005 and Exhibit 10.8 to Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2008 (File No. 001-15577) filed with the Securities and Exchange Commission on October 29, 2008) and Amendment No. 2011-1 to Deferred Compensation Plan for Nonemployee Directors (incorporated by reference to Exhibit 10.15(c) of CenturyLink, Inc.'s annual report for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).</u>
h.	<u>Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s annual report on Form 10-K for the year ended December 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2010).</u>
i.	<u>SAVVIS, Inc. Amended and Restated 2003 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on May 5, 2006), as amended by Amendment No. 1 (incorporated by reference to Exhibit 10.6 of SAVVIS, Inc.'s annual report on Form 10-K for the year ended December 31, 2006 (File No. 000-29375) filed with the Securities and Exchange Commission on February 26, 2007); Amendment No. 2 (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 15, 2007); Amendment No. 3 (incorporated by reference to Exhibit 10.3 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 000-29375) filed with the Securities and Exchange Commission on July 31, 2007; Amendment No. 4 (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (file No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009); and Amendment No. 5 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009).</u>
j.	<u>Level 3 Communications, Inc. Stock Incentive Plan, as amended and restated through October 31, 2017 (incorporated by reference to Exhibit 10.3 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 1, 2017)</u>
10.17	<u>Shareholder Rights Agreement, dated as of October 31, 2016, by and between CenturyLink, Inc. and STT Crossing Ltd. (incorporated by reference to Exhibit 10.2 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 3, 2016).</u>
12*	<u>Ratio of Earnings to Fixed Charges</u>
21*	<u>Subsidiaries of CenturyLink, Inc.</u>
23*	<u>Independent Registered Public Accounting Firm Consent</u>
31.1*	<u>Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>

Exhibit Number	Description
31.2*	<u>Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32*	<u>Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	Financial statements from the annual report on Form 10-K of CenturyLink, Inc. for the period ended December 31, 2017, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to Consolidated Financial Statements.

* Exhibit filed herewith.

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- (1) Certain of the items in Sections 4.3, 4.4, 4.5 and 4.6 (i) omit supplemental indentures or other instruments governing debt that has been retired, or (ii) refer to trustees who may have been replaced, acquired or affected by similar changes. In accordance with Item 601(b) (4) (iii) (A) of Regulation S-K, copies of certain instruments defining the rights of holders of certain of our long-term debt are not filed herewith. Pursuant to this regulation, we hereby agree to furnish a copy of any such instrument to the SEC upon request.

ITEM 16. SUMMARY OF BUSINESS AND FINANCIAL INFORMATION

Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: February 28, 2018

CenturyLink, Inc.
By: /s/ David D. Cole
David D. Cole
Executive Vice President, Controller and Assistant
Secretary (Chief Accounting Officer)

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

<u>/s/ Glen F. Post, III</u>	Chief Executive Officer and Director	February 28, 2018
Glen F. Post, III		
<u>/s/ Harvey Perry</u>	Chairman of the Board	February 28, 2018
Harvey Perry		
<u>/s/ W. Bruce Hanks</u>	Vice Chairman of the Board	February 28, 2018
W. Bruce Hanks		
<u>/s/ Sunit S. Patel</u>	Executive Vice President and Chief Financial Officer	February 28, 2018
Sunit S. Patel		
<u>/s/ David D. Cole</u>	Executive Vice President, Controller and Assistant Secretary	February 28, 2018
David D. Cole		
<u>/s/ Martha H. Bejar</u>	Director	February 28, 2018
Martha H. Bejar		
<u>/s/ Virginia Boulet</u>	Director	February 28, 2018
Virginia Boulet		
<u>/s/ Peter C. Brown</u>	Director	February 28, 2018
Peter C. Brown		
<u>/s/ Kevin P. Chilton</u>	Director	February 28, 2018
Kevin P. Chilton		
<u>/s/ Steven T. Clontz</u>	Director	February 28, 2018
Steven T. Clontz		
<u>/s/ T. Michael Glenn</u>	Director	February 28, 2018
T. Michael Glenn		
<u>/s/ Mary L. Landrieu</u>	Director	February 28, 2018
Mary L. Landrieu		

<u>/s/ Michael J. Roberts</u>	Director	February 28, 2018
Michael J. Roberts		
<u>/s/ Laurie A. Siegel</u>	Director	February 28, 2018
Laurie A. Siegel		
<u>/s/ Jeffrey K. Storey</u>	Director	February 28, 2018
Jeffrey K. Storey		

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Section 2: EX-4.2(B) (EXHIBIT 4.2(B))

EXECUTION VERSION

INCREMENTAL ASSUMPTION AGREEMENT NO. 1, dated as of January 29, 2018 (this “Agreement”), to the Credit Agreement dated as of June 19, 2017, among CENTURYLINK, INC., a Louisiana corporation (the “Borrower”) (as successor to CenturyLink Escrow, LLC, a Delaware limited liability company), the several banks and other financial institutions or entities from time to time parties to the Credit Agreement (the “Lenders”), BANK OF AMERICA, N.A., as Administrative Agent (the “Administrative Agent”), Collateral Agent, Swingline Lender and an Issuing Bank and other parties thereto (as amended, restated, modified and supplemented from time to time prior to the date hereof, the “Credit Agreement”, and the Credit Agreement, as amended by this Agreement, the “Amended Credit Agreement”); capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

WHEREAS, the Borrower has requested that it obtain Incremental Revolving Facility Commitments and Incremental Term Loan Commitments pursuant to Section 2.21 of the Credit Agreement on the Incremental Assumption Agreement No. 1 Effective Date (as defined below) in the form of the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment (as defined in the Amended Credit Agreement) and the Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment (as defined in the Amended Credit Agreement);

WHEREAS, Citibank, N.A. (in such capacity, the “Incremental Assumption Agreement No. 1 Additional Lender”) has agreed to provide the full amount of the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment and the Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment;

WHEREAS, the Administrative Agent has determined that the Term A Loan to be funded pursuant to the Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment is being syndicated to a regulated bank in the primary syndication thereof as required pursuant to the definition of “Incremental Term A Loans” set forth in the Credit Agreement;

WHEREAS, pursuant to Section 2.21 and Section 9.08(e) of the Credit Agreement, this Agreement and the amendments to the Loan Documents contemplated hereby are permitted without the consent of any party to the Credit Agreement other than the parties hereto;

WHEREAS, Section 9.08(e) of the Credit Agreement provides that the Borrower and the Administrative Agent may amend the Credit Agreement to cure any ambiguity, omission, error, defect or inconsistency;

NOW, THEREFORE, in consideration of the premises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

Section 1. **Amendments to Credit Agreement and Effectiveness of Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment and Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment.** The

Credit Agreement is, effective as of the Incremental Assumption Agreement No. 1 Effective Date, hereby amended to delete the stricken text (indicated textually in the same manner as the following example: ~~stricken-text~~) and to add the double-underlined text (indicated textually in the same manner as the following example: double-underlined text) as set forth in the pages of the Credit Agreement attached as Exhibit A hereto and the Incremental Assumption Agreement No. 1 Additional Lender and the other parties hereto agree that the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment and Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment shall become effective at such time on the terms set forth in the Amended Credit Agreement.

Section 2. Representations and Warranties; No Default. The Borrower hereby represents and warrants that as of the Incremental Assumption Agreement No. 1 Effective Date, before and after giving effect to this Agreement, (i) no Default or Event of Default exists under the Credit Agreement and is continuing and (ii) the representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the Incremental Assumption Agreement No. 1 Effective Date as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as of such earlier date); provided that any representation and warranty that is qualified as to “materiality,” “Material Adverse Effect” or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such respective dates.

Section 3. Effectiveness. Section 1 of this Agreement shall become effective on the date (the “Incremental Assumption Agreement No. 1 Effective Date”) that the following conditions have been satisfied:

- (i) Counterparts. The Administrative Agent shall have received executed signature pages hereto from (v) the Administrative Agent and Collateral Agent, (w) each Loan Party, (x) the Incremental Assumption Agreement No. 1 Additional Lender, (y) the Swingline Lender and (z) each Issuing Bank;
- (ii) Fees and Expenses. (a) The Incremental Assumption Agreement No. 1 Additional Lender shall be satisfied with the arrangements in place for the payment by the Borrower of such upfront fees as have separately been agreed between the Borrower and the Incremental Assumption Agreement No. 1 Additional Lender and (b) the Administrative Agent shall have received all expenses required to be paid or reimbursed under Section 9.05(a) of the Credit Agreement for which invoices have been presented a reasonable period of time prior to the Incremental Assumption Agreement No. 1 Effective Date, in each case on or before the Incremental Assumption Agreement No. 1 Effective Date;
- (iii) Legal Opinions. The Administrative Agent shall have received legal opinions, in form satisfactory to the Administrative Agent of (i) Jones Walker LLP, as counsel for the Loan Parties, (ii) Covington & Burling LLP, as federal communications

regulatory counsel for the Loan Parties and (iii) internal counsel of the Borrower with respect to certain matters of Colorado law;

(iv) Officer's Certificate. The Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower dated the Incremental Assumption Agreement No. 1 Effective Date (i) certifying that the representation and warranties set forth in Section 2 of this Agreement are true and correct and (ii) stating that the Borrower is in compliance with the Financial Covenants (if applicable) on a Pro Forma Basis for the transactions contemplated by this Agreement for the most recently ended Test Period; and

(v) Closing Certificates. The Administrative Agent shall have received a certificate of the Secretary or Assistant Secretary or similar officer of each Loan Party dated the Incremental Assumption Agreement No. 1 Effective Date and certifying:

(1) that attached thereto is a true and complete copy of the certificate or articles of incorporation, certificate of limited partnership, certificate of formation or other equivalent constituent and governing documents, including all amendments thereto, of each Loan Party, certified as of a recent date by the Secretary of State (or other similar official or Governmental Authority) of the jurisdiction of its organization or by the Secretary or Assistant Secretary or similar officer of such Loan Party or other person duly authorized by the constituent documents of such Loan Party,

(2) that attached thereto is a true and complete copy of a certificate as to the good standing of such Loan Party as of a recent date from such Secretary of State (or other similar official or Governmental Authority),

(3) that attached thereto is a true and complete copy of the by-laws (or partnership agreement, limited liability company agreement or other equivalent constituent and governing documents) of such Loan Party as in effect on the Incremental Assumption Agreement No. 1 Effective Date and at all times since a date prior to the date of the resolutions described in the following subclause (4),

(4) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors (or equivalent governing body) of such Loan Party, authorizing the execution, delivery and performance by such Loan Party of this Agreement and the borrowings hereunder and that such resolutions have not been modified, rescinded or amended and are in full force and effect on the Incremental Assumption Agreement No. 1 Effective Date, and

(5) as to the incumbency and specimen signature of each officer or authorized signatory executing this Agreement or any other Loan Document delivered in connection herewith on behalf of such Loan Party.

Section 4. **Counterparts.** This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be deemed to be an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or any other electronic transmission shall be effective as delivery of a manually executed counterpart hereof.

Section 5. **Applicable Law; Waiver of Jury Trial; Jurisdiction; Consent to Service of Process.** The provisions set forth in Sections 9.07, 9.11 and 9.15 of the Credit Agreement are hereby incorporated *mutatis mutandis*.

Section 6. **Headings.** The headings of this Agreement are for purposes of reference only and shall not limit or otherwise affect the meaning hereof.

Section 7. **Effect of Agreement.** Except as expressly set forth herein, (i) this Agreement shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the Lenders, the Administrative Agent or any other Agent, in each case under the Credit Agreement or any other Loan Document, and (ii) shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Credit Agreement or any other provision of either such agreement or any other Loan Document. This Agreement shall constitute a Loan Document for purposes of the Credit Agreement and from and after the Incremental Assumption Agreement No. 1 Effective Date, all references to the Credit Agreement in any Loan Document and all references in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, shall, unless expressly provided otherwise, refer to the Credit Agreement as amended by this Agreement. Each Loan Party hereby consents to this Agreement and confirms that all obligations of such Loan Party under the Loan Documents to which it is a party shall continue to apply to the Credit Agreement as amended hereby. The Administrative Agent agrees that this Agreement, together with the Amended Credit Agreement attached as Exhibit A, constitutes the written notice referred to in Section 2.21(a) with respect to the Incremental Assumption Agreement No. 1 Additional Term A Loan Facility Commitment and the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

CENTURYLINK, INC.,

as Borrower

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

EMBARQ CORPORATION,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

QWEST COMMUNICATIONS INTERNATIONAL INC.,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

QWEST SERVICES CORPORATION,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

QWEST CAPITAL FUNDING, INC.,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

CENTURYTEL HOLDING, INC.,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

CENTURYTEL INVESTMENTS OF TEXAS, INC.,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Secretary
and Treasurer

WILDCAT HOLDCO LLC,

as Guarantor

By: _____ /s/ Stacey W. Goff

Name: Stacey W. Goff

Title: Executive Vice President, Chief

Administrative Officer, General Counsel and
Secretary

BANK OF AMERICA, N.A.,
as Administrative Agent and Collateral Agent

By: _____ /s/ Laura L. Olsen

Name: Laura L. Olsen

Title: Vice President

BANK OF AMERICA, N.A.,
as Swingline Lender and an Issuing Bank

By: _____ /s/ Laura L. Olsen

Name: Laura L. Olsen

Title: Vice President

BANK OF AMERICA, N.A.,
as Incremental Assumption Agreement No. 1
Additional Lender

By: _____

Name:

Title:

CITIBANK, N.A.,

as Incremental Assumption Agreement No. 1

Additional Lender

By:

/s/ Keith Lukasavich

Name: Keith Lukasavich

Title: Managing Director and Vice President

Morgan Stanley Senior Funding Inc.,
as an Issuing Bank

Name: Gayathri Srinivasan

[Signature Page to CenturyLink Incremental Assumption Agreement No. 1]

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

Morgan Stanley Bank N.A.,
as an Issuing Bank

By: _____ /s/ Gayathri Srinivasan

Name: Gayathri Srinivasan

Title: Authorized Signatory

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

THE BANK OF TOKYO-MITSUBISHI UFJ,
LTD.,
as an Issuing Bank

By: /s/ Matthew Antioco

Name: Matthew Antioco

Title: Director

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

Barclays Bank PLC,
as an Issuing Bank

By: _____ /s/ Nicholas Guzzardo

Name: Nicholas Guzzardo

Title: Assistant Vice President

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

JPMorgan Chase Bank, N.A.,

as an Issuing Bank

By: _____ /s/ Nicolas Gitron-Beer

Name: Nicolas Gitron-Beer

Title: Vice President

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

Wells Fargo Bank N.A.,

as an Issuing Bank

By: _____ /s/ Kieran Mahon

Name: Kieran Mahon

Title: Director

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

Royal Bank of Canada.,

as an Issuing Bank

By: _____ /s/ Kevin Quan

Name: Kevin Quan

Title: Authorized Signatory

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

GOLDMAN SACHS BANK USA,
as an Issuing Bank

By: _____ /s/ Chris Lam
Name: Chris Lam
Title: Authorized Signatory

[By: _____ /s/
Name:
Title:¹]

¹ Remove brackets or delete second signature block based on whether your internal policy requires a second signature.

The undersigned, in its capacity as an Issuing Bank, hereby consents to the
Incremental Assumption Agreement No. 1 Additional Lender providing the
Incremental Assumption Agreement No. 1 Additional Revolving Facility
Commitment

SUNTRUST BANK

as an Issuing Bank

By: _____ /s/ Brian Guffin

Name: Brian Guffin

Title: Director

[see attached]

Published CUSIP Numbers:

Deal: 15670BAA0
Term B Facility: 15670BAB8

CREDIT AGREEMENT,

dated as of June 19, 2017

among

CENTURYLINK ESCROW, LLC,
as the Borrower,

THE LENDERS PARTY HERETO,

BANK OF AMERICA, N.A.,
as Administrative Agent and Collateral Agent,

MORGAN STANLEY SENIOR FUNDING, INC.,
BARCLAYS BANK PLC,
GOLDMAN SACHS BANK USA,
JPMORGAN CHASE BANK, N.A.,
ROYAL BANK OF CANADA,
THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.
WELLS FARGO BANK, NATIONAL ASSOCIATION,
MIZUHO BANK, LTD.

and

SUNTRUST BANK,
as Co-Syndication Agents,

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH,
FIFTH THIRD BANK

and

REGIONS BANK,
as Co-Documentation Agents,

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
MORGAN STANLEY SENIOR FUNDING, INC.

BARCLAYS BANK PLC,
GOLDMAN SACHS BANK USA,
JPMORGAN CHASE BANK, N.A.,
MUFG SECURITIES AMERICAS INC.
RBC CAPITAL MARKETS,¹
WELLS FARGO SECURITIES, LLC,
MIZUHO BANK, LTD.

and

SUNTRUST ROBINSON HUMPHREY, INC.,
as Joint Lead Arrangers and Joint Bookrunners,

and

COBANK, ACB,
as Sole Lead Arranger and Bookrunner for the Term A-1 Loans

¹ RBC Capital Markets is a brand name for the capital markets business of Royal Bank of Canada and its affiliates.

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CREDIT AGREEMENT dated as of June 19, 2017 (this "Agreement"), among CenturyLink Escrow, LLC, a Delaware limited liability company, Bank of America, N.A., as Administrative Agent (in such capacity, the "Administrative Agent"), Collateral Agent and Swingline Lender, and each Issuing Bank and Lender (each as defined below) party hereto from time to time.

WHEREAS, CenturyLink (as defined below), the Wildcat Merger Subs (as defined below) and LVLT (as defined below), have entered into that certain Merger Agreement (as defined below) pursuant to which, subject to the terms and conditions set forth therein (i) Wildcat Merger Sub 1 will merge with and into LVLT, with LVLT surviving such initial merger (the "Initial Merger") and (ii) LVLT will then immediately merge with and into Wildcat Merger Sub 2, with Wildcat Merger Sub 2 surviving such subsequent merger (together with the Initial Merger, the "Mergers"); and

WHEREAS, in connection with the consummation of the transactions contemplated by the Merger Agreement, the Borrower (as defined below) has requested the Lenders to extend credit as set forth herein;

NOW, THEREFORE, the Lenders and the Issuing Banks are willing to extend such credit to the Borrower on the terms and subject to the conditions set forth herein.

Accordingly, the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings specified below:

"ABR" shall mean for any day a fluctuating rate per annum equal to the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the rate of interest in effect for such day as publicly announced from time to time by the Administrative Agent as its "prime rate," (c) the Eurodollar Rate plus 1.00% and (d) 1.00%. The prime rate is a rate of interest per annum publicly announced by the Administrative Agent and set based upon various factors including the Administrative Agent's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by the Administrative Agent shall take effect at the opening of business on the day specified in the public announcement of such change. "ABR" when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans included in such Borrowing, bear interest by reference to the ABR.

"ABR Borrowing" shall mean a Borrowing comprised of ABR Loans.

"ABR Loan" shall mean any ABR Term Loan, ABR Revolving Facility Loan or Swingline Loan.

"ABR Revolving Facility Borrowing" shall mean a Borrowing comprised of ABR Revolving Facility Loans.

"ABR Revolving Facility Loan" shall mean any Revolving Facility Loan bearing interest at a rate determined by reference to the ABR in accordance with the provisions of Article II.

"ABR Term Loan" shall mean any Term Loan bearing interest at a rate determined by reference to the ABR in accordance with the provisions of Article II.

"Administrative Agent" shall have the meaning assigned to such term in the introductory paragraph of this Agreement, together with its successors and assigns.

"Administrative Agent Fees" shall have the meaning assigned to such term in Section 2.12(c).

"Administrative Questionnaire" shall mean an Administrative Questionnaire in the form supplied by the Administrative Agent.

"Affiliate" shall mean, when used with respect to a specified person, another person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the person specified.

"Agents" shall mean the Administrative Agent and the Collateral Agent.

"Agreement" shall have the meaning assigned to such term in the introductory paragraph of this Agreement, as may be amended, restated, amended and restated, supplemented or otherwise modified from time to time.

"All-in Yield" shall mean, as to any Loans (or other Indebtedness, if applicable), the yield thereon to Lenders (or other lenders, as applicable) providing such Loans (or other Indebtedness, if applicable) in the primary syndication thereof, as reasonably determined by the Administrative Agent in consultation with the Borrower, whether in the form of interest rate, margin, original issue discount, upfront fees, rate floors or otherwise; provided, that original issue discount and upfront fees shall be equated to interest rate based on an assumed four year average life; and provided, further, that "All-in Yield" shall not include arrangement, commitment, underwriting, structuring or similar fees and customary consent fees for an amendment paid generally to consenting lenders.

"Anti-Corruption Laws" shall mean laws or rules related to bribery or anti-corruption, including the United States Foreign Corrupt Practices Act of 1977, as amended, and the UK Bribery Act 2010.

"Applicable Commitment Fee" shall mean for any day (i) with respect to any Revolving Facility Commitments in effect on the Closing Date (and any Revolving Facility Commitments that became effective on the Incremental Assumption Agreement No. 1 Effective Date) on from (A) the Closing Date to the date on which the Administrative Agent receives a certificate pursuant to Section 5.04(c) for the second full fiscal quarter ending after the Closing Date, 0.50% per annum and (B) thereafter, the percentages per annum set forth under the caption Applicable Commitment Fee in the definition of "Applicable Margin" based on the Total Leverage Ratio as set forth in the most recent certificate received by the Administrative Agent pursuant to Section 5.04(c); and (ii) with respect to any Other Revolving Facility Commitments, the "Applicable Commitment Fee" set forth in the applicable Extension Amendment or Refinancing Amendment (as applicable).

"Applicable Date" shall have the meaning assigned to such term in Section 9.08(f).

"Applicable Margin" shall mean for any day:

(i) with respect to any Revolving Facility Loan or Swingline Loan under the Revolving Facility in effect on the Closing Date, (as such Revolving Facility was increased on the Incremental Assumption Agreement No. 1 Effective Date) and any Term A Loan and any Term A-1 Loan (A) from the Closing Date to the date on which the Administrative Agent receives a certificate pursuant to Section 5.04(c) for the second full fiscal quarter ending after the Closing Date, 2.75% per annum in the case of any Eurodollar Loan and 1.75% per annum in the

case of any ABR Loan, and (B) thereafter, the following percentages per annum set forth below under the caption ABR Loans or Eurodollar Loans, as the case may be, based upon the Total Leverage Ratio as set forth in the most recent certificate received by the Administrative Agent pursuant to Section 5.04(c);

Level	Total Leverage Ratio	Eurodollar Loans	ABR Loans	Applicable Commitment Fee
I	≤ 2.75 to 1.00	2.25%	1.25%	0.375%
II	> 2.75 to 1.00 and ≤ 3.25 to 1.00	2.50%	1.50%	0.375%
III	> 3.25 to 1.00 and ≤ 4.00 to 1.00	2.75%	1.75%	0.500%
IV	> 4.00 to 1.00	3.00%	2.00%	0.500%

Any increase or decrease in the Applicable Margin or Applicable Commitment Fee resulting from a change in the Total Leverage Ratio shall become effective as of the first Business Day immediately following the date a certificate is delivered pursuant to Section 5.04(c); provided, however, that if such certificate is not delivered when due in accordance with such Section, then, upon the request of the Required Pro Rata Lenders, pricing Level IV shall apply as of the first Business Day after the date on which such certificate was required to have been delivered and in each case shall remain in effect until the date on which such certificate is delivered. In the event that the Borrower or the Administrative Agent determines that any financial statement or certificate delivered pursuant to Section 5.04(c) is inaccurate, and such inaccuracy, if corrected, would have led to the application of a higher Applicable Margin or Applicable Commitment Fee for any period (an Applicable Period) than the Applicable Rate and/or Applicable Commitment Fee applied for such Applicable Period, then (a) the Borrower shall promptly following such determination deliver to the Administrative Agent correct financial statements and certificates required by Section 5.04(c) for such Applicable Period, (b) the Applicable Rate and Applicable Commitment Fee for such Applicable Period shall be determined as if the Total Leverage Ratio were determined based on the amounts set forth in such correct financial statements and certificates and (c) the Borrower shall promptly (and in any event within ten Business Days) following delivery of such corrected financial statements and certificates pay to the Administrative Agent the accrued additional interest and fees owing as a result of such increased Applicable Rate and Applicable Commitment Fee for such Applicable Period.

(ii) with respect to any Term B Loan, 2.75% per annum in the case of any Eurodollar Loan and 1.75% per annum in the case of any ABR Loan;

(iii) with respect to any Other Term Loan or Other Revolving Loan, the "Applicable Margin" set forth in the Incremental Assumption Agreement, Extension Amendment or Refinancing Amendment (as applicable) relating thereto.

"Applicable Term B Escrow Rate" shall mean (i) from and including the Effective Date to and including July 18, 2017, 1.375% per annum and (ii) thereafter, 2.75% per annum.

"Approved Fund" shall have the meaning assigned to such term in Section 9.04(b)(ii).

"Arrangers" shall mean, collectively, (i) with respect to the Revolving Facility, the Term A Facility and the Term B Facility, Merrill Lynch, Pierce, Fenner & Smith Incorporated (or any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation's or any of its subsidiaries' investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement), Morgan Stanley

Senior Funding, Inc., Barclays Bank PLC, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., RBC Capital Markets, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd. and SunTrust Robinson Humphrey, Inc. and (ii) with respect to the Term A-1 Facility, CoBank, ACB.

"Asset Sale" shall mean (x) any Disposition (including any sale and lease-back of assets and any lease of Real Property) to any person of any asset or assets of the Borrower or any Subsidiary and (y) any sale of any Equity Interests by any Subsidiary to a person other than the Borrower or a Subsidiary.

"Assignee" shall have the meaning assigned to such term in Section 9.04(b)(i).

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by a Lender and an Assignee, and accepted by the Administrative Agent and the Borrower (if required by Section 9.04), in the form of Exhibit A or such other form (including electronic documentation generated by use of an electronic platform) as shall be approved by the Administrative Agent and reasonably satisfactory to the Borrower.

"Auction Manager" shall have the meaning assigned to such term in Section 2.25(a).

"Auction Procedures" shall mean auction procedures with respect to Purchase Offers set forth in Exhibit F hereto.

"Auto-Extension Letter of Credit" shall have the meaning assigned that term in Section 2.05(b).

"Availability Period" shall mean, with respect to any Class of Revolving Facility Commitments, the period from and including the Closing Date (or, if later, the effective date for such Class of Revolving Facility Commitments) to but excluding the earlier of the Revolving Facility Maturity Date for such Class and, in the case of each of the Revolving Facility Loans, Revolving Facility Borrowings, Swingline Loans and Letters of Credit under any Class of Revolving Facility Commitments, the date of termination of the Revolving Facility Commitments of such Class.

"Available Unused Commitment" shall mean, with respect to a Revolving Facility Lender under any Class of Revolving Facility Commitments at any time, an amount equal to the amount by which (a) the applicable Revolving Facility Commitment of such Revolving Facility Lender at such time exceeds
(b) the applicable Revolving Facility Credit Exposure (excluding the Swingline Exposure) of such Revolving Facility Lender at such time.

"Bail-In Action" shall mean the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

"Bail-In Legislation" shall mean, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

"Bankruptcy Code" shall mean Title 11 of the United States Code entitled "Bankruptcy," as now or hereafter in effect, and any successor thereto.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States of America.

"Board of Directors" shall mean, as to any person, the board of directors, the board of managers, the sole manager or other governing body of such person or (other than for purposes of the definition of Change of Control) any duly appointed committee thereof.

"Borrower" shall mean (i) prior to the Closing Date, Escrow Sub and (ii) from and after the Closing Date, CenturyLink, as the surviving corporation of the Escrow Merger (or pursuant to the Escrow Assumption Agreement), or any permitted successor thereto.

"Borrower Materials" shall have the meaning assigned to such term in Section 5.04.

"Borrowing" shall mean a group of Loans of a single Class and Type, and made on a single date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect.

"Borrowing Minimum" shall mean (a) in the case of Eurodollar Loans, \$5,000,000, (b) in the case of ABR Loans, \$1,000,000 and (c) in the case of Swingline Loans, \$500,000.

"Borrowing Multiple" shall mean (a) in the case of Eurodollar Loans, \$1,000,000, (b) in the case of ABR Loans, \$250,000 and (c) in the case of Swingline Loans, \$100,000.

"Borrowing Request" shall mean a request by the Borrower in accordance with the terms of Section 2.03 and substantially in the form of Exhibit D-1 or another form (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent) approved by the Administrative Agent and appropriately completed and signed by a Responsible Officer of the Borrower.

"Budget" shall have the meaning assigned to such term in Section 5.04(e).

"Business Day" shall mean any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term Business Day shall also exclude any day on which banks are not open for dealings in deposits in Dollars in the London interbank market.

"Capital Expenditures" shall mean, for any person in respect of any period, the aggregate of all expenditures incurred by such person during such period that, in accordance with GAAP, are or should be included in "additions to property, plant or equipment" or similar items reflected in the statement of cash flows of such person; provided, however, that Capital Expenditures for the Borrower and the Subsidiaries shall not include:

(a) expenditures to the extent made with proceeds of the issuance of Qualified Equity Interests of the Borrower or capital contributions to the Borrower or funds that would have constituted Net Proceeds under clause (a) of the definition of the term "Net Proceeds" (but that will not constitute Net Proceeds as a result of the first or second proviso to such clause (a));

(b) expenditures of proceeds of insurance settlements, condemnation awards and other settlements in respect of lost, destroyed, damaged or condemned assets, equipment or other property to the extent such expenditures are made to replace or repair such lost, destroyed, damaged or condemned assets, equipment or other property or otherwise to acquire, maintain, develop, construct, improve, upgrade or repair assets or properties useful in the business of the Borrower and the Subsidiaries to the extent such proceeds are not then required to be applied to prepay Term Loans pursuant to Section 2.11(b);

(c) interest capitalized during such period;

(d) expenditures that are accounted for as capital expenditures of such person and that actually are paid for by a third party (excluding the Borrower or any Subsidiary) and for which none of the Borrower or any Subsidiary has provided or is required to provide or incur, directly or indirectly, any consideration or obligation to such third party or any other person (whether before, during or after such period);

(e) the book value of any asset owned by such person prior to or during such period to the extent that such book value is included as a capital expenditure during such period as a result of such person reusing or beginning to reuse such asset during such period without a corresponding expenditure actually having been made in such period; provided that any expenditure necessary in order to permit such asset to be reused shall be included as a Capital Expenditure during the period that such expenditure actually is made;

(f) the purchase price of equipment purchased during such period to the extent that the consideration therefor consists of any combination of (i) used or surplus equipment traded in at the time of such purchase, (ii) the proceeds of a concurrent sale of used or surplus equipment, in each case, in the ordinary course of business or (iii) assets Disposed of pursuant to Section 6.05(m);

(g) Investments in respect of a Permitted Business Acquisition; or

(h) the purchase of property, plant or equipment made with proceeds from any Asset Sale to the extent such proceeds are not then required to be applied to prepay Term Loans pursuant to Section 2.11(b).

"Capitalized Lease Obligations" shall mean, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on the balance sheet (excluding the footnotes thereto) in accordance with GAAP; provided that all obligations of any person that are or would be characterized as operating lease obligations in accordance with GAAP on October 31, 2016 (whether or not such operating lease obligations were in effect on such date) shall continue to be accounted for as operating lease obligations (and not as Capitalized Lease Obligations) for purposes of this Agreement regardless of any change in GAAP following such date that would otherwise require such obligations to be recharacterized (on a prospective or retroactive basis or otherwise) as Capitalized Lease Obligations.

"Cash Collateralize" shall mean to pledge and deposit with or deliver to the Collateral Agent, for the benefit of one or more of the Issuing Banks or Lenders, as collateral for Revolving L/C Exposure or obligations of the Lenders to fund participations in respect of Revolving L/C Exposure, cash or deposit account balances or, if the Collateral Agent and each Issuing Bank shall agree in their sole discretion, other credit support, in each case pursuant to documentation in form and substance reasonably satisfactory to the Collateral Agent and each applicable Issuing Bank. "Cash Collateral" and "Cash Collateralization" shall have a meaning correlative to the foregoing and shall include the proceeds of such cash collateral and other credit support.

"Cash Management Agreement" shall mean any agreement to provide to the Borrower or any Subsidiary cash management services for collections, treasury management services (including controlled disbursement, overdraft, automated clearing house fund transfer services, return items and interstate depository network services), any demand deposit, payroll, trust or operating account relationships, commercial credit cards, merchant card, purchase or debit cards, non-card e-payables services, and other cash management services, including electronic funds transfer services, lockbox services, stop payment services and wire transfer services and including any Outside LC Facility.

"Cash Management Bank" shall mean (i) any person that, at the time it enters into a Cash Management Agreement (or on the Closing Date), is an Agent, an Arranger, a Lender or an Affiliate of any such person and (ii) any Outside LC Facility Issuer, in each case, in its capacity as a party to such Cash Management Agreement.

"CenturyLink" shall mean CenturyLink, Inc., a Louisiana corporation.

"CFC" shall mean a controlled foreign corporation within the meaning of section 957(a) of the Code.

"Change in Law" shall mean (a) the adoption of any law, rule or regulation after the Effective Date, (b) any change in law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Effective Date or (c) compliance by any Lender or Issuing Bank (or, for purposes of Section 2.15(b), by any Lending Office of such Lender or Issuing Bank or by such Lender's or Issuing Bank's holding company, if any) with any written request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Effective Date; provided, however, that notwithstanding anything herein to the contrary, (x) all requests, rules, guidelines or directives under or issued in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act, all interpretations and applications thereof and any compliance by a Lender with any request or directive relating thereto and (y) all requests, rules, guidelines or directives promulgated under or in connection with, all interpretations and applications of, and any compliance by a Lender with any request or directive relating to International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States of America or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case under clauses (x) and (y) be deemed to be a "Change in Law," regardless of the date enacted, adopted or issued but only to the extent it is the general policy of an Issuing Bank or Lender to impose applicable increased costs or costs in connection with capital adequacy requirements similar to those described in clauses (a) and (b) of Section 2.15 generally on other similarly situated borrowers under similar circumstances under agreements permitting such impositions.

"Change of Control" shall mean (a) the acquisition of ownership, directly or indirectly, beneficially (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect on the date hereof) or of record, by any person (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect on the date hereof) or group (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect on the date hereof) of Equity Interests representing more than 40% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower, unless the Borrower becomes a direct or indirect wholly-owned Subsidiary of a holding company (i.e., a parent company) and the direct or indirect holders of Equity Interests of such holding company immediately following that transaction are substantially the same as the holders of the Borrower's Equity Interests (and in the same proportion) immediately prior to that event; or (b) occupation of a majority of the seats (other than vacant seats) on the Board of Directors of the Borrower by persons who (i) were not members of the Board of Directors of the Borrower on the Closing Date and (ii) whose election to the Board of Directors of the Borrower or whose nomination for election by the stockholders of the Borrower was not approved by a majority of the members of the Board of Directors of the Borrower then still in office who were either members of the Board of Directors on the Closing Date or whose election or nomination for election was previously so approved. Prior to the Closing Date, references to the Borrower in this definition only shall be deemed to refer to CenturyLink and the references to "Closing Date" in clause (b) of this definition shall be deemed to refer to the Effective Date.

"Charges" shall have the meaning assigned to such term in Section 9.09.

"Class" shall mean, (a) when used in respect of any Loan or Borrowing, whether such Loan or the Loans comprising such Borrowing are Term A Loans, Term A-1 Loans, Term B Loans, Other Term Loans established as a separate Class, Initial Revolving Loans, or Other Revolving Loans established as a separate Class; and (b) when used in respect of any Commitment, whether such Commitment is in respect of a commitment to make Term A Loans, Term A-1 Loans, Term B Loans, Other Term Loans of a specified Class, Initial Revolving Loans, or Other Revolving Loans of a specified Class.

"Class Loans" shall have the meaning assigned to such term in Section 9.08(f).

"Clean-Up Period" shall have the meaning assigned to such term in Section 7.02.

"Closing Date" shall mean the first date on which the conditions set forth in Section 4.02 are satisfied (or waived in accordance with Section 9.08).

"Closing Date Refinancing" shall mean to the extent not previously repaid, (i) the repayment and termination of that certain Credit Agreement, dated April 18, 2012, as amended on March 13, 2015, by and between CenturyLink and CoBank, ACB, as administrative agent and lender thereunder (the "Existing Term Loan Agreement"), (ii) the repayment and termination of that certain Credit Agreement, dated as of April 6, 2012, as amended on December 3, 2014, by and among CenturyLink, the several banks and other financial institutions or entities from time to time parties thereto as lenders, and Wells Fargo Bank, National Association, as administrative agent, and (iii) to the extent still outstanding on the Closing Date, the repayment, repurchase or calling for redemption of \$300 million of LVLТ Financing's Floating Rate Senior Notes due 2018.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Collateral" shall mean all the Collateral as defined in any Security Document and shall also include all other property that is subject to any Lien in favor of the Collateral Agent or any Subagent for the benefit of the Secured Parties pursuant to any Security Document; provided, that notwithstanding anything to the contrary herein or in any Security Document or other Loan Document, in no case shall the Collateral include any Excluded Property.

"Collateral Agent" shall mean the Administrative Agent acting as collateral agent for the Secured Parties, together with its successors and permitted assigns in such capacity.

"Collateral Agreement" shall mean the Collateral Agreement substantially in the form of Exhibit L to be dated as of the Closing Date, as may be amended, restated, amended and restated, supplemented or otherwise modified from time to time, among each Collateral Guarantor and the Collateral Agent.

"Collateral and Guarantee Requirement" shall mean the requirement that (in each case, subject to the last three paragraphs of Section 5.10, and subject to Schedule 5.13 (which, for the avoidance of doubt, shall override the applicable clauses of this definition of "Collateral and Guarantee Requirement")):

(a) on the Closing Date, the Collateral Agent shall have received from (i) each Collateral Guarantor, a counterpart of the Collateral Agreement and (ii) from each Guarantor (which shall on the Closing Date include (x) at least one subsidiary of CenturyLink of which LVLТ is a wholly-owned direct or indirect subsidiary and (y) each subsidiary of CenturyLink listed on Schedule 1.01 to the Effective Date Certificate, subject to the limitations noted therein), a counterpart of the Subsidiary Guarantee Agreement, in each case duly executed and delivered on behalf of such person;

(b) on the Closing Date, (i)(x) all outstanding Equity Interests directly owned by the Collateral Guarantors, other than Excluded Securities, and (y) all Indebtedness owing to any Collateral Guarantor, other than Excluded Securities, shall have been pledged or assigned for security purposes pursuant to the Security Documents and (ii) the Collateral Agent shall have received certificates, updated share registers (where necessary under the laws of any applicable jurisdiction in order to create a perfected security interest in such Equity Interests) or other instruments (if any) representing such Equity Interests and any notes or other instruments required to be delivered pursuant to the applicable Security Documents, together with stock powers, note endorsements or other instruments of transfer with respect thereto (as applicable) endorsed in blank;

(c) in the case of any person that becomes a Guarantor after the Closing Date, the Agents shall have received (i) a supplement to the Subsidiary Guarantee Agreement and (ii) in the case of a Collateral Guarantor, supplements to the Collateral Agreement and any other Security Documents, if applicable, in the form specified therefor or otherwise reasonably acceptable to the Administrative Agent, in each case, duly executed and delivered on behalf of such Guarantor;

(d) (x) all outstanding Equity Interests of any person that becomes a Guarantor after the Closing Date and that are held by a Collateral Guarantor and (y) all Equity Interests directly acquired by a Collateral Guarantor after the Closing Date, in each case other than Excluded Securities, shall have been pledged pursuant to the Security Documents, together with stock powers or other instruments of transfer with respect thereto (as applicable) endorsed in blank;

(e) except as otherwise contemplated by this Agreement or any Security Document, all documents and instruments, including Uniform Commercial Code financing statements, and filings with the United States Copyright Office and the United States Patent and Trademark Office, and all other actions reasonably requested by the Collateral Agent (including those required by applicable Requirements of Law) to be delivered, filed, registered or recorded to create the Liens intended to be created by the Security Documents (in each case, including any supplements thereto) and perfect such Liens to the extent required by, and with the priority required by, the Security Documents, shall have been delivered, filed, registered or recorded or delivered to the Collateral Agent for filing, registration or the recording substantially concurrently with, or promptly following, the execution and delivery of each such Security Document;

(f) evidence of the insurance (if any) required by the terms of Section 5.02 hereof shall have been received by the Collateral Agent; and

(g) after the Closing Date, the Collateral Agent shall have received, (i) such other Security Documents as may be required to be delivered pursuant to Section 5.10 or the Security Documents, and (ii) upon reasonable request by the Collateral Agent, evidence of compliance with any other requirements of Section 5.10.

Notwithstanding anything to the contrary in this Agreement or in the other Loan Documents, it is understood that to the extent any Collateral (other than Collateral with respect to which a lien may be perfected by (A) the filing of a Uniform Commercial Code financing statement or (B) delivery and taking possession of stock certificates of Subsidiaries) is not or cannot be provided or the security interest of the Collateral Agent therein is not or cannot be perfected on the Closing Date after the use of commercially reasonable efforts by the Borrower to do so and without undue burden and expense, then the provision and/or perfection of the security interest in such Collateral shall not constitute a condition precedent to

any Credit Event on the Closing Date nor to the release of the Escrowed Property to the Borrower on the Closing Date but, instead, shall be required to be delivered and perfected within 90 days after the Closing Date (subject to extension by the Administrative Agent in its sole discretion).

"Collateral Guarantors" shall mean each Guarantor other than QCF, Embarq and their respective Subsidiaries.

"Commitment Fee" shall have the meaning assigned to such term in Section 2.12(a).

"Commitments" shall mean (a) with respect to any Lender, such Lender's Revolving Facility "Commitment, Term A Loan Commitment, Term A-1 Loan Commitment, Term B Loan Commitment, Other Revolving Facility Commitment and/or Other Term Loan Commitment, and (b) with respect to any Swingline Lender, its Swingline Commitment (it being understood that a Swingline Commitment does not increase the applicable Swingline Lender's Revolving Facility Commitment).

"Commodity Exchange Act" shall mean the Commodity Exchange Act (7 U.S.C. § 1 et seq.), as amended from time to time, and any successor statute.

"Conduit Lender" shall mean any special purpose corporation organized and administered by any Lender for the purpose of making Loans otherwise required to be made by such Lender and designated by such Lender in a written instrument; provided, that the designation by any Lender of a Conduit Lender shall not relieve the designating Lender of any of its obligations to fund a Loan under this Agreement if, for any reason, its Conduit Lender fails to fund any such Loan, and the designating Lender (and not the Conduit Lender) shall have the sole right and responsibility to deliver all consents and waivers required or requested under this Agreement with respect to its Conduit Lender; provided, further, that no Conduit Lender shall (a) be entitled to receive any greater amount pursuant to Sections 2.15, 2.16, 2.17 or 9.05 than the designating Lender would have been entitled to receive in respect of the extensions of credit made by such Conduit Lender unless the designation of such Conduit Lender is made with the prior written consent of the Borrower (not to be unreasonably withheld or delayed), which consent shall specify that it is being made pursuant to the proviso in the definition of Conduit Lender and provided that the designating Lender provides such information as the Borrower reasonably requests in order for the Borrower to determine whether to provide its consent or (b) be deemed to have any Commitment.

"Consolidated Debt" shall mean, as of any date of determination for any person, the sum of (without duplication) the principal amount of all Indebtedness of the type set forth in clauses (a), (b), (c), (d), (e) (to the extent related to any Indebtedness that would otherwise constitute Consolidated Debt), (f) and (k) of the definition of "Indebtedness" of such person and its Subsidiaries determined on a consolidated basis on such date; provided, that the amount of any Indebtedness with respect to which the applicable obligors have entered into currency hedging arrangements shall be calculated giving effect to such currency hedging arrangements.

"Consolidated Interest Coverage Ratio" shall mean on any date the ratio of (i) EBITDA of the Borrower to (ii) consolidated cash interest expense of the Borrower and its Subsidiaries, in each case, for the most recently ended Test Period on or prior to such date, all determined on a consolidated basis in accordance with GAAP; provided, that the Consolidated Interest Coverage Ratio shall be determined on a Pro Forma Basis.

"Consolidated Net Income" shall mean, with respect to any person for any period, the aggregate Net Income of such person and its subsidiaries for such period, on a consolidated basis, in accordance with GAAP; provided, however, that the Net Income for such period of any person that is not a subsidiary of such person, or is an Unrestricted Subsidiary, or that is accounted for by the equity method

of accounting, shall be included only to the extent of the amount of dividends or distributions or other payments actually paid in cash or cash equivalents (or to the extent converted into cash or cash equivalents) to the referent person or a Subsidiary thereof in respect of such period.

"Consolidated Priority Debt" shall mean, on any date, Consolidated Debt of the Borrower on such date after deducting, without duplication, the amount of any Indebtedness otherwise included in Consolidated Debt of the Borrower consisting of (i) unsecured Indebtedness of the Borrower that is not Guaranteed by any Subsidiary of the Borrower (other than Guarantees by Guarantors constituting Subordinated Indebtedness), (ii) Subordinated Indebtedness of any Guarantor and (iii) Excluded QCF Indebtedness.

"Consolidated Total Assets" shall mean, as of any date of determination, the total assets of the Borrower and the Subsidiaries, determined on a consolidated basis in accordance with GAAP, but excluding amounts attributable to Investments in Unrestricted Subsidiaries, as set forth on the consolidated balance sheet of the Borrower as of the last day of the Test Period ending immediately prior to such date for which financial statements of the Borrower have been delivered (or were required to be delivered) pursuant to Section 4.02(i), 5.04(a) or 5.04(b), as applicable. Consolidated Total Assets shall be determined on a Pro Forma Basis.

"Consolidated Working Capital" shall mean, with respect to the Borrower and the Subsidiaries on a consolidated basis at any date of determination, Current Assets at such date of determination minus Current Liabilities at such date of determination; provided, that increases or decreases in Consolidated Working Capital shall be calculated without regard to any changes in Current Assets or Current Liabilities as a result of (a) any reclassification in accordance with GAAP of assets or liabilities, as applicable, between current and noncurrent or (b) the effects of purchase accounting.

"Contract Consideration" shall have the meaning assigned to such term in the definition of the term "Excess Cash Flow."

"Control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a person, whether through the ownership of voting securities, by contract or otherwise, and "Controls" and "Controlled" shall have meanings correlative thereto.

"Credit Event" shall mean the funding of any Loan (but excluding, for the avoidance of doubt, any continuation or conversion of a Loan from one Type to another) and/or any L/C Credit Extension.

"Current Assets" shall mean, with respect to the Borrower and the Subsidiaries on a consolidated basis at any date of determination, the sum of all assets (other than cash, Permitted Investments or other cash equivalents) that would, in accordance with GAAP, be classified on a consolidated balance sheet of the Borrower and the Subsidiaries as current assets at such date of determination, other than amounts related to current or deferred Taxes based on income or profits.

"Current Liabilities" shall mean, with respect to the Borrower and the Subsidiaries on a consolidated basis at any date of determination, all liabilities that would, in accordance with GAAP, be classified on a consolidated balance sheet of the Borrower and the Subsidiaries as current liabilities at such date of determination, other than (a) the current portion of any Indebtedness, (b) accruals of Interest Expense (excluding Interest Expense that is due and unpaid), (c) accruals for current or deferred Taxes based on income or profits and (d) accruals, if any, of transaction costs resulting from the Transactions.

"Data Center Sale" shall mean the sale of the Borrower's data centers and colocation business to a consortium advised by BC Partners, which was consummated on May 1, 2017.

"Debtor Relief Laws" shall mean the Bankruptcy Code and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States of America or other applicable jurisdictions from time to time in effect.

"Declined Prepayment Amount" shall have the meaning assigned to such term in Section 2.10(d).

"Declining Term Lender" shall have the meaning assigned to such term in Section 2.10(d).

"Default" shall mean any event or condition that upon notice, lapse of time or both would constitute an Event of Default.

"Defaulting Lender" shall mean, subject to Section 2.24, any Lender that (a) has failed to (i) fund all or any portion of its Loans within two (2) Business Days of the date such Loans were required to be funded hereunder or (ii) pay to the Administrative Agent, any Issuing Bank, the Swingline Lender or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit or Swingline Loans) within two (2) Business Days of the date when due, (b) has notified the Borrower, the Swingline Lender, the Administrative Agent or any Issuing Bank in writing that it does not intend or expect to comply with its funding obligations hereunder or generally under other agreements in which it commits to extend credit, or has made a public statement to that effect, (c) has failed, within three (3) Business Days after written request by the Administrative Agent or the Borrower, to confirm in writing to the Administrative Agent and the Borrower that it will comply with its prospective funding obligations hereunder (provided that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon receipt of such written confirmation by the Administrative Agent and the Borrower) or (d) has, or has a direct or indirect parent company that has, (i) become the subject of a proceeding under any Debtor Relief Law, (ii) had appointed for it a receiver, custodian, conservator, trustee, administrator, assignee for the benefit of creditors or similar person charged with reorganization or liquidation of its business or assets, including the Federal Deposit Insurance Corporation or any other state or federal regulatory authority acting in such a capacity or (iii) become the subject of a Bail-in Action; provided, that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States of America or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender. Any determination by the Administrative Agent that a Lender is a Defaulting Lender under any one or more of clauses (a) through (d) above shall be conclusive and binding absent manifest error, and such Lender shall be deemed to be a Defaulting Lender (subject to Section 2.24) upon delivery of written notice of such determination to the Borrower, each Issuing Bank, the Swingline Lender and each Lender.

"Designated Non-Cash Consideration" shall mean the Fair Market Value of non-cash consideration received by the Borrower or one of its Subsidiaries in connection with an Asset Sale that is so designated as Designated Non-Cash Consideration pursuant to a certificate of a Responsible Officer of the Borrower, setting forth such valuation, less the amount of cash or cash equivalents received in connection with a subsequent disposition of such Designated Non-Cash Consideration.

"Disinterested Director" shall mean, with respect to any person and transaction, a member of the Board of Directors of such person who does not have any material direct or indirect financial interest in or with respect to such transaction.

"Dispose" or "Disposed of" shall mean to convey, sell, lease, sell and lease-back, assign, transfer or otherwise dispose of any property, business or asset. The term "Disposition" shall have a correlative meaning to the foregoing.

"Disqualified Lender" shall mean those bona fide competitors of the Borrower and any Affiliates thereof (other than any Affiliates that are banks, financial institutions, bona fide debt funds or investment vehicles that are engaged in making, purchasing, holding or otherwise investing in commercial loans, bonds and similar extensions of credit in the ordinary course), in each case, that are specified in writing by a Responsible Officer of the Borrower to the Administrative Agent and the Lenders from time to time following the Effective Date; provided that in no event shall any update to the list of Disqualified Lenders (A) be effective prior to three Business Days after receipt thereof by the Administrative Agent (it being understood and agreed that the Borrower authorizes distribution of any such list to the Lenders) or (B) apply retroactively to disqualify any persons that have previously acquired an assignment or participation interest under this Agreement.

"Disqualified Stock" shall mean, with respect to any person, any Equity Interests of such person that, by its terms (or by the terms of any security or other Equity Interests into which it is convertible or for which it is exchangeable), or upon the happening of any event or condition (a) matures or is mandatorily redeemable (other than solely for Qualified Equity Interests of the Borrower), pursuant to a sinking fund obligation or otherwise, (b) is redeemable at the option of the holder thereof (other than solely for Qualified Equity Interests of the Borrower), in whole or in part, (c) provides for the scheduled, mandatory payments of dividends in cash, or (d) is or becomes convertible into or exchangeable for Indebtedness or any other Equity Interests that would constitute Disqualified Stock, in the case of each of the foregoing clauses (a), (b), (c) and (d), prior to the date that is ninety-one (91) days after the Latest Maturity Date in effect at the time of issuance thereof and except as a result of a change of control or asset sale so long as any rights of the holders thereof upon the occurrence of a change of control or asset sale event shall be subject to the prior repayment in full of the Loans and all other Loan Obligations that are accrued and payable and the termination of the Commitments (provided, that only the portion of the Equity Interests that so mature or are mandatorily redeemable, are so convertible or exchangeable or are so redeemable at the option of the holder thereof prior to such date shall be deemed to be Disqualified Stock). Notwithstanding the foregoing: (i) any Equity Interests issued to any employee or to any plan for the benefit of employees of the Borrower or the Subsidiaries or by any such plan to such employees shall not constitute Disqualified Stock solely because they may be required to be repurchased by the Borrower in order to satisfy applicable statutory or regulatory obligations or as a result of such employee's termination, death or disability and (ii) any class of Equity Interests of such person that by its terms authorizes such person to satisfy its obligations thereunder by delivery of Equity Interests that are not Disqualified Stock shall not be deemed to be Disqualified Stock.

"Dollars" or "\$" shall mean lawful money of the United States of America.

"Domestic Subsidiary" shall mean any Subsidiary that is not a Foreign Subsidiary.

"EBITDA" shall mean for any period and for any person, (1) Consolidated Net Income of such person for such period adjusted, without duplication, to exclude the effect of (a) any non-cash losses resulting from requirements to mark-to-market Hedging Agreements, (b) any expense items relating to mergers or acquisitions, including severance, retention and integration costs and change of control payments, provided that adjustments pursuant to this clause (b) for any period shall be consistent with those reported in such person's public reports in accordance with Regulation G and shall not exceed 5% of EBITDA of such person for the last four fiscal quarters (to be calculated after giving effect to adjustments pursuant to this clause (b)), (c) other integration charges or expenses in respect of the Transactions not to exceed \$580,000,000 in the aggregate for all periods, (d) any gains or losses in

connection with the repurchase or retirement of Indebtedness, (e) any loss reflected in such Consolidated Net Income for such period 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 of such person; 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, (f) any other non-cash losses or expenses (other than write-downs or write-offs of current assets or non-cash losses or expenses representing an accrual for a future cash outlay) reflected in such Consolidated Net Income for such period, (g) gains or losses from marking to market portfolio assets until recognized for income tax purposes, (h) 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) and (i) any gain or loss on the disposition of investments, plus, to the extent deducted in determining such Consolidated Net Income for such period, the aggregate amount of (2)(a) interest expense, excluding the amortization or write-off of Indebtedness discount or premiums and Indebtedness issuance costs and commissions, discounts and other fees and charges associated with Indebtedness (including, if applicable, Loans), (b) income tax expense, (c) depreciation and amortization and (d) any non-cash charges to Consolidated 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.

"EEA Financial Institution" shall mean (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition, or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent;

"EEA Member Country" shall mean any of the member states of the European Union, Iceland, Liechtenstein, and Norway.

"EEA Resolution Authority" shall mean any public administrative authority or any person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

"Effective Date" shall mean the first date on which the conditions set forth in Section 4.01 are satisfied (or waived in accordance with Section 9.08), such date being June 19, 2017.

"Effective Date Certificate" means a certificate executed by Escrow Sub and delivered to the Administrative Agent on the Effective Date containing certain information relating to certain provisions of this Agreement.

"Embarq" shall mean Embarq Corporation, a Delaware corporation, together with its successors and assigns.

"Environment" shall mean ambient and indoor air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, natural resources such as flora and fauna, the workplace or as otherwise defined in any Environmental Law.

"Environmental Laws" shall mean all applicable laws (including common law), rules, regulations, codes, ordinances, orders, binding agreements, decrees or judgments, promulgated or entered into by or with any Governmental Authority, relating in any way to the Environment, preservation or reclamation of natural resources, any Hazardous Materials or to public or employee health and safety matters (to the extent relating to the Environment or Hazardous Materials).

"Environmental Permits" shall have the meaning assigned to such term in Section 3.16.

"Equity Interests" of any person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity or ownership of such person, including any preferred stock (including any preferred equity certificates (and any other similar instruments)), any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time and any final regulations promulgated and the rulings issued thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) that, together with the Borrower or a Subsidiary, is treated as a single employer under Section 414(b) or (c) of the Code, or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" shall mean (a) any Reportable Event or the requirements of Section 4043(b) of ERISA apply with respect to a Plan; (b) with respect to any Plan, the failure to satisfy the minimum funding standard under Section 412 of the Code or Section 302 of ERISA, whether or not waived; (c) a determination that any Plan is, or is expected to be, in "at-risk" status (as defined in Section 303(i)(4) of ERISA or Section 430(i)(4) of the Code); (d) 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, the failure to make by its due date a required installment under Section 430(j) of the Code with respect to any Plan or the failure to make by its due date any required contribution to a Multiemployer Plan; (e) the incurrence by the Borrower, a Subsidiary or any ERISA Affiliate of any liability under Title IV of ERISA with respect to the termination of any Plan or Multiemployer Plan; (f) the receipt by the Borrower, a Subsidiary or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or to appoint a trustee to administer any Plan under Section 4042 of ERISA; (g) the incurrence by the Borrower, a Subsidiary or any ERISA Affiliate of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; (h) the receipt by the Borrower, a Subsidiary or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower, a Subsidiary or any ERISA Affiliate of any notice, concerning the impending imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA, or in "endangered" or "critical" status, within the meaning of Section 432 of the Code or Section 305 of ERISA; (i) the conditions for imposition of a lien under Section 303(k) of ERISA shall have been met with respect to any Plan; or (j) the withdrawal of any of the Borrower, a Subsidiary or any ERISA Affiliate from a Plan subject to Section 4063 of ERISA during a plan year in which such entity was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA.

"Escrow Account" shall have the meaning set forth in the Escrow Agreement.

"Escrow Agent" shall MUFG Union Bank, N.A., in its capacity as such together with its successors in such capacity pursuant to the Escrow Agreement.

"Escrow Agreement" shall mean that certain Escrow Agreement, dated the Effective Date, by and among, Escrow Sub, the Escrow Agent and the Administrative Agent.

"Escrow Assumption Agreement" shall mean an assumption agreement among Escrow Sub, CenturyLink and the Administrative Agent, in form reasonably satisfactory to the Administrative Agent.

"Escrow Merger" shall mean a merger of Escrow Sub with and into CenturyLink on the Closing Date and pursuant to which CenturyLink shall be the surviving corporation and shall assume, by operation of law, all obligations of Escrow Sub.

"Escrow Sub" shall mean CenturyLink Escrow, LLC, a Delaware limited liability company.

"Escrowed Property" shall have the meaning set forth in the Escrow Agreement.

"EU Bail-In Legislation Schedule" shall mean the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor person), as in effect from time to time.

"Eurodollar," when used in reference to any Loan or Borrowing, shall mean that such Loan, or the Loans comprising such Borrowing, bears interest at a rate determined by reference to clause (a) of the definition of "Eurodollar Rate."

"Eurodollar Rate" shall mean:

(a) for any Interest Period with respect to a Eurodollar Loan, the rate per annum equal to the London Interbank Offered Rate ("LIBOR") or a comparable or successor rate, which rate is approved by the Administrative Agent, as published on the applicable Bloomberg screen page (or such other commercially available source providing such quotations as may be designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period; provided that to the extent a comparable or successor rate is approved by the Administrative Agent in connection herewith, the approved rate shall be applied in a manner consistent with market practice; provided, further, that to the extent such market practice is not administratively feasible for the Administrative Agent, such approved rate shall be applied in a manner as otherwise reasonably determined by the Administrative Agent; and

(b) for any interest calculation with respect to an ABR Loan on any date, the rate per annum equal to LIBOR, at or about 11:00 a.m., London time determined two Business Days prior to such date for Dollar deposits with a term of one month commencing that day;

provided that if the Eurodollar Rate pursuant to clause (a) or (b) shall be less than zero, such rate shall be deemed zero for purposes of this Agreement.

"Event of Default" shall have the meaning assigned to such term in Section 7.01.

"Excess Cash Flow" shall mean, for any period, an amount equal to:

- (a) the sum, without duplication, of
 - (i) Consolidated Net Income of the Borrower for such period,
 - (ii) an amount equal to the amount of all non-cash charges to the extent deducted in arriving at such Consolidated Net Income,
 - (iii) decreases in Consolidated Working Capital for such period (other than any such decreases arising from dispositions outside the ordinary course of business by the Borrower and the Subsidiaries completed during such period),
 - (iv) cash receipts by the Borrower and its Subsidiaries in respect of Hedging Agreements during such fiscal year to the extent not otherwise included in such Consolidated Net Income; and
 - (v) the amount by which Tax expense deducted in determining such Consolidated Net Income for such period exceeded Taxes (including penalties and interest) paid in cash or Tax reserves set aside or payable (without duplication) by the Borrower and its Subsidiaries in such period,

less

- (b) the sum, without duplication, of
 - (i) an amount equal to the amount of all non-cash credits included in arriving at such Consolidated Net Income,
 - (ii) without duplication of amounts deducted pursuant to clause (ix) below in prior years, the amount of Capital Expenditures made in cash during such period by the Borrower and its Subsidiaries, except to the extent that such Capital Expenditures or acquisitions were financed with the proceeds of Indebtedness of the Borrower or the Subsidiaries (other than under any Revolving Facility),
 - (iii) the aggregate amount of all principal payments of Indebtedness of the Borrower and the Subsidiaries (including (A) the principal component of payments in respect of Capitalized Lease Obligations and (B) the amount of any scheduled repayment of Term Loans and any mandatory prepayment of Term Loans from any Asset Sale (limited to the increase in Consolidated Net Income in such year resulting from such Asset Sale), but excluding (w) all other prepayments of Term Loans, (x) all prepayments of Revolving Facility Loans and Swingline Loans, (y) all voluntary prepayments, voluntary purchases and voluntary redemptions of Indebtedness of LVLTL, Embarq or QC (or any of their respective Subsidiaries) and (z) all prepayments in respect of any other revolving credit facility, except in the case of clause (z) to the extent there is an equivalent permanent reduction in commitments thereunder), except to the extent financed with the proceeds of other Indebtedness (other than under any Revolving Facility) of the Borrower or the Subsidiaries,
 - (iv) increases in Consolidated Working Capital for such period (other than any such increases arising from acquisitions by the Borrower and the Subsidiaries completed during such period or the application of purchase accounting),

(v) payments by the Borrower and the Subsidiaries during such period in respect of long-term liabilities of the Borrower and the Subsidiaries other than Indebtedness, to the extent not already deducted from Consolidated Net Income,

(vi) without duplication of amounts deducted pursuant to clause (ix) below in prior fiscal years, the aggregate amount of cash consideration paid by the Borrower and the Subsidiaries (on a consolidated basis) in connection with Investments (including acquisitions) made during such period pursuant to Section 6.04 (except for those Investments made under Section 6.04(b), (c) and (e)(iii)) to the extent that such Investments were financed with internally generated cash flow of the Borrower and the Subsidiaries,

(vii) the amount of Restricted Payments during such period (on a consolidated basis) by the Borrower and the Subsidiaries made in compliance with Section 6.06 (other than Section 6.06(a) and (b)) to the extent such Restricted Payments were financed with internally generated cash flow of the Borrower and the Subsidiaries,

(viii) the aggregate amount of any premium, make-whole or penalty payments actually paid in cash by the Borrower and the Subsidiaries during such period that are made in connection with any prepayment of Indebtedness to the extent that such payments are not deducted in calculating Consolidated Net Income,

(ix) without duplication of amounts deducted from Excess Cash Flow in prior periods, the aggregate consideration required to be paid in cash by the Borrower or any of the Subsidiaries pursuant to binding contracts (the "Contract Consideration") entered into prior to or during such period relating to Permitted Business Acquisitions, Capital Expenditures or acquisitions of intellectual property to be consummated or made during the period of four consecutive fiscal quarters of the Borrower following the end of such period, provided that to the extent the aggregate amount of internally generated cash actually utilized to finance such Permitted Business Acquisitions, Capital Expenditures or acquisitions of intellectual property during such period of four consecutive fiscal quarters is less than the Contract Consideration, the amount of such shortfall shall be added to the calculation of Excess Cash Flow at the end of such period of four consecutive fiscal quarters,

(x) the amount of Taxes (including penalties and interest) paid in cash or Tax reserves set aside or payable (without duplication) in such period to the extent they exceed the amount of Tax expense deducted in determining Consolidated Net Income for such period; and

(xi) cash expenditures in respect of Hedging Agreements during such fiscal year to the extent not deducted in arriving at such Consolidated Net Income.

"Excess Cash Flow Period" shall mean each fiscal year of the Borrower, commencing with the fiscal year of the Borrower ending December 31, 2018.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Excluded QCF Indebtedness" means (i) the debt securities of QCF (and the related Guarantees) outstanding on the Closing Date and (ii) any Permitted Refinancing Indebtedness in respect thereof.

"Excluded Indebtedness" shall mean all Indebtedness not incurred in violation of Section 6.01.

"Excluded Property" shall have the meaning assigned to such term in Section 5.10.

"Excluded Securities" shall mean any of the following:

(a) any Equity Interests or Indebtedness with respect to which the Collateral Agent and the Borrower reasonably agree that the cost or other consequences of pledging such Equity Interests or Indebtedness in favor of the Secured Parties under the Security Documents (including Tax consequences) are likely to be excessive in relation to the value to be afforded thereby;

(b) any Equity Interests (other than Equity Interests of any Regulated Subsidiary) or Indebtedness to the extent, and for so long as, the pledge thereof would be prohibited by any Requirement of Law;

(c) any Equity Interests of any person that is not a Wholly-Owned Subsidiary to the extent (A) that a pledge thereof to secure the Secured Obligations (as defined in the Collateral Agreement) is prohibited by (i) any applicable organizational documents, joint venture agreement, shareholder agreement, or similar agreement or (ii) any other contractual obligation with an unaffiliated third party not in violation of Section 6.09 that was existing on the Closing Date or at the time of the acquisition of such subsidiary and was not created in contemplation of such acquisition, but, in the case of this subclause (A), only to the extent, and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the Uniform Commercial Code or any other Requirement of Law, (B) any organizational documents, joint venture agreement, shareholder agreement, or similar agreement (or other contractual obligation referred to in subclause (A)(ii) above) prohibits such a pledge without the consent of any other party; provided, that this clause (B) shall not apply if (1) such other party is a Loan Party or a Wholly-Owned Subsidiary or (2) consent has been obtained to consummate such pledge (it being understood that the foregoing shall not be deemed to obligate the Borrower or any Subsidiary to obtain any such consent) and for so long as such organizational documents, joint venture agreement, shareholder agreement or similar agreement (or other contractual obligation referred to in subclause (A)(ii) above) or replacement or renewal thereof is in effect, or (C) a pledge thereof to secure the Secured Obligations (as defined in the Collateral Agreement) would give any other party (other than a Loan Party or a Wholly-Owned Subsidiary) to any organizational documents, joint venture agreement, shareholder agreement or similar agreement governing such Equity Interests the right to terminate its obligations thereunder, but only to the extent, and for so long as, such right of termination is not terminated or rendered unenforceable or otherwise deemed ineffective by the Uniform Commercial Code or any other Requirement of Law;

(d) any Equity Interests of any Unrestricted Subsidiary;

(e) any Equity Interests of any Regulated Subsidiary to the extent, and for so long as, (i) the pledge thereof would be prohibited by any Requirement of Law or (ii) the Borrower has notified the Administrative Agent that, in the Borrower's good faith judgment, a pledge thereof would result in adverse regulatory consequences or would impair the conduct of the business of the Borrower and its Subsidiaries; provided, in the case of this clause (e), the Borrower shall promptly notify the Administrative Agent thereof and, if requested by the Administrative Agent, shall use commercially reasonable efforts to obtain any necessary approvals or authorizations necessary to avoid such prohibition, adverse consequences or impairment;

(f) any Margin Stock; and

(g) voting Equity Interests (and any other interests constituting "stock entitled to vote" within the meaning of Treasury Regulation Section 1.956-2(c)(2)) in excess of 65% of all such voting Equity Interests in (A) any Foreign Subsidiary that is a CFC or (B) any FSHCO.

"Excluded Subsidiary" shall mean any of the following:

(a) each Immaterial Subsidiary,

(b) each Domestic Subsidiary that is not a Wholly-Owned Subsidiary (for so long as such Subsidiary remains a non-Wholly-Owned Subsidiary),

(c) each (i) Domestic Subsidiary that is prohibited from Guaranteeing or granting Liens to secure the Obligations by any Requirement of Law or that would require consent, approval, license or authorization of a Governmental Authority to Guarantee or grant Liens to secure the Obligations (unless such consent, approval, license or authorization has been received) and (ii) Regulated Subsidiary to the extent the Borrower has notified the Administrative Agent that, in the Borrower's good faith judgment, having such Regulated Subsidiary Guarantee or grant Liens to secure the Obligations would result in adverse regulatory consequences, be prohibited without regulatory approval or would impair the conduct of the business of such Subsidiary or the Borrower and its Subsidiaries taken as a whole,

(d) each Domestic Subsidiary that is prohibited by any applicable contractual requirement from Guaranteeing or granting Liens to secure the Obligations on the Closing Date or at the time such Subsidiary becomes a Subsidiary not in violation of Section 6.09(c) (and for so long as such restriction or any replacement or renewal thereof is in effect) (it being understood that Centel Corporation shall not be deemed to be an Excluded Subsidiary pursuant to this clause

(d) when the Existing Centel Notes are no longer outstanding),

(e) any Foreign Subsidiary,

(f) any Domestic Subsidiary (i) that is an FSHCO or (ii) that is a Subsidiary of a Foreign Subsidiary that is a CFC,

(g) any other Domestic Subsidiary with respect to which the Administrative Agent and the Borrower reasonably agree that the cost or other consequences (including Tax consequences) of providing a Guarantee of or granting Liens to secure the Obligations are likely to be excessive in relation to the value to be afforded thereby,

(h) each Unrestricted Subsidiary,

(i) each Insurance Subsidiary; and

(j) LFLT, QC and their respective Subsidiaries.

"Excluded Swap Obligation" shall mean, with respect to any Guarantor, any Swap Obligation if, and to the extent that, all or a portion of the Guarantee of such Guarantor of, or the grant by such Guarantor of a security interest to secure, such Swap Obligation (or any Guarantee thereof) is or becomes illegal under the Commodity Exchange Act or any rule, regulation or order of the Commodity Futures Trading Commission (or the application or official interpretation of any thereof) by virtue of (a) such Guarantor's failure for any reason to constitute an "eligible contract participant" as defined in the

Commodity Exchange Act and the regulations thereunder or (b) in the case of a Swap Obligation subject to a clearing requirement pursuant to Section 2(h) of the Commodity Exchange Act (or any successor provision thereto), because such Guarantor is a "financial entity," as defined in Section 2(h)(7)(C)(i) of the Commodity Exchange Act (or any successor provision thereto), in each case at the time the Guarantee of such Guarantor or the grant of such security interest becomes effective with respect to such Swap Obligation, unless otherwise agreed between the Administrative Agent and the Borrower. If a Swap Obligation arises under a master agreement governing more than one swap, such exclusion shall apply only to the portion of such Swap Obligation that is attributable to swaps for which such Guarantee or security interest is or becomes illegal.

"Excluded Taxes" shall mean, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of any Loan Party hereunder or under any other Loan Document, (i) Taxes imposed on or measured by its overall net income (however denominated, and including, for the avoidance of doubt, franchise and similar Taxes imposed on it in lieu of net income Taxes), in each case by a jurisdiction (including any political subdivision thereof) as a result of such recipient being organized in, having its principal office in, being engaged in a trade or business in, or in the case of any Lender, having its applicable lending office in, such jurisdiction, or as a result of any other present or former connection with such jurisdiction (other than any such connection arising solely from any Loan Document or any transactions pursuant to any Loan Document), (ii) any branch profits Taxes or similar Taxes imposed by any jurisdiction in which the Borrower is located or carries on a trade or business, (iii) U.S. federal withholding Tax imposed on any payment by or on account of any obligation of any Loan Party hereunder or under any other Loan Document to a Lender (other than to the extent such Lender is an assignee pursuant to a request by the Borrower under Section 2.19(b) or 2.19(c)) pursuant to laws in force at the time such Lender becomes a party hereto (or designates a new lending office), except to the extent that such Lender (or its assignor, if any) was entitled, immediately prior to the designation of a new lending office (or assignment), to receive additional amounts or indemnification payments from any Loan Party with respect to such withholding Tax pursuant to Section 2.17, (iv) any withholding Tax imposed on any payment by or on account of any obligation of any Loan Party hereunder that is attributable to the Administrative Agent's, any Lender's or any other recipient's failure to comply with Section 2.17(d) or Section 2.17(f) or (v) any Tax imposed under FATCA.

"Existing Centel Notes" shall mean \$150,000,000 aggregate principal amount of 9% debentures due 2019 issued by Centel Capital Corporation outstanding on the Closing Date.

"Existing Class Loans" shall have the meaning assigned to such term in Section 9.08(f).

"Existing Letter of Credit" shall have the meaning assigned to such term in Section 2.05(a).

"Existing Term Loan Agreement" shall have the meaning assigned to such term in the definition of "Closing Date Refinancing."

"Extended Revolving Facility Commitment" shall have the meaning assigned to such term in Section 2.22(a).

"Extended Revolving Loan" shall have the meaning assigned to such term in Section 2.22(a).

"Extended Term Loan" shall have the meaning assigned to such term in Section 2.22(a).

"Extending Lender" shall have the meaning assigned to such term in Section 2.22(a).

"Extension" shall have the meaning assigned to such term in Section 2.22(a).

"Extension Amendment" shall have the meaning assigned to that term in Section 2.22(b).

"Facility" shall mean the respective facility and commitments utilized in making Loans and credit extensions hereunder, it being understood that, as of the Closing Date there are four Facilities (i.e., the Term A Facility, the Term A-1 Facility, the Term B Facility and the Revolving Facility) and thereafter, the term "Facility" may include any other Class of Commitments and the extensions of credit thereunder or, without duplication, Term Loans.

"Fair Market Value" shall mean, with respect to any asset or property, the price that could be negotiated in an arms'-length transaction between a willing seller and a willing buyer, neither of whom is under undue pressure or compulsion to complete the transaction (as determined in good faith by the management of the Borrower), including reliance on the most recent real property tax bill or assessment in the case of Real Property.

"Farm Credit Equities" is defined in Section 5.14(a).

"Farm Credit Lender" means a lending institution chartered or otherwise organized and existing pursuant to the provisions of the Farm Credit Act of 1971 and under the regulation of the Farm Credit Administration.

"FATCA" shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), or any current or future Treasury regulations promulgated thereunder or official administrative interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the Code, such Code section as of the date of this Agreement (or any amended or successor version described above) or any legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code.

"FCC" shall mean the United States Federal Communications Commission or its successor.

"FCC License" shall mean any permit, license, authorization, certification, plan, directive, consent order or consent decree of or from the FCC, in each case, in connection with the operation of the business of the Borrower or any of its Subsidiaries, all renewals and extensions thereof, and all applications filed with the FCC for which the Borrower or any of its Subsidiaries is an applicant.

"Federal Funds Rate" shall mean, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Administrative Agent on such day on such transactions as determined by the Administrative Agent; provided that if the Federal Funds Rate on any day would otherwise be less than 0%, then the Federal Funds Rate on such day shall be deemed to be 0%.

"Fee Letter" shall mean that certain Amended and Restated Fee Letter dated as of November 13, 2016 by and among, inter alia, CenturyLink, the Administrative Agent, Merrill Lynch, Pierce, Fenner &

Smith Incorporated and Morgan Stanley Senior Funding Inc. (as such Fee Letter may be amended, restated, supplemented or otherwise modified).

"Fees" shall mean the Commitment Fees, the L/C Participation Fees, the Issuing Bank Fees and the Administrative Agent Fees.

"Financial Covenants" shall mean the covenants of the Borrower set forth in Section 6.12.

"Financial Officer" of any person shall mean the Chief Financial Officer, principal accounting officer, Treasurer, Assistant Treasurer, Controller or other executive responsible for the financial affairs of such person.

"Foreign Lender" shall mean a Lender that is not a U.S. Person.

"Foreign Subsidiary" shall mean any Subsidiary that is incorporated or organized under the laws of any jurisdiction other than the United States of America, any state thereof or the District of Columbia.

"Fronting Exposure" shall mean, at any time there is a Defaulting Lender, (a) with respect to any Issuing Bank, such Defaulting Lender's Revolving Facility Percentage of Revolving L/C Exposure with respect to Letters of Credit issued by such Issuing Bank other than such Revolving L/C Exposure as to which such Defaulting Lender's participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof and (b) with respect to the Swingline Lender, such Defaulting Lender's Swingline Exposure other than Swingline Loans as to which such Defaulting Lender's participation obligation has been reallocated to other Lenders.

"FSHCO" shall mean any Domestic Subsidiary that owns no material assets other than the Equity Interests of one or more Foreign Subsidiaries that are CFCs or Equity Interests of one or more other FSHCOs.

"GAAP" shall mean generally accepted accounting principles in effect from time to time in the United States of America, applied on a consistent basis, subject to the provisions of Section 1.02.

"Governmental Authority" shall mean any federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory or legislative body.

"Guarantee" of or by any person (the "guarantor") shall mean (a) any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other monetary obligation payable or performable by another person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect,

(i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (iv) entered into for the purpose of assuring in any other manner the holders of such Indebtedness or other obligation of the payment thereof or to protect such holders against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of the guarantor securing any Indebtedness or other obligation (or any existing right, contingent or otherwise, of the holder of Indebtedness or other obligation to be secured by such a Lien) of any other person, whether or not such Indebtedness or other obligation is assumed by the guarantor (other than Liens on Equity Interests of Unrestricted Subsidiaries securing Indebtedness of such Unrestricted Subsidiaries); provided, however, that the term Guarantee shall not include endorsements

of instruments for deposit or collection in the ordinary course of business or customary and reasonable indemnity obligations in effect on the Closing Date or entered into in connection with any acquisition or Disposition of assets permitted by this Agreement (other than such obligations with respect to Indebtedness). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the Indebtedness or other obligation in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such person in good faith. The amount of the Indebtedness or other obligation subject to any Guarantee provided by any person for purposes of clause (b) above shall (unless the applicable Indebtedness has been assumed by such person or is otherwise recourse to such person) be deemed to be equal to the lesser of (A) the aggregate unpaid amount of such Indebtedness or other obligation and (B) the Fair Market Value of the property encumbered thereby. "Guaranteed" and "Guaranteeing" shall have meanings correlative thereto.

"guarantor" shall have the meaning assigned to such term in the definition of the term "Guarantee."

"Guarantors" shall mean (i) each Subsidiary of the Borrower that executes the Subsidiary Guarantee Agreement on the Closing Date and (ii) each Subsidiary of the Borrower that becomes a Loan Party pursuant to Section 5.10(c), whether existing on the Closing Date or established, created or acquired after the Closing Date, unless and until such time as the respective Subsidiary is released from its obligations under the Subsidiary Guarantee Agreement in accordance with the terms and provisions hereof or thereof.

"Hazardous Materials" shall mean all pollutants, contaminants, wastes, chemicals, materials, substances and constituents, including, without limitation, explosive or radioactive substances or petroleum by products or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas or pesticides, fungicides, fertilizers or other agricultural chemicals, of any nature subject to regulation or which can give rise to liability under any Environmental Law.

"Hedge Bank" shall mean any person that is (or any Affiliate of any person that is) an Agent, an Arranger or a Lender on the Closing Date (or any person that becomes an Agent, Arranger or Lender or Affiliate thereof after the Closing Date) and that enters into or has entered into a Hedging Agreement with the Borrower or any of its Subsidiaries, in each case, in its capacity as a party to such Hedging Agreement.

"Hedging Agreement" shall mean 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 credit spread transaction, repurchase transaction, reserve repurchase transaction, securities lending transaction, weather index transaction, spot contracts, fixed price physical delivery contracts, or any similar transaction or any combination of these transactions, in each case of the foregoing, whether or not exchange traded; provided, that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Borrower or any of the Subsidiaries shall be a Hedging Agreement.

"Honor Date" shall have the meaning given such term in Section 2.05(c).

"Immaterial Subsidiary" shall mean any Subsidiary that did not, as of the last day of the fiscal quarter of the Borrower most recently ended for which financial statements have been (or were required to be) delivered pursuant to Section 4.02(i), 5.04(a) or 5.04 (b), have (x) assets with a value equal to or in

excess of 5% of Consolidated Total Assets, (y) operating revenue which is equal to or greater than 5% of the consolidated operating revenues of the Borrower and its Subsidiaries on such date, or (z) EBITDA equal to or greater than 5% of the EBITDA of the Borrower and its Subsidiaries on such date determined on a Pro Forma Basis.

"Increased Amount" of any Indebtedness shall mean any increase in the amount of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness or in the form of common stock of the Borrower, the accretion of original issue discount or liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies.

"Incremental Amount" shall mean, at any time, the sum of:

(a) the excess (if any) of (i) \$1,500,000,000 over (ii) the sum of the aggregate amount of all Incremental Term Loan Commitments, Incremental Revolving Facility Commitments and Incremental Equivalent Debt, in each case, established after the Closing Date and prior to such time and, in each case, in reliance on this clause (a) (which, for the avoidance of doubt, does not include any Extended Term Loans, Extended Revolving Facility Commitments, Refinancing Term Loans or Replacement Revolving Facility Commitments); plus

(b) any additional amounts so long as immediately after giving effect to the incurrence thereof (and assuming that the portion of the aggregate Revolving Facility Commitments (including any Incremental Revolving Facility Commitments) that is in excess of \$2,000,000,000 is fully drawn but calculated to exclude any amount concurrently incurred in reliance on clause (a) above) and the use of proceeds of the loans thereunder, the Priority Leverage Ratio is not greater than 3.00 to 1.00 tested on a Pro Forma Basis (which, for the avoidance of doubt, will give effect to any Permitted Business Acquisition consummated concurrently therewith) only on the date of the initial incurrence of the applicable Incremental Facility (except as set forth in clause (C) of the third paragraph under Section 6.01); plus

(c) the aggregate amount of Revolving Facility Commitments of any Revolving Facility Lender that is a Defaulting Lender that have been terminated.

"Incremental Assumption Agreement" shall mean an Incremental Assumption Agreement in form and substance reasonably satisfactory to the Administrative Agent, among the Borrower, the Administrative Agent and, if applicable, one or more Incremental Term Lenders and/or Incremental Revolving Facility Lenders.

"Incremental Assumption Agreement No. 1" shall mean Incremental Assumption Agreement No. 1, dated as of January 29, 2018, by and among, the Loan Parties, the Administrative Agent, the Swingline Lender, each Issuing Bank as of the Incremental Assumption Agreement No. 1 Effective Date and the Incremental Assumption Agreement No. 1 Additional Lender. For avoidance of doubt, Incremental Assumption Agreement No. 1 shall constitute an "Incremental Assumption Agreement" for all purposes of the Loan Documents.

"Incremental Assumption Agreement No. 1 Additional Lender" shall mean Citibank, N.A. For the avoidance of doubt, on the Incremental Assumption Agreement No. 1 Effective Date, the Incremental Assumption Agreement No. 1 Additional Lender shall constitute an Incremental Revolving Facility Lender and an Incremental Term Lender.

“Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment” shall mean the commitment of Citibank, N.A. to make Initial Revolving Loans pursuant to Section 2.01(d) and to acquire risk participations in Letters of Credit and Swingline Loans as provided herein, as such commitment may be (a) reduced from time to time pursuant to Section 2.08, (b) reduced or increased from time to time pursuant to assignments by or to Citibank, N.A. under Section 9.04, and (c) increased, extended or replaced as provided under Section 2.21, 2.22 or 2.23. The amount of the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment as of the Incremental Assumption Agreement No. 1 Effective Date is \$167,832,167.86. For the avoidance of doubt, the Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment shall constitute (i) a “Incremental Revolving Facility Commitment” for all purposes of the Loan Documents and (ii) part of the same Class of Revolving Facility Commitments as the Revolving Facility Commitments in effect on the Effective Date.

“Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment” shall mean the commitment of Citibank, N.A. to fund a Term A Loan to the Borrower on the Incremental Assumption Agreement No. 1 Effective Date in an aggregate principal amount equal to \$132,167,832.14. For the avoidance of doubt, the Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment shall be an “Incremental Term Loan Commitment” for all purposes of the Loan Documents.

“Incremental Assumption Agreement No. 1 Effective Date” shall have the meaning set forth in Incremental Assumption Agreement No. 1.

“Incremental Commitment” shall mean an Incremental Term Loan Commitment or an Incremental Revolving Facility Commitment.

“Incremental Equivalent Debt” shall have the meaning assigned to such term in Section 6.01(v).

“Incremental Facility” shall mean the Incremental Commitments and the Incremental Loans made thereunder.

“Incremental Loan” shall mean an Incremental Term Loan or an Incremental Revolving Loan.

“Incremental Revolving Facility Commitment” shall mean the commitment of any Lender, established pursuant to Section 2.21, to make Revolving Facility Loans to the Borrower and to acquire risk participations in Letters of Credit and Swingline Loans as provided herein.

“Incremental Revolving Facility Lender” shall mean a Lender with an Incremental Revolving Facility Commitment or an outstanding Incremental Revolving Loan.

“Incremental Revolving Loan” shall mean Revolving Facility Loans made by one or more Revolving Facility Lenders to the Borrower pursuant to an Incremental Revolving Facility Commitment.

“Incremental Term A Loans” shall mean any additional Term A Loans or Term A-1 Loans (other than the Initial Term A Loans and the Initial Term A-1 Loans) or Other Incremental Term Loans with amortization in excess of 1.0% per year that are designated as such in the applicable Incremental Assumption Agreement; provided that such designation shall only be permitted to the extent the Administrative Agent reasonably determines that such Incremental Term Loans are being primarily syndicated to regulated banks in the primary syndication thereof.

"Incremental Term Lender" shall mean a Lender with an Incremental Term Loan Commitment or an outstanding Incremental Term Loan.

"Incremental Term Loan Commitment" shall mean the commitment of any Lender, established pursuant to Section 2.21, to make Incremental Term Loans to the Borrower.

"Incremental Term Loans" shall mean (i) Term Loans made by one or more Lenders to the Borrower pursuant to Section 2.01(e) consisting of additional Term A Loans, Term A-1 Loans or Term B Loans and (ii) to the extent permitted by Section 2.21 and provided for in the relevant Incremental Assumption Agreement, Other Incremental Term Loans.

"Indebtedness" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money, (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments (except any such obligation issued in the ordinary course of business with a maturity date of no more than six months in a transaction intended to extend payment terms of trade payables or similar obligations to trade creditors incurred in the ordinary course of business), (c) all obligations of such person under conditional sale or other title retention agreements relating to property or assets purchased by such person (except any such obligation that constitutes a trade payable or similar obligation to a trade creditor incurred in the ordinary course of business), (d) all obligations of such person issued or assumed as the deferred purchase price of property or services (except any such balance that (i) constitutes a trade payable or similar obligation to a trade creditor incurred in the ordinary course of business, (ii) any earn-out obligations until such obligation becomes a liability on the balance sheet of such person in accordance with GAAP and (iii) liabilities accrued in the ordinary course of business) which purchase price is due more than six months after the date of placing the property in service or taking delivery and title thereto, (e) all Guarantees by such person of Indebtedness of others, (f) all Capitalized Lease Obligations of such person, (g) obligations under any Hedging Agreements, to the extent the foregoing would appear on a balance sheet of such person as a liability, (h) the principal component of all obligations, contingent or otherwise, of such person as an account party in respect of letters of credit, (i) the principal component of all obligations of such person in respect of bankers' acceptances, (j) the amount of all obligations of such person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (excluding accrued dividends that have not increased the liquidation preference of such Disqualified Stock) and (k) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person (other than Liens on Equity Interests of Unrestricted Subsidiaries securing Indebtedness of such Unrestricted Subsidiaries), whether or not the Indebtedness secured thereby has been assumed. The amount of Indebtedness of any person for purposes of clause (k) above shall (unless such Indebtedness has been assumed by such person or is otherwise recourse to such person) be deemed to be equal to the lesser of (A) the aggregate unpaid amount of such Indebtedness and (B) the Fair Market Value of the property encumbered thereby. Notwithstanding anything in this Agreement to the contrary, Indebtedness shall not include, and shall be calculated without giving effect to, the effects of Financial Accounting Standards Board Accounting Standards Codification 825 and related interpretations to the extent such effects would otherwise increase or decrease an amount of Indebtedness for any purpose under this Agreement as a result of accounting for any embedded derivatives created by the terms of such Indebtedness and any such amounts that would have constituted Indebtedness for purposes of this Agreement but for the application of this sentence shall not be deemed an incurrence of Indebtedness for purposes of this Agreement.

"Indemnified Taxes" shall mean all Taxes imposed on or with respect to any payment by or on account of any obligation of any Loan Party hereunder or under any other Loan Document other than (a) Excluded Taxes and (b) Other Taxes.

"Indemnatee" shall have the meaning assigned to such term in Section 9.05(b).

"Information" shall have the meaning assigned to such term in Section 3.14(a).

"Information Memorandum" shall mean the Confidential Information Memorandum dated May 2017, as modified or supplemented prior to the Effective Date.

"Initial Merger" shall have the meaning assigned to such term in the first recital hereto.

"Initial Revolving Loan" shall mean a Revolving Facility Loan made (i) pursuant to the Revolving Facility Commitments in effect on the Closing Date (as the same may be amended from time to time in accordance with this Agreement) or (ii) pursuant to any Incremental Revolving Facility Commitment made on the same terms as (and forming a single Class with) the Revolving Facility Commitments referred to in clause (i) of this definition.

"Initial Term A Loan Commitment" shall mean, with respect to each Term Lender, the commitment of such Term Lender to make Initial Term A Loans hereunder. The amount of each Term Lender's Initial Term A Loan Commitment as of the Effective Date is set forth on Schedule 2.01. The aggregate amount of the Initial Term A Loan Commitments as of the Effective Date is \$1,575,000,000.

"Initial Term A Loans" shall mean the term loans made by the Term Lenders to the Borrower on the Closing Date pursuant to Section 2.01(a).

"Initial Term A-1 Loan Commitment" shall mean, with respect to each Term Lender, the commitment of such Term Lender to make Initial Term A-1 Loans hereunder. The amount of each Term Lender's Initial Term A-1 Loan Commitment as of the Effective Date is set forth on Schedule 2.01. The aggregate amount of the Initial Term A-1 Loan Commitments as of the Effective Date is \$370,000,000.

"Initial Term A-1 Loans" shall mean the term loans made by the Term Lenders to the Borrower on the Closing Date pursuant to Section 2.01(b).

"Initial Term B Loan Commitment" shall mean, with respect to each Term Lender, the commitment of such Term Lender to make Initial Term B Loans hereunder. The amount of each Term Lender's Initial Term B Loan Commitment as of the Effective Date is set forth on Schedule 2.01. The aggregate amount of the Initial Term B Loan Commitments as of the Effective Date is \$6,000,000,000.

"Initial Term B Loans" shall mean the term loans made by the Term Lenders to the Borrower on the Effective Date pursuant to Section 2.01(c).

"Initial Term Facilities" shall mean the Term A Facility, the Term A-1 Facility and the Term B Facility.

"Initial Term Loan Commitment" shall mean an Initial Term A Loan Commitment, an Initial Term A-1 Loan Commitment or an Initial Term B Loan Commitment.

"Initial Term Loans" shall mean the Initial Term A Loans, Initial Term A-1 Loans and the Initial Term B Loans.

"Insurance Subsidiary" shall have the meaning assigned to such term in Section 6.04(x).

"Intellectual Property" shall mean the following intellectual property rights, both statutory and common law rights, if applicable: (a) copyrights, registrations and applications for registration thereof,

(b) trademarks, service marks, trade names, slogans, domain names, logos, trade dress and registrations and applications of registrations thereof, (c) patents, as well as any reissued and reexamined patents and extensions corresponding to the patents and any patent applications, as well as any related continuation, continuation in part and divisional applications and patents issuing therefrom and (d) trade secrets and confidential information, including ideas, designs, concepts, compilations of information, methods, techniques, procedures, processes and other know-how, whether or not patentable.

"Intercreditor Agreement" shall have the meaning assigned to such term in Section 8.11.

"Interest Election Request" shall mean a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.07 and substantially in the form of Exhibit E or another form (including any form on an electronic platform or electronic transmission system as shall be approved by the Administrative Agent) approved by the Administrative Agent.

"Interest Expense" shall mean, with respect to any person for any period, the sum of, without duplication, (a) net interest expense of such person for such period on a consolidated basis, including (i) the amortization of debt discounts, (ii) the amortization of all fees (including fees with respect to Hedging Agreements) payable in connection with the incurrence of Indebtedness to the extent included in interest expense, (iii) the portion of any payments or accruals with respect to Capitalized Lease Obligations allocable to interest expense and (iv) net payments and receipts (if any) pursuant to interest rate hedging obligations, and excluding unrealized mark-to-market gains and losses attributable to such hedging obligations, amortization of deferred financing fees and expensing of any bridge or other financing fees, (b) capitalized interest of such person, whether paid or accrued, and (c) commissions, discounts, yield and other fees and charges incurred for such period, including any losses on sales of receivables and related assets, in connection with any receivables financing of such person or any of its Subsidiaries that are payable to persons other than the Borrower and the Subsidiaries.

"Interest Payment Date" shall mean, (a) as to any Eurodollar Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date of the Facility under which such Loan was made; provided, however, that if any Interest Period for a Eurodollar Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; provided that if such date is not a Business Day, the Interest Payment Date shall be the next succeeding Business Day; (b) as to any ABR Loan or Swingline Loan, the first Business Day following the end of each March, June, September and December and the Maturity Date of the applicable Facility under which such Loan was made and (c) with respect to each Term B Loan with respect to interest accruing prior to the Closing Date, the first Business Day of each calendar month following the Effective Date (commencing with August 1, 2017) and on the Closing Date.

"Interest Period" shall mean, as to each Eurodollar Loan, the period commencing on the date such Eurodollar Loan is disbursed or converted to or continued as a Eurodollar Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Borrowing Request or Interest Election Request, or such other period that is twelve months or less requested by the Borrower and consented to by the Administrative Agent and all applicable Lenders; provided that:

- (i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Loan, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;
- (ii) any Interest Period pertaining to a Eurodollar Loan 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 of the calendar month at the end of such Interest Period; and

(iii) no Interest Period for any Loan shall extend beyond the Maturity Date of the Facility under which such Loan was made.

"Investment" shall have the meaning assigned to such term in Section 6.04.

"ISP" shall mean, with respect to any Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

"Issuer Documents" shall mean with respect to any Letter of Credit, the Letter of Credit Request, and any other document, agreement and instrument entered into by the Issuing Bank and the Borrower (or any Subsidiary) or in favor of the Issuing Bank and relating to such Letter of Credit.

"Issuing Bank" shall mean (i) each person listed as having a Letter of Credit Commitment on Schedule 2.01 and (ii) each other Issuing Bank designated pursuant to Section 2.05(k), in each case in its capacity as an issuer of Letters of Credit hereunder, and its successors in such capacity. An Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of such Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"Issuing Bank Fees" shall have the meaning assigned to such term in Section 2.12(b).

"Joint Bookrunners" shall mean, collectively, (i) with respect to the Revolving Facility, the Term A Facility and the Term B Facility, Merrill Lynch, Pierce, Fenner & Smith Incorporated (or any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation's or any of its subsidiaries' investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement), Morgan Stanley Senior Funding, Inc., Barclays Bank PLC, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., RBC Capital Markets, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Wells Fargo Securities, LLC, Mizuho Bank, Ltd. and SunTrust Robinson Humphrey, Inc. and (ii) with respect to the Term A-1 Facility, CoBank, ACB.

"Junior Debt Restricted Payment" shall mean, any payment or other distribution (whether in cash, securities or other property), directly or indirectly made by the Borrower or any of its Subsidiaries, of or in respect of principal of or interest on any Subordinated Indebtedness (excluding unsubordinated Indebtedness of the Borrower that is not Guaranteed by any Subsidiary, except by one or more Guarantors on a subordinated basis) (each of the foregoing, a "Junior Financing"); provided, that the following shall not constitute a Junior Debt Restricted Payment:

(a) Refinancings with any Permitted Refinancing Indebtedness permitted to be incurred under Section 6.01;

(b) payments of regularly-scheduled interest and fees due thereunder, other non-principal payments thereunder, any mandatory prepayments of principal, interest and fees thereunder, scheduled payments thereon necessary to avoid the Junior Financing from constituting "applicable high yield discount obligations" within the meaning of Section 163(i)(1) of the Code, and, to the extent this Agreement is then in effect, principal on the scheduled maturity date of any Junior Financing;

(c) payments or distributions in respect of all or any portion of the Junior Financing with the proceeds from an issuance, sale or exchange by the Borrower of Qualified Equity Interests within eighteen months prior thereto; or

(d) the conversion of any Junior Financing to Qualified Equity Interests of the Borrower.

"Junior Financing" shall have the meaning assigned to such term in the definition of the term "Junior Debt Restricted Payment."

"Junior Liens" shall mean Liens on the Collateral that are junior to the Liens thereon securing the Loan Obligations, pursuant to a Permitted Junior Intercreditor Agreement (it being understood that Junior Liens are not required to rank equally and ratably with other Junior Liens, and that Indebtedness secured by Junior Liens may be secured by Liens that are senior in priority to, or rank equally and ratably with, or junior in priority to, other Liens constituting Junior Liens), which Permitted Junior Intercreditor Agreement (together with such amendments to the Security Documents and any other Intercreditor Agreements, if any, as are reasonably necessary or advisable (and reasonably acceptable to the Collateral Agent) to give effect to such Liens) shall be entered into in connection with a permitted incurrence of any such Liens (unless a Permitted Junior Intercreditor Agreement and/or Security Documents (as applicable) covering such Liens are already in effect).

"Latest Maturity Date" shall mean, at any date of determination, the latest Maturity Date then in effect on such date of determination.

"L/C Advance" shall mean, with respect to each Revolving Facility Lender, such Lender's funding of its participation in any L/C Borrowing in accordance with its Revolving Facility Percentage.

"L/C Borrowing" shall mean an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Revolving Facility Borrowing.

"L/C Credit Extension" shall mean, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

"L/C Obligations" shall mean, as at any date of determination, the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.07. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"L/C Participation Fee" shall have the meaning assigned to such term in Section 2.12(b).

"Lender" shall mean each financial institution listed on Schedule 2.01 (other than any such person that has ceased to be a party hereto pursuant to an Assignment and Acceptance in accordance with Section 9.04), as well as any person that becomes a "Lender" hereunder pursuant to Section 9.04, Section 2.21, Section 2.22 or Section 2.23. Unless the context clearly indicates otherwise, the term "Lenders" shall include any Swingline Lender.

"Lending Office" shall mean, as to any Lender, the applicable branch, office or Affiliate of such Lender designated by such Lender to make Loans.

"Letter of Credit" shall mean any standby letter of credit issued hereunder, providing for the payment of cash upon the honoring of a presentation thereunder and shall include the Existing Letters of Credit.

"Letter of Credit Commitment" shall mean, as to any Issuing Bank, the amount set forth on Schedule 2.01 opposite such Issuing Bank's name or, in the case of an Issuing Bank that becomes an Issuing Bank after the Closing Date, the amount notified in writing to the Administrative Agent by the Borrower and such Issuing Bank; provided that the Letter of Credit Commitment of any Issuing Bank may be increased or decreased if agreed in writing between the Borrower and such Issuing Bank (each acting in its sole discretion) and notified in writing to the Administrative Agent by such persons.

"Letter of Credit Expiration Date" shall mean, with respect to any Revolving Facility, the fifth Business Day prior to the Revolving Facility Maturity Date for such Revolving Facility.

"Letter of Credit Request" shall mean a request by the Borrower substantially in the form of Exhibit D-3 or such other form (including any form on an electronic platform or electronic transmission system as shall be approved by the applicable Issuing Bank) as shall be approved by the applicable Issuing Bank.

"Letter of Credit Sublimit" shall mean \$400,000,000, as such amount may be reduced pursuant to Section 2.08. The Letter of Credit Sublimit is part of, and not in addition to, the Revolving Facility.

"Lien" shall mean, with respect to any asset, (a) any mortgage, deed of trust, lien, hypothecation, pledge, charge, security interest or similar monetary encumbrance in or on such asset and (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset; provided, that in no event shall an operating lease or an agreement to sell be deemed to constitute a Lien.

"Limited Condition Transaction" shall mean (i) any acquisition, including by means of a merger, amalgamation or consolidation, by the Borrower or one or more of its Subsidiaries, the consummation of which is not conditioned upon the availability of, or on obtaining, third party financing or in connection with which any fee or expense would be payable by the Borrower or its Subsidiaries to the seller or target in the event financing to consummate the acquisition is not obtained as contemplated by the definitive acquisition agreement, (ii) any declaration of any dividend by the Board of Directors of the Borrower or any Subsidiary that is payable within 60 days of the date of declaration and/or (iii) any irrevocable notice of prepayment or redemption of Indebtedness of the Borrower or any of its Subsidiaries.

"Loan Documents" shall mean (i) this Agreement, (ii) the Subsidiary Guarantee Agreement, (iii) the Security Documents, (iv) each Incremental Assumption Agreement, (v) each Extension Amendment, (vi) each Refinancing Amendment, (vii) any Intercreditor Agreement, (viii) any Note issued under Section 2.09(e), (ix) the Escrow Agreement, (x) the Pro Rata Ticking Fee Letter, (xi) the Escrow Assumption Agreement (if any) and (xii) the Letters of Credit.

"Loan Obligations" shall mean (a) the due and punctual payment by the Borrower of (i) the unpaid principal of and interest, fees and expenses (including interest, fees and expenses accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) on the Loans made to the Borrower under this

Agreement, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (ii) each payment required to be made by the Borrower under this Agreement in respect of any Letter of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest, fees and expenses thereon (including interest, fees and expenses accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding) and obligations to provide Cash Collateral and (iii) all other monetary obligations of the Borrower owed under or pursuant to this Agreement and each other Loan Document, including obligations to pay fees, expense reimbursement obligations and indemnification obligations, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), and (b) the due and punctual payment of all obligations of each other Loan Party under or pursuant to each of the Loan Documents (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding).

"Loan Parties" shall mean the Borrower and the Guarantors.

"Loans" shall mean the Term Loans, the Revolving Facility Loans and the Swingline Loans.

"Local Time" shall mean New York City time (daylight or standard, as applicable).

"LVLT" shall mean Level 3 Communications, Inc., a Delaware corporation, together with its successors and assigns.

"LVLT Financing" shall mean Level 3 Financing, Inc., a Delaware corporation, together with its successors and assigns.

"LVLT Leverage Ratio" shall mean, as of any date of determination, the ratio of (a) Consolidated Debt of LVLT as of such date minus any Specified Refinancing Cash Proceeds of LVLT as of such date to (b) EBITDA of LVLT for the most recently ended Test Period on or prior to such date, all determined on a consolidated basis in accordance with GAAP; provided, that the LVLT Leverage Ratio shall be determined on a Pro Forma Basis.

"LVLT Material Adverse Effect" shall have the meaning assigned thereto in Section 4.01(k).

"Margin Stock" shall have the meaning assigned to such term in Regulation U.

"Majority Lenders" of any Facility shall mean, at any time (and subject to Section 9.04(j), Lenders under such Facility having Term Loans and Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) representing more than 50% of the sum of all Term Loans and Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) under such Facility at such time (subject to the last paragraph of Section 9.08(b)).

"Material Adverse Effect" shall mean a material adverse effect on the business, property, operations or financial condition of the Borrower and its Subsidiaries, taken as a whole, or the validity or enforceability of any of the Loan Documents or the rights and remedies, taken as a whole, of the Administrative Agent and the Lenders thereunder.

"Material Indebtedness" shall mean Indebtedness (other than Indebtedness under this Agreement) of any one or more of the Borrower or any Significant Subsidiary in an aggregate principal amount exceeding \$275,000,000.

"Maturity Date" shall mean (i) with respect to any Revolving Facility, the Revolving Facility Maturity Date thereof and (ii) with respect to any Term Facility, the Term Facility Maturity Date thereof.

"Maximum Rate" shall have the meaning assigned to such term in Section 9.09.

"Mergers" shall have the meaning assigned to such term in the first recitals hereto.

"Merger Agreement" shall mean the Agreement and Plan of Merger, dated as of October 31, 2016, by and among CenturyLink, Wildcat Merger Sub 1, Wildcat Merger Sub 2 and LVLTL (including, but not limited to, all schedules and exhibits thereto, and after giving effect to any alteration, amendment, modification, supplement or waiver permitted by Section 4.01(h)).

"Merger Agreement LVLTL Representations" shall mean such of the representations made by LVLTL in the Merger Agreement as are material to the interests of the Lenders (in their capacities as such), but only to the extent that CenturyLink has the right to terminate the obligations of CenturyLink and the Wildcat Merger Subs (or to decline to consummate the Mergers) under the Merger Agreement as a result of the failure of such representations to be accurate.

"MFN Provision" shall have the meaning assigned to such term in Section 2.21(b)(v).

"Minimum L/C Collateral Amount" shall mean, at any time, in connection with any Letter of Credit, (i) with respect to Cash Collateral consisting of cash or deposit account balances, an amount equal to 102% of the Revolving L/C Exposure with respect to such Letter of Credit at such time and (ii) otherwise, an amount sufficient to provide credit support with respect to such Revolving L/C Exposure as determined by the Administrative Agent and the applicable Issuing Bank in their sole discretion.

"Moody's" shall mean Moody's Investors Service, Inc.

"Multiemployer Plan" shall mean a multiemployer plan as defined in Section 4001(a)(3) of ERISA to which the Borrower or any Subsidiary or any ERISA Affiliate (other than one considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Code Section 414) is making or accruing an obligation to make contributions, or has within any of the preceding six plan years made or accrued an obligation to make contributions.

"Net Income" shall mean, with respect to any person, the net income (loss) of such person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends.

"Net Proceeds" shall mean:

(a) 100% of the cash proceeds actually received by the Borrower or any Subsidiary (other than LVLTL or its Subsidiaries) (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or purchase price adjustment receivable or otherwise, but only as and when received) from any Asset Sale under Section 6.05(g), net of (i) attorneys' fees, accountants' fees, investment banking fees, survey costs, title insurance premiums, and related search and recording charges, transfer Taxes, deed or mortgage recording Taxes, other customary expenses and brokerage, consultant and other customary fees actually incurred in connection therewith, (ii) required payments of Indebtedness and required payments of other obligations relating to the applicable asset to the extent such Indebtedness or

other obligations are secured by a Lien permitted hereunder (in each case, other than pursuant to the Loan Documents, Other First Lien Debt and other than obligations secured by a Junior Lien), (iii) repayments of Other First Lien Debt (limited to its proportionate share of such prepayment, based on the principal amount of such then outstanding debt as a percentage of the aggregate principal amount of all Term Loans and Other First Lien Debt), (iv) Taxes paid or payable (in the good faith determination of the Borrower) as a direct result thereof including, where the applicable Asset Sale is made by a Foreign Subsidiary, any Taxes attributable to repatriating and transferring such proceeds to the Borrower, (v) the amount of any reasonable reserve established in accordance with GAAP against any adjustment to the sale price or any liabilities (other than any Taxes deducted pursuant to clause (i) or (iv) above) (x) related to any of the applicable assets and (y) retained by the Borrower or any of the Subsidiaries including, without limitation, pension and other post-employment benefit liabilities and liabilities related to environmental matters or against any indemnification obligations (provided that (1) the amount of any reduction of such reserve (other than in connection with a payment in respect of any such liability), prior to the date occurring 18 months after the date of the respective Asset Sale, shall be deemed to be cash proceeds of such Asset Sale occurring on the date of such reduction and (2) the amount of any such reserve that is maintained as of the date occurring 18 months after the date of the applicable Asset Sale shall be deemed to be Net Proceeds from such Asset Sale as of such date) and (vi) in the case of any Asset Sale by any Subsidiary that is not a Guarantor, amounts applied to repay Indebtedness included in "Consolidated Priority Debt" (other than Indebtedness (x) owed to the Borrower or any Subsidiary or (y) under any revolving credit facility except to the extent there is a corresponding reduction in the commitments thereunder); provided, that, if the Borrower shall deliver a certificate of a Responsible Officer of the Borrower to the Administrative Agent promptly following receipt of any such proceeds setting forth the Borrower's intention to use any portion of such proceeds, within 12 months of such receipt, to acquire, maintain, develop, construct, improve, upgrade or repair assets useful in the business of the Borrower and the Subsidiaries or to make Permitted Business Acquisitions and other Investments permitted hereunder (excluding Permitted Investments or intercompany Investments in Subsidiaries) or to reimburse the cost of any of the foregoing incurred on or after the date on which the Asset Sale giving rise to such proceeds was contractually committed (other than inventory), such portion of such proceeds shall not constitute Net Proceeds except to the extent not, within 365 days of such receipt, so used or contractually committed to be so used (it being understood that if any portion of such proceeds are not so used within such 365 day period but within such 365 day period are contractually committed to be used, then such remaining portion if not so used within 180 days following the end of such 365 day period shall constitute Net Proceeds as of such date without giving effect to this proviso); provided, further, that no net cash proceeds calculated in accordance with the foregoing shall constitute Net Proceeds unless (i) such net cash proceeds realized in a single transaction or series of related transactions shall exceed \$50,000,000 and (ii) such net cash proceeds shall exceed \$200,000,000;

(b) 100% of the cash proceeds actually received by the Borrower or any Subsidiary (other than LVL T or its Subsidiaries) (including casualty insurance settlements and condemnation awards, but only as and when received) from any Recovery Event, net of (i) attorneys' fees, accountants' fees, transfer Taxes, deed or mortgage recording Taxes on such asset, other customary expenses and brokerage, consultant and other customary fees actually incurred in connection therewith, (ii) required payments of Indebtedness and required payments of other obligations relating to the applicable asset to the extent such Indebtedness or other obligations are secured by a Lien permitted hereunder (in each case, other than pursuant to the Loan Documents, Other First Lien Debt and other than obligations secured by a Junior Lien), (iii) repayments of Other First Lien Debt (limited to its proportionate share of such prepayment, based on the principal amount of such then outstanding debt as a percentage of the aggregate

principal amount of all then outstanding Term Loans and Other First Lien Debt), (iv) Taxes paid or payable (in the good faith determination of the Borrower) as a direct result thereof, including, where the applicable Asset Sale is made by a Foreign Subsidiary, any Taxes attributable to repatriating and transferring such proceeds to the Borrower; provided, that, if the Borrower shall deliver a certificate of a Responsible Officer of the Borrower to the Administrative Agent promptly following receipt of any such proceeds setting forth the Borrower's intention to use any portion of such proceeds, within 365 days of such receipt, to acquire, maintain, develop, construct, improve, upgrade or repair assets useful in the business of the Borrower and the Subsidiaries or to make Permitted Business Acquisitions and other Investments permitted hereunder (excluding Permitted Investments or intercompany Investments in Subsidiaries) or to reimburse the cost of any of the foregoing incurred on or after the date on which the Recovery Event giving rise to such proceeds was contractually committed (other than inventory, except to the extent the proceeds of such Recovery Event are received in respect of inventory), such portion of such proceeds shall not constitute Net Proceeds except to the extent not, within 365 days of such receipt, so used or contractually committed to be so used (it being understood that if any portion of such proceeds are not so used within such 365 day period but within such 365 day period are contractually committed to be used, then such remaining portion if not so used within 180 days following the end of such 365 day period shall constitute Net Proceeds as of such date without giving effect to this proviso) and (v) in the case of any Recovery Event relating to any Subsidiary that is not a Guarantor, amounts applied to repay Indebtedness included in "Consolidated Priority Debt" (other than Indebtedness (x) owed to the Borrower or any Subsidiary or (y) under any revolving credit facility except to the extent there is a corresponding reduction in the commitments thereunder); provided, further, that no net cash proceeds calculated in accordance with the foregoing realized in a single transaction or series of related transactions shall constitute Net Proceeds unless such net cash proceeds shall exceed \$250,000,000 (and thereafter only net cash proceeds in excess of such amount shall constitute Net Proceeds); and

(c) 100% of the cash proceeds from the incurrence, issuance or sale by the Borrower or any Subsidiary of any Indebtedness (other than Excluded Indebtedness, except for Refinancing Notes and Refinancing Term Loans), net of all fees (including investment banking fees), commissions, costs and other expenses, in each case incurred in connection with such issuance or sale.

"New Class Loans" shall have the meaning assigned to such term in Section 9.08(f).

"Non-Consenting Lender" shall have the meaning assigned to such term in Section 2.19(c).

"Non-Defaulting Lender" shall mean, at any time, each Lender that is not a Defaulting Lender at such time.

"Non-Extension Notice Date" shall have the meaning given that term in Section 2.05(b).

"Note" shall have the meaning assigned to such term in Section 2.09(e).

"Obligations" shall mean, collectively, (a) the Loan Obligations, (b) obligations in respect of any Secured Cash Management Agreement and (c) obligations in respect of any Secured Hedge Agreement (including, in each case, monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding).

"Other First Lien Debt" shall mean any obligations secured by Other First Liens (including any Incremental Equivalent Debt or Refinancing Notes secured by Other First Liens).

"Other First Liens" shall mean Liens on the Collateral that are equal and ratable with the Liens thereon securing the Loan Obligations pursuant to a Permitted First Lien Intercreditor Agreement, which Permitted First Lien Intercreditor Agreement (together with such amendments to the Security Documents and any other Intercreditor Agreements, if any, as are reasonably necessary or advisable (and reasonably acceptable to the Collateral Agent) to give effect to such Liens) shall be entered into in connection with a permitted incurrence of any such Liens (unless a Permitted First Lien Intercreditor Agreement and/or Security Documents (as applicable) covering such Liens are already in effect).
2.21(a).

"Other Incremental Term Loans" shall have the meaning assigned to such term in Section

"Other Revolving Facility Commitments" shall mean, collectively, (a) Extended Revolving Facility Commitments and (b) Replacement Revolving Facility Commitments.

"Other Revolving Loans" shall mean, collectively (a) Extended Revolving Loans and (b) Replacement Revolving Loans.

"Other Taxes" shall mean any and all present or future stamp or documentary Taxes or any other excise, transfer, sales, property, intangible, mortgage recording or similar Taxes arising from any payment made hereunder or under any other Loan Document or from the execution, registration, delivery or enforcement of, consummation or administration of, from the receipt or perfection of security interest under, or otherwise with respect to, the Loan Documents.

"Other Term Facilities" shall mean the Other Term Loan Commitments and the Other Term Loans made thereunder.

"Other Term Loan Commitments" shall mean, collectively, (a) Incremental Term Loan Commitments with respect to Other Term Loans and (b) commitments to make Refinancing Term Loans.

"Other Term Loan Installment Date" shall have, with respect to any Class of Other Term Loans established pursuant to an Incremental Assumption Agreement, an Extension Amendment or a Refinancing Amendment, the meaning assigned to such term in Section 2.10(a)(iv).

"Other Term Loans" shall mean, collectively, (a) Other Incremental Term Loans, (b) Extended Term Loans and (c) Refinancing Term Loans.

"Outside Date" shall mean the earlier of (i) the date of termination of the Merger Agreement in accordance with its terms prior to the consummation of the Acquisition and (ii) 11:59 p.m. (New York City time) on January 31, 2018.

"Outside LC Facility" shall mean one or more agreements (other than this Agreement) providing for the issuance of letters of credit for the account of the Borrower and/or any of its Subsidiaries that is designated by a Responsible Officer of the Borrower to the Administrative Agent as an "Outside LC Facility" in a writing (which writing shall specify the maximum face amount of letters of credit under such agreement that shall be deemed for purposes of this Agreement to constitute letters of credit under an "Outside LC Facility") and which writing is acknowledged by the Administrative Agent (which acknowledgement shall be provided by the Administrative Agent so long as, after giving effect to such designation, the maximum face amount of all letters of credit under all Outside LC Facilities pursuant to

all such designations then in effect does not exceed \$225,000,000); provided that upon delivery of a certificate of a Responsible Officer of the Borrower to the Administrative Agent (which certificate shall have been acknowledged in writing by the applicable Outside LC Facility Issuer) revoking such designation, such agreement shall cease to be an "Outside LC Facility hereunder."

"Outside LC Facility Issuer" shall mean each financial institution providing any Outside LC Facility; provided that if such financial institution is not a Lender, such financial institution shall have entered into a supplement to this Agreement in form reasonably satisfactory to the Administrative Agent agreeing to be bound by the terms hereof applicable to an Outside LC Facility Issuer.

"Participant" shall have the meaning assigned to such term in Section 9.04(c)(i).

"Participant Register" shall have the meaning assigned to such term in Section 9.04(c)(ii).

"PBGC" shall mean the Pension Benefit Guaranty Corporation referred to and defined in ERISA.

"Perfection Certificate" shall mean the Perfection Certificate with respect to the Borrower and the other Loan Parties in the form attached hereto as Exhibit I, or such other form as is reasonably satisfactory to the Administrative Agent, as the same may be supplemented from time to time to the extent required by Section 5.04(f).

"Permitted Business Acquisition" shall mean any acquisition of all or substantially all the assets or business of, or all or substantially all the Equity Interests (other than directors' qualifying shares) not previously held by the Borrower and its Subsidiaries in, or merger, consolidation or amalgamation with, a person or business unit or division or line of business of a person (or any subsequent investment made in a person or business unit or division or line of business previously acquired in a Permitted Business Acquisition), if (i) no Event of Default shall have occurred and be continuing immediately after giving effect thereto or would result therefrom, provided, however, that with respect to any such acquisition that is a Limited Condition Transaction, at the option of the Borrower, the determination of whether such an Event of Default shall exist shall be made solely at the time of the execution of the acquisition agreement related to such Limited Condition Transaction; (ii) all transactions related thereto shall be consummated in accordance with applicable laws; (iii) the Borrower shall be in Pro Forma Compliance with the Financial Covenants (if applicable) immediately after giving effect to such acquisition or investment and any related transactions; (iv) any acquired or newly formed Subsidiary shall not be liable for any Indebtedness except for Indebtedness permitted by Section 6.01 and (v) any acquired Equity Interests or Equity Interests in any entity newly formed in connection with such transactions shall be Equity Interests of a Subsidiary (except as permitted by a provision of Section 6.04 other than Section 6.04(k).

"Permitted First Lien Intercreditor Agreement" shall mean one or more intercreditor agreements, each of which shall be substantially in the form of Exhibit K or otherwise in form and substance reasonably satisfactory to the Administrative Agent.

"Permitted Investments" shall mean:

(a) direct obligations of the United States of America or any member of the European Union (as of the date of this Agreement) or any agency thereof or obligations guaranteed by the United States of America or any member of the European Union (as of the date of this Agreement) or any agency thereof, in each case with maturities not exceeding two years from the date of acquisition thereof;

(b) time deposit accounts, certificates of deposit, money market deposits, banker's acceptances and other bank deposits maturing within 180 days of the date of acquisition thereof issued by a bank or trust company having capital, surplus and undivided profits in excess of \$1,000,000,000 and whose long-term debt, or whose parent holding company's long-term debt, is rated at least A by S&P or A2 by Moody's (or such similar equivalent rating or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act));

(c) repurchase obligations with a term of not more than 180 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above;

(d) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Borrower) with a rating at the time as of which any investment therein is made of P-1 (or higher) according to Moody's, or A-1 (or higher) according to S&P (or such similar equivalent rating or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act));

(e) securities with maturities of two years or less from the date of acquisition, issued or fully guaranteed by any State of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least A by S&P or A by Moody's (or such similar equivalent rating or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act));

(f) shares of mutual funds whose investment guidelines restrict 95% of such funds' investments to those satisfying the provisions of clauses (a) through (e) above;

(g) money market funds that (i) comply with the criteria set forth in Rule 2a-7 under the Investment Company Act of 1940, (ii) are rated AAA by S&P or Aaa by Moody's and (iii) have portfolio assets of at least \$1,000,000,000;

(h) time deposit accounts, certificates of deposit, money market deposits, banker's acceptances and other bank deposits in an aggregate face amount not in excess of 0.5% of the total assets of the Borrower and the Subsidiaries, on a consolidated basis, as of the end of the Borrower's most recently completed fiscal year; and

(i) instruments equivalent to those referred to in clauses (a) through (h) above denominated in any foreign currency comparable in credit quality and tenor to those referred to above and commonly used by corporations for cash management purposes in any jurisdiction outside the United States of America to the extent reasonably required in connection with any business conducted by the Borrower or any Subsidiary organized in such jurisdiction.

"Permitted Junior Intercreditor Agreement" shall mean, with respect to any Liens on Collateral that are intended to be junior to any Liens securing the Loan Obligations, one or more intercreditor agreements, each of which shall be in form and substance reasonably satisfactory to the Administrative Agent.

"Permitted Liens" shall have the meaning assigned to such term in Section 6.02.

"Permitted Refinancing Indebtedness" shall mean any Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund (collectively,

to "Refinance"), any Indebtedness (including successive refinancings thereof); provided, that (a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so Refinanced (plus unpaid accrued interest and premium (including tender premiums) thereon and underwriting discounts, defeasance costs, fees, commissions and expenses), (b) except with respect to Section 6.01(i), (i) the final maturity date of such Permitted Refinancing Indebtedness is on or after the earlier of (x) the final maturity date of the Indebtedness being Refinanced and (y) the 91st day following the Latest Maturity Date in effect at the time of incurrence thereof and (ii) the Weighted Average Life to Maturity of such Permitted Refinancing Indebtedness is greater than or equal to the lesser of (x) the Weighted Average Life to Maturity of the Indebtedness being Refinanced and (y) 91 days after the Weighted Average Life to Maturity of the Class of Term Loans then outstanding with the greatest remaining Weighted Average Life to Maturity (provided that such Indebtedness may be incurred in the form of a customary "bridge" or other interim credit facility intended to be refinanced or replaced with long-term indebtedness so long as, subject only to customary conditions the failure of which to be satisfied would otherwise result in an Event of Default, it would either be automatically converted into or required to be exchanged for permanent financing which satisfies the requirements of this clause (b)), (c) if the Indebtedness being Refinanced is by its terms subordinated in right of payment to any Obligations, such Permitted Refinancing Indebtedness shall be subordinated in right of payment to such Obligations on terms in the aggregate not materially less favorable to the Lenders as those contained in the documentation governing the Indebtedness being Refinanced (as determined by the Borrower in good faith), (d) no Permitted Refinancing Indebtedness shall (i) have any borrower which is different than the borrower of the respective Indebtedness being so Refinanced (other than the Borrower, in the case of Indebtedness incurred to Refinance Indebtedness of LVLTL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt") or (ii) have guarantors that are not (or would not have been required to become) guarantors with respect to the Indebtedness being so Refinanced (other than, in the case of Indebtedness incurred to Refinance Indebtedness of LVLTL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt," Subsidiaries that are Guarantors so long as such Permitted Refinancing Indebtedness is not Guaranteed by any Subsidiary that is not a Guarantor); provided that, if any of the Guarantees of the Indebtedness being Refinanced were subordinated to the Obligations, the Guarantees of the Permitted Refinancing Indebtedness shall be subordinated to the Obligations on no less favorable terms, (e) if the Indebtedness being Refinanced is secured (and permitted to be secured), such Permitted Refinancing Indebtedness may be secured (i) by Liens on the same (or any subset of the) assets as secured (or would have been required to secure) the Indebtedness being Refinanced, on terms in the aggregate that are no less favorable to the Secured Parties than the Indebtedness being refinanced or on terms otherwise permitted by Section 6.02(as determined by the Borrower in good faith) or (ii) in the case of Indebtedness incurred to Refinance Indebtedness of LVLTL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt," by Liens on assets that constitute the Collateral so long as such Liens shall be subject to a Permitted First Lien Intercreditor Agreement or a Permitted Junior Intercreditor Agreement and such Indebtedness shall not be secured by any other assets of the Borrower or any Subsidiary and (f) if the Indebtedness being Refinanced was subject to a Permitted First Lien Intercreditor Agreement or a Permitted Junior Intercreditor Agreement, and if the respective Permitted Refinancing Indebtedness is to be secured by the Collateral, the Permitted Refinancing Indebtedness shall likewise be subject to a Permitted First Lien Intercreditor Agreement or a Permitted Junior Intercreditor Agreement, as applicable.

"Permitted Sale Lease-Back Transaction" shall mean (i) any sale and lease-back transaction entered into prior to the Closing Date and (ii) any sale and lease-back transactions by the Borrower or any of its Subsidiaries with aggregate net proceeds for all such transactions not to exceed the greater of

(A) \$350,000,000 and (B) 0.50% of Consolidated Total Assets.

"Permitted Unsecured Debt" shall mean unsecured Indebtedness for borrowed money incurred by the Borrower, provided that (i) any such Permitted Unsecured Debt, if Guaranteed, shall not be Guaranteed by any Subsidiary other than a Guarantor; provided that any Guarantees thereof by the Guarantors shall be subordinated to the Loan Obligations on terms reasonably satisfactory to the Administrative Agent, (ii) such Permitted Unsecured Debt shall not mature prior to the date that is 91 days after the Latest Maturity Date at the time of incurrence (provided that such Indebtedness may be incurred in the form of a customary "bridge" or other interim credit facility intended to be refinanced or replaced with long-term indebtedness so long as, subject only to customary conditions the failure of which to be satisfied would otherwise result in an Event of Default, it would either be automatically converted into or required to be exchanged for permanent financing which satisfies the requirements of this clause (ii)) and (iii) such Permitted Unsecured Debt shall not be subject to any mandatory redemption, repurchase, prepayment or sinking fund obligation (other than customary offers to repurchase and prepayment events upon a change of control or asset sale (or issuance of equity interests or Indebtedness constituting Permitted Refinancing Indebtedness in respect thereof) and a customary acceleration right after an event of default) prior to the date that is 91 days after the Latest Maturity Date at the time of incurrence.

"person" shall mean any natural person, corporation, business trust, joint venture, association, company, partnership, limited liability company or government, individual or family trusts, or any agency or political subdivision thereof.

"Plan" shall mean any employee pension benefit plan (other than a Multiemployer Plan) that is (i) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, (ii) sponsored or maintained (at the time of determination or at any time within the five years prior thereto) by the Borrower, any Subsidiary or any ERISA Affiliate, and (iii) in respect of which the Borrower, any Subsidiary or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Platform" shall have the meaning assigned to such term in Section 5.04.

"Pledged Collateral" shall have the meaning assigned to such term in the Collateral Agreement.

"primary obligor" shall have the meaning assigned to such term in the definition of the term "Guarantee."

"Priority Leverage Ratio" shall mean, as of any date of determination, the ratio of (a) Consolidated Priority Debt of the Borrower as of such date minus any Specified Refinancing Cash Proceeds as of such date that are reserved to be applied to Consolidated Priority Debt to (b) EBITDA of the Borrower for the most recently ended Test Period on or prior to such date, all determined on a consolidated basis in accordance with GAAP; provided, that the Priority Leverage Ratio shall be determined on a Pro Forma Basis.

"Pro Forma Basis" shall mean, as to any person, for any events as described below that occur subsequent to the commencement of a period for which the financial effect of such events is being calculated, and giving effect to the events for which such calculation is being made, such calculation as will give pro forma effect to such events as if such events occurred on the first day of the most recent Test Period ended on or before the occurrence of such event (the "Reference Period"): (i) any Asset Sale and any asset acquisition, Investment (or series of related Investments) in excess of \$100,000,000, merger, amalgamation, consolidation (including the Transactions) (or any similar transaction or transactions), any dividend, distribution or other similar payment, (ii) any operational changes or restructurings of the business of the Borrower or any of its Subsidiaries that the Borrower or any of its

Subsidiaries has determined to make and/or made during or subsequent to the Reference Period in connection with the Transactions, Permitted Business Acquisitions and similar acquisitions and which are expected to have a continuing impact and are factually supportable, which would include cost savings resulting from head count reduction, closure of facilities and other operational changes and other cost savings in connection therewith, (iii) the designation of any Subsidiary as an Unrestricted Subsidiary or of any Unrestricted Subsidiary as a Subsidiary and (iv) any incurrence, repayment, repurchase or redemption of Indebtedness (or any issuance, repurchase or redemption of Disqualified Stock or preferred stock), other than fluctuations in revolving borrowings in the ordinary course of business (and not resulting from a transaction as described in clause (i) above).

Pro forma calculations made pursuant to the definition of this term "Pro Forma Basis" shall be determined in good faith by a Responsible Officer of the Borrower. Any such pro forma calculation may include adjustments appropriate, in the reasonable good faith determination of the Borrower and set forth in a certificate of a Responsible Officer, to reflect operating expense reductions, other operating improvements, synergies or such operational changes or restructurings described in clause (ii) of the immediately preceding paragraph reasonably expected to result from the applicable pro forma event in the twelve (12) month period following the consummation of the pro forma event (or, if later, in the case of up to \$515,000,000 of expected run-rate cost savings in connection with the Transactions, within 24 months of the Closing Date), which may be reasonably allocated to the Borrower or any of its Subsidiaries in the reasonable good faith determination of the Borrower. The Borrower shall deliver to the Administrative Agent a certificate of a Responsible Officer of the Borrower setting forth such demonstrable or additional operating expense reductions and other operating improvements or synergies and information and calculations supporting them in reasonable detail.

If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date on which the relevant calculation is being made had been the applicable rate for the entire period (taking into account any hedging obligations applicable to such Indebtedness if such hedging obligation has a remaining term in excess of 12 months). Interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer of the Borrower to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with GAAP. For purposes of making the computation referred to above, interest on any Indebtedness under a revolving credit facility computed on a pro forma basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period, except to the extent the outstandings thereunder are reasonably expected to increase as a result of any transactions described in clause (i) of the first paragraph of this definition of "Pro Forma Basis" which occurred during the respective period or thereafter and on or prior to the date of determination. Interest on Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the Borrower may designate.

"Pro Forma Compliance" shall mean, at any date of determination, that the Borrower and its Subsidiaries shall be in compliance, on a Pro Forma Basis after giving effect on a Pro Forma Basis to the relevant transactions (including the assumption, the issuance, incurrence and permanent repayment of Indebtedness), with the Financial Covenants recomputed as at the last day of and for the most recently ended Test Period as of such time.

"Pro Forma LTM EBITDA" shall mean, at any determination, EBITDA of the Borrower for the most recently ended Test Period, determined on a Pro Forma Basis.

"Pro Rata Extension Offers" shall have the meaning assigned to such term in Section 2.22(a).

"Pro Rata Only Covenants" shall mean the Financial Covenants, the Pro Rata Only Debt Restriction, the Pro Rata Only Investment Restriction, the Pro Rata Only Restricted Payment Restriction and the final proviso to Section 6.05(n).

"Pro Rata Only Debt Restriction" shall have the meaning assigned to such term in Section 6.01(p)(i)(A).

"Pro Rata Only Investment Restriction" shall have the meaning assigned to such term in Section 6.04(y)(ii)(A).

"Pro Rata Only Restricted Payment Restriction" shall have the meaning assigned to such term in Section 6.06(h)(ii)(A).

"Pro Rata Share" shall have the meaning assigned to such term in Section 9.08(f).

"Pro Rata Ticking Fee Letter" shall mean that certain letter agreement, dated as of the Effective Date, by and between CenturyLink and the Administrative Agent, relating to the payment of certain ticking fees and upfront fees with respect to the Revolving Facility Commitments in effect on the Effective Date and the Initial Term A Loan Commitments.

"Projections" shall mean the projections of the Borrower and the Subsidiaries included in the Information Memorandum and any other projections and any forward-looking statements (including statements with respect to booked business) of such entities furnished to the Lenders or the Administrative Agent by or on behalf of the Borrower or any of the Subsidiaries prior to the Effective Date.

"Public Lender" shall have the meaning assigned to such term in Section 5.04.

"Purchase Offer" shall have the meaning assigned to such term in Section 2.25(a).
assigns.

"QC" shall mean Qwest Corporation, a Colorado corporation, together with its successors and

"QCF" shall mean Qwest Capital Funding, Inc., a Colorado corporation, together with its successors and assigns.

"QC Leverage Ratio" shall mean, as of any date of determination, the ratio of (a) Consolidated Debt of QC as of such date minus any Specified Refinancing Cash Proceeds of QC as of such date to (b) EBITDA of QC for the most recently ended Test Period on or prior to such date, all determined on a consolidated basis in accordance with GAAP; provided, that the QC Leverage Ratio shall be determined on a Pro Forma Basis.

"Qualified Equity Interests" shall mean any Equity Interest other than Disqualified Stock.

"Rate" shall have the meaning assigned to such term in the definition of the term "Type."

"Real Property" shall mean, collectively, all right, title and interest (including any leasehold estate) in and to any and all parcels of or interests in real property owned in fee or leased by the Borrower or any Subsidiary, whether by lease, license or other means, together with, in each case, all easements, hereditaments and appurtenances relating thereto, all improvements and appurtenant fixtures and equipment, incidental to the ownership, lease or operation thereof.

"Recovery Event" shall mean any event that gives rise to the receipt by the Borrower or any of its Subsidiaries of any insurance proceeds or condemnation awards in respect of any equipment, fixed assets or Real Property (including any improvements thereon).

"Reference Period" shall have the meaning assigned to such term in the definition of the term "Pro Forma Basis."

"Refinance" shall have the meaning assigned to such term in the definition of the term "Permitted Refinancing Indebtedness," and "Refinanced" and "Refinancing" shall have meanings correlative thereto.

"Refinancing Amendment" shall have the meaning assigned to such term in Section 2.23(e).

"Refinancing Effective Date" shall have the meaning assigned to such term in Section 2.23(a).

"Refinancing Notes" shall mean any secured or unsecured notes or loans issued by the Borrower or any Guarantor (whether under an indenture, a credit agreement or otherwise) and the Indebtedness represented thereby; provided, that (a) 100% of the Net Proceeds of such Refinancing Notes are used to permanently reduce Term Loans and/or replace Revolving Facility Commitments substantially simultaneously with the issuance thereof; (b) the principal amount (or accreted value, if applicable) of such Refinancing Notes does not exceed the principal amount (or accreted value, if applicable) of the aggregate portion of the Term Loans so reduced and/or Revolving Facility Commitments so replaced (plus unpaid accrued interest and premium (including tender premiums) thereon and underwriting discounts, defeasance costs, fees, commissions and expenses); (c) the final maturity date of such Refinancing Notes is on or after the Term Facility Maturity Date or the Revolving Facility Maturity Date, as applicable, of the Term Loans so reduced or the Revolving Facility Commitments so replaced; (d) the Weighted Average Life to Maturity of such Refinancing Notes is greater than or equal to the Weighted Average Life to Maturity of the Term Loans so repaid or the Revolving Facility Commitments so replaced; (e) the terms of such Refinancing Notes do not provide for any scheduled repayment, mandatory redemption or sinking fund obligations prior to the Term Facility Maturity Date of the Term Loans so reduced or the Revolving Facility Maturity Date of the Revolving Facility Commitments so replaced, as applicable (other than (x) in the case of notes, customary offers to repurchase or mandatory prepayment provisions upon a change of control, asset sale or event of loss and customary acceleration rights after an event of default and (y) in the case of loans, amortization to the extent permitted above and other than mandatory and voluntary prepayment provisions which are, when taken as a whole, consistent in all material respects with, or not materially less favorable to the Borrower and its Subsidiaries than, those applicable to the Term Loans and/or Revolving Facility Commitments, as the case may be being refinanced, with such Indebtedness to provide that any such mandatory prepayments as a result of asset sales, events of loss, or excess cash flow, shall be allocated on a pro rata basis or a less than pro rata basis (but not a greater than pro rata basis) with the Term Loans then outstanding pursuant to this Agreement); (f) there shall be no obligor with respect thereto that is not a Loan Party; (g) if such Refinancing Notes are secured by an asset of any Subsidiary, any Unrestricted Subsidiary or any Affiliate of the foregoing, the security agreements relating to such assets shall not extend to any assets not constituting Collateral and shall be no more favorable to the secured party or party, taken as a whole (determined by the Borrower in good faith) than the Security Documents (with such differences as are reasonably satisfactory to the Administrative Agent); (h) if such Refinancing Notes are secured, such Refinancing Notes shall be secured by all or a portion of the Collateral, but shall not be secured by any assets of the Borrower or its subsidiaries other than the Collateral; (i) Refinancing Notes that are secured by Collateral shall be subject to the provisions of a Permitted First Lien Intercreditor Agreement or a Permitted Junior Intercreditor Agreement, as applicable and (j) all other terms applicable to such Refinancing Notes (other than provisions relating to original issue discount, upfront fees, interest rates

and any other pricing terms (which original issue discount, upfront fees, interest rates and other pricing terms shall not be subject to the provisions set forth in this clause (j)) taken as a whole shall (as determined by the Borrower in good faith) be substantially similar to, or not materially less favorable to the Borrower and its Subsidiaries than, the terms, taken as a whole, applicable to the Term Loans so reduced or the Revolving Facility Commitments so replaced (except to the extent such covenants and other terms apply solely to any period after the Latest Maturity Date or are otherwise reasonably acceptable to the Administrative Agent)); provided that such Indebtedness may be incurred in the form of a customary "bridge or other interim credit facility intended to be refinanced or replaced with long-term indebtedness so long as, subject only to customary conditions the failure of which to be satisfied would otherwise result in an Event of Default, it would either be automatically converted into or required to be exchanged for permanent financing which satisfies the requirements of the foregoing clauses (c) and (d).

"Refinancing Term Loans" shall have the meaning assigned to such term in Section 2.23(a).

"Register" shall have the meaning assigned to such term in Section 9.04(b)(iv).

"Regulated Subsidiary" shall mean any Subsidiary that is subject to regulation by the FCC or any State PUC.

"Regulation T" shall mean Regulation T of the Board as 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 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 from time to time in effect and all official rulings and interpretations thereunder or thereof.

"Related Fund" shall mean, with respect to any Lender that is a fund that invests in bank or commercial loans and similar extensions of credit, any other fund that invests in bank or commercial loans and similar extensions of credit and is advised or managed by (a) such Lender, (b) an Affiliate of such Lender or (c) an entity (or an Affiliate of such entity) that administers, advises or manages such Lender.

"Related Parties" shall mean, with respect to any specified person, such person's Affiliates and the respective directors, trustees, officers, employees, agents, advisors and members of such person and such person's Affiliates.

"Release" shall mean any spilling, leaking, seepage, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, emanating or migrating in, into, onto or through the Environment.

"Replacement Revolving Facility" shall have the meaning assigned to such term in Section 2.23(c).

"Replacement Revolving Facility Commitments" shall have the meaning assigned to such term in Section 2.23(c).

"Replacement Revolving Facility Effective Date" shall have the meaning assigned to such term in Section 2.23(c).

"Replacement Revolving Loans" shall have the meaning assigned to such term in Section 2.23(c).

"Reportable Event" shall mean any reportable event as defined in Section 4043(c) of ERISA or the regulations issued thereunder, other than those events as to which the 30-day notice period referred to in Section 4043(c) of ERISA has been waived, with respect to a Plan (other than a Plan maintained by an ERISA Affiliate that is considered an ERISA Affiliate only pursuant to subsection (m) or (o) of Section 414 of the Code).

"Repricing Event" shall mean (i) any prepayment or repayment of Term B Loans with the proceeds of, or conversion of all or any portion of the Term B Loans into, any new or replacement term loan Indebtedness bearing interest with an All-in Yield less than the All-in Yield applicable to the Term B Loans subject to such event; provided that in no event shall any prepayment or repayment of Term B Loans in connection with a Change of Control or Transformative Acquisition constitute a Repricing Event and (ii) any amendment to this Agreement which reduces the All-in Yield applicable to the Term B Loans (it being understood that any prepayment premium with respect to a Repricing Event shall apply to any required assignment by a Non-Consenting Lender in connection with any such amendment pursuant to Section 2.19(c)).

"Required Lenders" shall mean, at any time (and subject to Section 9.04(j)), Lenders having Term Loans and Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) that, taken together, represent more than 50% of the sum of (x) all Term Loans and (y) all Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) at such time; provided, that the Term Loans, Revolving Facility Commitments and Revolving Facility Credit Exposure of any Defaulting Lender shall be disregarded in determining Required Lenders at any time.

"Required Percentage" shall mean, with respect to any Excess Cash Flow Period, 50%; provided, that, if the Total Leverage Ratio as of the end of such Excess Cash Flow Period is (x) less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00, such percentage shall be 25% or (y) less than or equal to 3.00 to 1.00, such percentage shall be 0%; provided, further, that with respect to the Excess Cash Flow Period for the fiscal year ending December 31, 2018, the Required Percentage shall be prorated based on the number of full months in such fiscal year following the Closing Date relative to the full fiscal year of twelve months.

"Required Pro Rata Lenders" shall mean, at any time (and subject to Section 9.04(j)), Lenders having Term A Loans, Term A-1 Loans and Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) that, taken together, represent more than 50% of the sum of (x) all Term A Loans and Term A-1 Loans and (y) all Revolving Facility Commitments (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure) at such time; provided, that the Term A Loans, Term A-1 Loans, Revolving Facility Commitments and Revolving Facility Credit Exposure of any Defaulting Lender shall be disregarded in determining Required Pro Rata Lenders at any time.

"Required Revolving Facility Lenders" shall mean, at any time with respect to any Revolving Facility (and subject to Section 9.04(j)), Revolving Facility Lenders having Revolving Facility Commitments under such Revolving Facility (or if the Revolving Facility Commitments under such Revolving Facility have terminated, Revolving Facility Credit Exposure under such Revolving Facility) that, taken together, represents more than 50% of the sum of all Revolving Facility Commitments under such Revolving Facility (or, if the Revolving Facility Commitments under such Revolving Facility have terminated, Revolving Facility Credit Exposure under such Revolving Facility at such time); provided,

that the Revolving Facility Commitments and Revolving Facility Credit Exposure of any Defaulting Lender shall be disregarded in determining Required Revolving Facility Lenders at any time.

"Requirement of Law" shall mean, as to any person, any law, treaty, rule, regulation, statute, order, ordinance, decree, judgment, consent decree, writ, injunction, settlement agreement or governmental requirement enacted, promulgated or imposed or entered into or agreed by any Governmental Authority, in each case applicable to or binding upon such person or any of its property or assets or to which such person or any of its property or assets is subject.

"Responsible Officer" of any person shall mean any manager, executive officer or Financial Officer of such person and any other officer or similar official thereof responsible for the administration of the obligations of such person in respect of this Agreement, or any other duly authorized employee or signatory of such person.

"Restricted Payments" shall have the meaning assigned to such term in Section 6.06. The amount of any Restricted Payment made other than in the form of cash or cash equivalents shall be the Fair Market Value thereof.

"Revolving Facility" shall mean the Revolving Facility Commitments of any Class and the extensions of credit made hereunder by the Revolving Facility Lenders of such Class and, for purposes of Section 9.08(b), shall refer to all such Revolving Facility Commitments as a single Class.

"Revolving Facility Borrowing" shall mean a Borrowing comprised of Revolving Facility Loans of the same Class.

"Revolving Facility Commitment" shall mean, with respect to each Revolving Facility Lender, the commitment of such Revolving Facility Lender to make Revolving Facility Loans pursuant to Section 2.01(ed), expressed as an amount representing the maximum aggregate permitted amount of such Revolving Facility Lender's Revolving Facility Credit Exposure hereunder, as such commitment may be

(a) reduced from time to time pursuant to Section 2.08, (b) reduced or increased from time to time pursuant to assignments by or to such Lender under Section 9.04, and (c) increased, extended or replaced as provided under Section 2.21, 2.22 or 2.23. The initial amount of each Lender's Revolving Facility Commitment on the Effective Date is set forth on Schedule 2.01, or in the Assignment and Acceptance, Incremental Assumption Agreement, Extension Amendment or Refinancing Amendment pursuant to which such Lender shall have assumed its Revolving Facility Commitment, as applicable. The aggregate amount of the Lenders' Revolving Facility Commitments on the Effective Date is \$2,000,000,000.

"Revolving Facility Credit Exposure" shall mean, at any time with respect to any Class of Revolving Facility Commitments, the sum of (a) the aggregate principal amount of the Revolving Facility Loans of such Class outstanding at such time, (b) the Swingline Exposure applicable to such Class at such time and (c) the Revolving L/C Exposure applicable to such Class at such time minus, for the purpose of the Financial Covenants only and only if all Revolving Facility Commitments shall have been terminated, the amount of Letters of Credit that have been Cash Collateralized in an amount equal to the Minimum L/C Collateral Amount at such time. The Revolving Facility Credit Exposure of any Revolving Facility Lender at any time shall be the product of (x) such Revolving Facility Lender's Revolving Facility Percentage of the applicable Class and (y) the aggregate Revolving Facility Credit Exposure of such Class of all Revolving Facility Lenders, collectively, at such time.

"Revolving Facility Lender" shall mean a Lender with a Revolving Facility Commitment or with outstanding Revolving Facility Loans.

"Revolving Facility Loan" shall mean a Loan made by a Revolving Facility Lender pursuant to Section 2.01(d). Unless the context otherwise requires, the term "Revolving Facility Loans" shall include the Other Revolving Loans.

"Revolving Facility Maturity Date" shall mean, as the context may require, (a) with respect to the Revolving Facility in effect on the Effective Date, the date that is the five year anniversary of the Closing Date and (b) with respect to any other Classes of Revolving Facility Commitments, the maturity dates specified therefor in the applicable Extension Amendment or Refinancing Amendment.

"Revolving Facility Percentage" shall mean, with respect to any Revolving Facility Lender of any Class, the percentage of the total Revolving Facility Commitments of such Class represented by such Lender's Revolving Facility Commitment of such Class. If the Revolving Facility Commitments of such Class have terminated or expired, the Revolving Facility Percentages of such Class shall be determined based upon the Revolving Facility Commitments of such Class most recently in effect, giving effect to any assignments pursuant to Section 9.04.

"Revolving L/C Exposure" of any Revolving Facility of any Class shall mean at any time the aggregate L/C Obligations under such Revolving Facility at such time. The Revolving L/C Exposure of any Revolving Facility Lender under any Revolving Facility at any time shall mean its applicable Revolving Facility Percentage of the aggregate Revolving L/C Exposure under such Revolving Facility at such time.

"S&P" shall mean Standard & Poor's Ratings Group, Inc.

"Sanctioned Country" shall mean, at any time, a country or territory which is itself the subject or target of any Sanctions (at the time of this Agreement, Crimea, Cuba, Iran, North Korea, Sudan and Syria).

"Sanctions" shall mean economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, (b) the Office of the Superintendent of Financial Institutions, (c) Her Majesty's Treasury, (d) the European Union or (e) the United Nations Security Council.

"SEC" shall mean the Securities and Exchange Commission or any successor thereto.

"Secured Cash Management Agreement" shall mean any Cash Management Agreement that is entered into by and between the Borrower or any Subsidiary and any Cash Management Bank, including any such Cash Management Agreement that is in effect on the Closing Date, unless when entered into such Cash Management Agreement is designated in writing by the Borrower and such Cash Management Bank to the Administrative Agent to not be included as a Secured Cash Management Agreement.

"Secured Hedge Agreement" shall mean any Hedging Agreement that is entered into by and between any Loan Party and any Hedge Bank, including any such Hedging Agreement that is in effect on the Closing Date, unless when entered into such Hedging Agreement is designated in writing by the Borrower and such Hedge Bank to the Administrative Agent to not be included as a Secured Hedge Agreement. Notwithstanding the foregoing, for all purposes of the Loan Documents, any Guarantee of, or grant of any Lien to secure, any obligations in respect of a Secured Hedge Agreement by a Guarantor shall not include any Excluded Swap Obligations with respect to such Guarantor.

"Secured Parties" shall mean, collectively, the Administrative Agent, the Collateral Agent, each Lender, each Issuing Bank, each Hedge Bank that is party to any Secured Hedge Agreement, each Cash Management Bank that is party to any Secured Cash Management Agreement and each Subagent appointed pursuant to Section 8.02 by the Administrative Agent with respect to matters relating to the Loan Documents or by the Collateral Agent with respect to matters relating to any Security Document.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Security Documents" shall mean the Escrow Agreement, the Collateral Agreement, each Notice of Grant of Security Interest in Intellectual Property (as defined in the Collateral Agreement) and each other security agreement, pledge agreement or other instruments or documents executed and delivered pursuant to the foregoing or entered into or delivered after the Closing Date to the extent required by this Agreement or any other Loan Document, including pursuant to Section 5.10.

"Significant Subsidiary" shall mean each Subsidiary as to which a specified circumstance exists relating to a "Significant Subsidiary" that (when taken together with any other Subsidiaries as to which such circumstance then exists) (a) for the four fiscal quarter period of the Borrowing ending as of the last day of the fiscal quarter of the Borrower most recently ended for which financial statements have been (or were required to be) delivered pursuant to Section 4.02(i), 5.04(a) or 5.04(b), accounted for at least 5% of the combined EBITDA of the Borrower, consolidated with its Subsidiaries, for the last four fiscal quarters then ended or (b) as of the last day of the fiscal quarter of the Borrower most recently ended for which financial statements have been (or were required to be) delivered pursuant to Section 4.02(i), 5.04(a) or 5.04(b), has assets which represent at least 5% of Consolidated Total Assets.

"Similar Business" shall mean (i) any business the majority of whose revenues are derived from business or activities conducted by the Borrower and its Subsidiaries on the Closing Date and (ii) any business that is a reasonable extension, development or expansion of any such business or any business similar, reasonably related, incidental, complementary or ancillary to any of the foregoing.

"Specified Refinancing Cash Proceeds" shall mean, with respect to any person, the net proceeds of any issuance of debt securities of the Borrower or any of its Subsidiaries to a third party that are reserved to be applied within 90 days of the receipt thereof to repay, repurchase or redeem other debt securities of such person or any of its Subsidiaries held by third parties.

"Specified Representations" shall mean those representations and warranties of the Borrowers and the Guarantors set forth in (A) Sections 3.01(a) (solely with respect to the Loan Parties), 3.01(d), 3.02(a), 3.02(b)(i)(B) (solely as it relates to the execution and delivery by the Borrower and each of the Guarantors of each of the Loan Documents to which it is a party, the borrowings and other extensions of credit hereunder on the date on which such representations and warranties are being made and the granting of the Liens in the Collateral pursuant to the Loan Documents), and 3.03, (B) Sections 3.10, 3.11, 3.17 (subject to the limitations set forth in the last paragraph of the definition of "Collateral and Guarantee Requirement") and 3.18, and (C) Sections 3.23 and 3.24(c).

"State PUC" shall mean a state public utility commission or other similar state regulatory authority with jurisdiction over the operations of the Borrower or any of its Subsidiaries.

"State PUC License" shall mean any permit, license, authorization, certification, plan, directive, consent order or consent decree of or from any State PUC, in each case, in connection with the operation of the business of the Borrower or any of its Subsidiaries, all renewals and extensions thereof, and all applications filed with such State PUC for which the Borrower or any of its Subsidiaries is an applicant.

"Subagent" shall have the meaning assigned to such term in Section 8.02.

"Subordinated Indebtedness" shall mean (i) any Indebtedness of a Borrower that is contractually subordinated in right of payment to the Loan Obligations and (ii) any Indebtedness of any Guarantor that is contractually subordinated in right of payment to the Guarantee of such Guarantor of the Loan Obligations.

"subsidiary" shall mean, with respect to any person (referred to in this definition as the "parent"), any corporation, limited liability company, partnership, association or other business entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or more than 50% of the general partnership interests are, at the time any determination is being made, directly or indirectly, owned, Controlled or held, or (b) that is, at the time any determination is made, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" shall mean, unless otherwise specified or unless the context otherwise requires, a subsidiary of the Borrower. Notwithstanding the foregoing (and except for purposes of the definition of "Unrestricted Subsidiary" contained herein) an Unrestricted Subsidiary shall be deemed not to be a Subsidiary of the Borrower or any of its Subsidiaries for purposes of this Agreement.

"Subsidiary Guarantee Agreement" shall mean the Subsidiary Guarantee Agreement substantially in the form of Exhibit M to be dated as of the Closing Date as may be amended, restated, supplemented or otherwise modified from time to time, between each Guarantor and the Administrative Agent.

"Subsidiary Redesignation" shall have the meaning provided in the definition of "Unrestricted Subsidiary" contained in this Section 1.01.

"Successor Borrower" shall have the meaning provided in Section 6.05(n).

"Swap Obligation" shall mean, with respect to any Guarantor, any obligation to pay or perform under any agreement, contract or transaction that constitutes a "swap" within the meaning of Section 1a(47) of the Commodity Exchange Act.

"Swingline Borrowing" shall mean a Borrowing comprised of Swingline Loans.

"Swingline Borrowing Request" shall mean a request by the Borrower substantially in the form of Exhibit D-2 or such other form (including any form on an electronic platform or electronic transmission system as shall be approved by the Swingline Lender) as shall be approved by the Swingline Lender and appropriately completed and signed by a Responsible Officer of the Borrower.

"Swingline Commitment" shall mean, with respect to each Swingline Lender, the commitment of such Swingline Lender to make Swingline Loans pursuant to Section 2.04. The aggregate amount of the Swingline Commitments is \$100,000,000. The Swingline Commitment is part of, and not in addition to, the Revolving Facility Commitments.

"Swingline Exposure" shall mean at any time for any Revolving Facility the aggregate principal amount of all outstanding Swingline Borrowings under such Revolving Facility at such time. The Swingline Exposure of any Revolving Facility Lender under any Revolving Facility at any time shall mean its applicable Revolving Facility Percentage of the aggregate Swingline Exposure under such Revolving Facility at such time.

"Swingline Lender" shall mean the Administrative Agent, in its capacity as a lender of Swingline Loans.

"Swingline Loans" shall mean the swingline loans made to the Borrower pursuant to Section 2.04.

"Taxes" shall mean any and all present or future taxes, duties, levies, imposts, assessments, deductions, withholdings or other similar charges imposed by any Governmental Authority, whether computed on a separate, consolidated, unitary, combined or other basis and any interest, fines, penalties or additions to tax with respect to the foregoing.

"Telecommunications Laws" shall mean any Requirement of Law applicable to the Borrower or any of its Subsidiaries, with respect to the provision of telecommunications services, including telecommunications services provided in correctional institutions, including the Communications Act of 1934, as amended, and the rules and regulations promulgated in relation thereto by the FCC or any State PUC in each state where the Borrower or any Subsidiary conducts or is authorized to conduct business.

"Term A Facility" shall mean the Initial Term A Loan Commitments and the Term A Loans made hereunder.

"Term A Lender" shall mean, at any time, any Lender that holds an Initial Term A Loan Commitment or Term A Loan at such time.

"Term A Loan Installment Date" shall have the meaning assigned to such term in Section 2.10(a)(i).

"Term A Loans" shall mean (a) the Initial Term A Loans and (b) any Incremental Term Loans in the form of additional Term A Loans made by the Incremental Term Lenders to the Borrower pursuant to Section 2.01(e).

"Term A Maturity Date" shall mean the date that is the five year anniversary of the Closing Date.

"Term A-1 Facility" shall mean the Initial Term A-1 Loan Commitments and the Term A-1 Loans made hereunder.

"Term A-1 Lender" shall mean, at any time, any Lender that holds an Initial Term A-1 Loan Commitment or Term A-1 Loan at such time.

"Term A-1 Loan Installment Date" shall have the meaning assigned to such term in Section 2.10(a)(i).

"Term A-1 Loans" shall mean (a) the Initial Term A-1 Loans and (b) any Incremental Term Loans in the form of additional Term A-1 Loans made by the Incremental Term Lenders to the Borrower pursuant to Section 2.01(e).

"Term A-1 Maturity Date" shall mean the date that is the five year anniversary of the Closing Date.

"Term Borrowing" shall mean a Borrowing of Term A Loans, Term A-1 Loans, Term B Loans or Other Term Loans.

"Term B Facility" shall mean the Initial Term B Loan Commitments and the Term B Loans made hereunder.

"Term B Loan Installment Date" shall have the meaning assigned to such term in Section 2.10(a)(iii).

"Term B Lender" shall mean, at any time, any Lender that holds an Initial Term B Loan Commitment or Term B Loan at such time.

"Term B Loans" shall mean (a) the Initial Term B Loans and (b) any Incremental Term Loans in the form of additional Term B Loans made by the Incremental Term Lenders to the Borrower pursuant to Section 2.01(e).

"Term B Maturity Date" shall mean January 31, 2025.

"Term Facility" shall mean each of the Initial Term Facilities and/or each of the Other Term Facilities.

"Term Facility Commitment" shall mean the commitment of a Term Lender to make Term Loans, including Initial Term Loans and/or Other Term Loans.

"Term Facility Maturity Date" shall mean, as the context may require, (a) with respect to the Term A Facility, the Term A Maturity Date, (b) with respect to the Term A-1 Facility, the Term A-1 Maturity Date, (c) with respect to Term B Facility, the Term B Maturity Date and (d) with respect to any other Class of Term Loans, the maturity dates specified therefor in the applicable Incremental Assumption Agreement, Extension Amendment or Refinancing Amendment.

"Term Lender" shall mean a Lender with a Term Facility Commitment or with outstanding Term Loans.

"Term Loan Installment Date" shall mean any Term A Loan Installment Date, Term A-1 Loan Installment Date, Term B Loan Installment Date or any Other Term Loan Installment Date.

"Term Loans" shall mean the Term A Loans, the Term A-1 Loans, the Term B Loans and/or the Other Term Loans.

"Term Yield Differential" shall have the meaning assigned to such term in Section 2.21(b)(v).

"Termination Date" shall mean the date on which (a) all Commitments shall have been terminated, (b) the principal of and interest on each Loan and L/C Borrowing all Fees and all other expenses or amounts payable under any Loan Document shall have been paid in full in cash (other than in respect of contingent indemnification and expense reimbursement claims not then due), and (c) all Letters of Credit (other than those that have been Cash Collateralized with the Minimum L/C Collateral Amount in accordance with Section 2.05(k)) have been cancelled or have expired and all amounts drawn or paid thereunder have been reimbursed in full in cash.

"Test Period" shall mean, on any date of determination, (i) except for purposes of determining whether there has been a breach of any Financial Covenant, the period of four consecutive fiscal quarters of the Borrower then most recently ended (taken as one accounting period) for which financial statements have been (or were required to be) delivered pursuant to Section 5.04(a) or 5.04(b); provided that prior to the first date financial statements have been delivered pursuant to Section 5.04(a) or 5.04(b), the Test Period in effect shall be the most recently ended full four fiscal quarter period prior to the Closing Date

for which financial statements would have been required to be delivered hereunder had the Closing Date occurred prior to the end of such period and (ii) for purposes of determining whether there has been a breach of any Financial Covenant, the period of four consecutive fiscal quarters of the Borrower ending on the date specified in such Financial Covenant.

"Third Party Funds" shall mean any accounts or funds, or any portion thereof, received by the Borrower or any of its Subsidiaries as agent on behalf of third parties in accordance with a written agreement that imposes a duty upon Borrower or one or more of its Subsidiaries to collect and remit those funds to such third parties.

"Total Leverage Ratio" shall mean, as of any date of determination, the ratio of (a) Consolidated Debt of the Borrower as of such date minus any Specified Refinancing Cash Proceeds of the Borrower as of such date to (b) EBITDA of the Borrower for the most recently ended Test Period on or prior to such date, all determined on a consolidated basis in accordance with GAAP; provided, that the Total Leverage Ratio shall be determined on a Pro Forma Basis.

"Transaction Documents" shall mean the Merger Agreement and the Loan Documents.

"Transactions" shall mean, collectively (a) the consummation of the Mergers; (b) if applicable, the consummation of the Data Center Sale; (c) the release of the Escrowed Property to the Borrower pursuant to the Escrow Agreement and other Loan Documents; (d) the Closing Date Refinancing; (e) the Escrow Merger (or, at CenturyLink's option, entry into the Escrow Assumption Agreement); (f) the other transactions to occur pursuant to or in connection with the foregoing; and (g) the payment of all fees and expenses to be paid and owing in connection with the foregoing.

"Transformative Acquisition" means any acquisition by the Borrower or any Subsidiary that is either (a) not permitted by the terms of this Agreement immediately prior to the consummation of such acquisition or (b) permitted by the terms of this Agreement immediately prior to the consummation of such acquisition, but would not provide the Borrower and its Subsidiaries with adequate flexibility under the this Agreement for the continuation and/or expansion of the combined operations following such consummation, as determined by the Borrower acting in good faith.

"Type" shall mean, when used in respect of any Loan or Borrowing, the Rate by reference to which interest on such Loan or on the Loans comprising such Borrowing is determined. For purposes hereof, the term "Rate" shall mean, from and after the Closing Date, the Eurodollar Rate, the ABR and, prior to the Closing Date, the Applicable Term B Escrow Rate.

"Uniform Commercial Code" or "UCC" shall mean the Uniform Commercial Code as the same may from time to time be in effect in the State of New York or the Uniform Commercial Code (or similar code or statute) of another jurisdiction, to the extent it may be required to apply to any item or items of Collateral.

"United States" shall mean the United States of America.

"Unreimbursed Amount" shall have the meaning assigned to such term in Section 2.05(c).

"Unrestricted Subsidiary" shall mean (1) any Subsidiary of the Borrower, whether owned on, or acquired or created after, the Closing Date, that is designated after the Closing Date by the Borrower as an Unrestricted Subsidiary hereunder by written notice to the Administrative Agent; provided, that the Borrower shall only be permitted to so designate a new Unrestricted Subsidiary following the Closing Date so long as (a) no Default or Event of Default has occurred and is continuing or would result

therefrom, (b) immediately after giving effect to such designation, the Borrower shall be in Pro Forma Compliance and (c) all Investments in such Unrestricted Subsidiary at the time of designation (as contemplated by the immediately following sentence) are permitted in accordance with the relevant requirements of Section 6.04; and (2) any subsidiary of an Unrestricted Subsidiary. The designation of any Subsidiary as an Unrestricted Subsidiary shall constitute an Investment by the Borrower (or its Subsidiaries) therein at the date of designation in an amount equal to the Fair Market Value of the Borrower's (or its Subsidiaries') Investments therein, which shall be required to be permitted on such date in accordance with Section 6.04 (other than Section 6.04(b)). The Borrower may designate any Unrestricted Subsidiary to be a Subsidiary for purposes of this Agreement (each, a "Subsidiary Redesignation"); provided, that (i) no Default or Event of Default has occurred and is continuing or would result therefrom (after giving effect to the provisions of the immediately succeeding sentence), (ii) immediately after giving effect to such redesignation, the Borrower shall be in Pro Forma Compliance and (iii) the Borrower shall have delivered to the Administrative Agent an officer's certificate executed by a Responsible Officer of the Borrower, certifying to the best of such officer's knowledge, compliance with the requirements of preceding clause (i). The designation of any Unrestricted Subsidiary as a Subsidiary after the Closing Date shall constitute (i) the incurrence at the time of designation of any Investment, Indebtedness or Liens of such Subsidiary existing at such time and (ii) a return on any Investment by the applicable Loan Party (or its relevant Subsidiaries) in Unrestricted Subsidiaries pursuant to the preceding sentence in an amount equal to the Fair Market Value at the date of such designation of such Loan Party's (or its relevant Subsidiaries') Investment in such Subsidiary.

"U.S. Person" shall mean any person that is a "United States Person" as defined in Section 7701(a)(30) of the Code.

"U.S. Tax Compliance Certificate" shall have the meaning assigned to such term in Section 2.17(d).

"USA PATRIOT Act" shall mean the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. No. 107 56 (signed into law October 26, 2001)).

"Voting Participant" shall have the meaning assigned to such term in Section 9.04(j).

"Voting Participant Notification" shall have the meaning assigned to such term in Section 9.04(j).

"Weighted Average Life to Maturity" shall mean, when applied to any Indebtedness at any date, the number of years obtained by dividing: (a) the sum of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by (b) the then outstanding principal amount of such Indebtedness.

"Wholly-Owned Domestic Subsidiary" shall mean a Wholly-Owned Subsidiary that is also a Domestic Subsidiary.

"Wholly-Owned Subsidiary" of any person shall mean a subsidiary of such person, all of the Equity Interests of which (other than directors' qualifying shares or nominee or other similar shares required pursuant to applicable law) are owned by such person or another Wholly-Owned Subsidiary of such person. Unless the context otherwise requires, "Wholly-Owned Subsidiary" shall mean a Subsidiary of the Borrower that is a Wholly-Owned Subsidiary of the Borrower.

"Wildcat Merger Sub 1" shall mean Wildcat Merger Sub 1 LLC, a Delaware limited liability company and an indirect Wholly-Owned Subsidiary of the Borrower.

"Wildcat Merger Sub 2" shall mean WWG Merger Sub LLC, a Delaware limited liability company and an indirect Wholly-Owned Subsidiary of the Borrower.

"Wildcat Merger Subs" shall mean Wildcat Merger Sub 1 and Wildcat Merger Sub 2.

"Withdrawal Liability" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"Write-Down and Conversion Powers" shall mean, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

Section 1.02 Terms Generally; GAAP. The definitions set forth or referred to in Section 1.01 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Except as otherwise expressly provided herein, any reference in this Agreement to any Loan Document shall mean such document as amended, restated, amended and restated, supplemented or otherwise modified from time to time. Except as otherwise expressly provided herein (including, for the avoidance of doubt, the proviso in the definition of "Capitalized Lease Obligations"), all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided, that if at any time, any change in GAAP would affect the computation of any financial ratio or requirement in the Loan Documents and the Borrower notifies the Administrative Agent that the Borrower requests an amendment (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment), the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such financial ratio or requirement shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such provision is amended in accordance herewith. Notwithstanding any other provision contained 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 (i) without giving effect to any election under Accounting Standards Codification 825-10-25 (or any other Accounting Standards Codification or Financial Accounting Standard having a similar result or effect) to value any Indebtedness or other liabilities of the Borrower or any Subsidiary at "fair value", as defined therein, (ii) without giving effect to any treatment of Indebtedness in respect of convertible debt instruments under Accounting Standards Codification 470-20 (or any other Accounting Standards Codification or Financial Accounting Standard having a similar result or effect) to value any such Indebtedness in a reduced or bifurcated manner as described therein, and such Indebtedness shall at all times be valued at the full stated principal amount thereof and (iii) for the avoidance of doubt, except as provided in the definition of "Consolidated Net Income", without giving effect to the financial condition, results and performance of the Unrestricted Subsidiaries.

Section 1.03 Effectuation of Transactions. Each of the representations and warranties of CenturyLink contained in this Agreement (and all corresponding definitions) are made after giving effect to the Transactions, unless the context otherwise requires.

Section 1.04 Timing of Payment or Performance. Except as otherwise expressly provided herein, when the payment of any obligation or the performance of any covenant, duty or obligation is stated to be due or performance required on a day which is not a Business Day, the date of such payment or performance shall extend to the immediately succeeding Business Day.

Section 1.05 Times of Day. Unless otherwise specified herein, all references herein to times of day shall be references to Local Time.

Section 1.06 Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Term B Loan") or by Type (e.g., a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Term B Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Term B Borrowing") or by Type (e.g., a "Eurodollar Borrowing") or by Class and Type (e.g., a "Eurodollar Term B Borrowing").

Section 1.07 Letter of Credit Amounts. Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

ARTICLE II

The Credits

Section 2.01 Commitments. Subject to the terms and conditions set forth herein:

(a) Each Term A Lender agrees, severally and not jointly, to make an Initial Term A Loan in Dollars to the Borrower on the Closing Date in an aggregate principal amount not to exceed its Initial Term A Loan Commitment.

(b) Each Term A-1 Lender agrees, severally and not jointly, to make an Initial Term A-1 Loan in Dollars to the Borrower on the Closing Date in an aggregate principal amount not to exceed its Initial Term A-1 Loan Commitment.

(c) Each Term B Lender agrees, severally and not jointly, to make an Initial Term B Loan in Dollars to the Borrower on the Effective Date in an aggregate principal amount not to exceed its Initial Term B Loan Commitment. The Borrower shall pay to each Term B Lender on the Effective Date an upfront fee in Dollars (which may be net funded from the proceeds of the Initial Term B Loan funded by such Term B Lender on the Effective Date) equal to 0.50% of the aggregate principal amount of the Initial Term B Loan funded by such Term B Lender on the Effective Date. Once paid such fee shall not be refundable under any circumstances (but subject to the provisions of Section 2.10(e)).

(d) Each Revolving Facility Lender agrees, severally and not jointly, to make Revolving Facility Loans of a Class in Dollars to the Borrower from time to time during the

Availability Period in an aggregate principal amount that will not result in (i) such Lender's Revolving Facility Credit Exposure of such Class exceeding such Lender's Revolving Facility Commitment of such Class, or (ii) the Revolving Facility Credit Exposure of such Class exceeding the total Revolving Facility Commitments of such Class. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Facility Loans. Pursuant to Section 2.21(d), on the Incremental Assumption Agreement No. 1 Effective Date, (i) the Incremental Assumption Agreement No. 1 Additional Lender shall make Revolving Facility Loans in such amounts as may be specified by the Administrative Agent (the proceeds of which shall be applied by the Administrative Agent to repay Revolving Facility Loans of the other Revolving Facility Lenders) for purposes of ensuring that, after giving effect to all Borrowings and prepayments of Revolving Facility Loans to occur on the Incremental Assumption Agreement No. 1 Effective Date, each outstanding Revolving Facility Borrowing is held by the Revolving Facility Lenders on a pro rata basis in accordance with their respective Revolving Facility Percentages at such time and (ii) such Revolving Facility Loans so funded on such date shall initially take the form of pro rata increases in each outstanding Revolving Facility Borrowing after giving effect to all such prepayments of Revolving Facility Borrowings to occur on such date.

(e) Each Lender having an Incremental Commitment (other than an Incremental Assumption Agreement No. 1 Additional Revolving Facility Commitment (which shall be subject to clause (d) above from and after the Incremental Assumption Agreement No. 1 Effective Date) or an Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment) agrees, severally and not jointly, subject to the terms and conditions set forth in the applicable Incremental Assumption Agreement, to make an Incremental Loan to the Borrower, in an aggregate principal amount not to exceed its Incremental Commitment. The Incremental Assumption Agreement No. 1 Additional Lender having an Incremental Commitment agrees, subject to the terms and conditions set forth in Incremental Assumption Agreement No. 1, to make a Term A Loan to the Borrower on the Incremental Assumption Agreement No. 1 Effective Date, in an aggregate principal amount not to exceed its Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment which shall initially take the form of a pro rata increase in each outstanding Term A Loan Borrowing.

(f) The full amount of the Term A Loans pursuant to the Initial Term A Loan Commitments must be drawn in a single drawing on the Closing Date. The full amount of the Term A-1 Loans pursuant to the Initial Term A-1 Loan Commitments must be drawn in a single drawing on the Closing Date. The full amount of the Term B Loans pursuant to the Initial Term B Loan Commitments must be drawn in a single drawing on the Closing Date. Term Loans that are repaid or prepaid may not be reborrowed.

Section 2.02 Loans and Borrowings.

(a) Each Loan shall be made as part of a Borrowing consisting of Loans of the same Class and of the same Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class (or, in the case of Swingline Loans, in accordance with the Swingline Commitment); provided that, prior to the Closing Date, all Term B Loans shall accrue interest at the Applicable Term B Escrow Rate. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided, that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Borrowing (other than a Swingline Borrowing) shall be comprised entirely of ABR Loans or Eurodollar Loans (or for periods prior to the Closing Date Term B Loans accruing interest at the Applicable Term B Escrow Rate) as the Borrower may request in accordance herewith; provided that (i) the Term A Loan funded by the Incremental Assumption Agreement No. 1 Additional Lender pursuant to Section 2.01(e) on the Incremental Assumption Agreement No. 1 Effective Date shall initially take the form of a pro rata increase in each then outstanding Borrowing of Term A Loans and (ii) the Revolving Facility Loans funded by the Incremental Assumption Agreement No. 1 Additional Lender pursuant to the last sentence of Section 2.01(d) on the Incremental Assumption Agreement No. 1 Effective Date shall initially take the form of a pro rata increase in each then outstanding Revolving Facility Borrowing after giving effect to all prepayments of Revolving Facility Borrowings to occur on such date. Each Swingline Borrowing shall be an ABR Borrowing. Each Lender at its option may make any ABR Loan or Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan (and in the case of an Affiliate, the provisions of Sections 2.15, 2.16 and 2.17 shall apply to such Affiliate to the same extent as to such Lender); provided, that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and such Lender shall not be entitled to any amounts payable under Section 2.15 or 2.17 solely in respect of increased costs resulting from such exercise and existing at the time of such exercise.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Facility Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum. At the time that each ABR Revolving Facility Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum; provided, that an ABR Revolving Facility Borrowing may be in an aggregate amount that is equal to the entire unused available balance of the Revolving Facility Commitments or contemplated by Section 2.04(c) or Section 2.05(c). Each Swingline Borrowing shall be in an amount that is an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum. Borrowings of more than one Type and Class may be outstanding at the same time; provided, however, that the Borrower shall not be entitled to request any Borrowing that, if made, and after giving effect to all Borrowings, all conversions of Loans from one type to another, and all continuations of Loans of the same type, would result in more than (i) 10 (ten) Eurodollar Borrowings outstanding under the Revolving Facility at any time and (ii) 4 (four) Eurodollar Borrowings outstanding under each other Facility. Borrowings having different Interest Periods, regardless of whether they commence on the same date, shall be considered separate Borrowings.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing of any Class if the Interest Period requested with respect thereto would end after the Maturity Date for such Class.

Section 2.03 Requests for Borrowings.

(a) To request a Revolving Facility Borrowing and/or a Term Borrowing, the Borrower shall notify the Administrative Agent of such request (a) in the case of a Eurodollar Borrowing, not later than 12:00 noon, Local Time, three (3) Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, by telephone, not later than 10:00 a.m. Local Time, on the Business Day of the proposed Borrowing; provided, that (i) if the Borrower wishes to request Eurodollar Loans having an Interest Period other than one, two, three or six months in duration as provided in the definition of "Interest Period", the applicable notice must be received by the Administrative Agent not later than 12:00, noon, Local Time four Business Days prior to the requested date of such Borrowing, conversion or continuation, whereupon the Administrative Agent shall give prompt notice to the applicable Lenders of such request and determine whether the requested Interest Period is acceptable to all of them and not

later than 12:00, noon, Local Time, three Business Days before the requested date of such Borrowing, the Administrative Agent shall notify the Borrower (which notice may be by telephone) whether or not the requested Interest Period has been consented to by all the applicable Lenders and (ii) any such notice of an ABR Revolving Facility Borrowing as contemplated by Section 2.04(c) or Section 2.05(c) may be given no later than 12:00 noon, Local Time, on the date of the proposed Borrowing. Each such Borrowing Request shall be irrevocable (other than in the case of any notice given in respect of the Closing Date, which may be conditioned upon the consummation of the Mergers) and (in the case of telephonic requests) shall be confirmed promptly by hand delivery or electronic means to the Administrative Agent of a written Borrowing Request signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) whether such Borrowing is to be a Borrowing of Term A Loans, Term A-1 Loans, Term B Loans, Other Term Loans or Revolving Facility Loans of a particular Class, as applicable;
- (ii) the aggregate amount of the requested Borrowing;
- (iii) the date of such Borrowing, which shall be a Business Day;
- (iv) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing (or prior to the Closing Date a Borrowing of Term B Loans accruing interest at the Applicable Term B Escrow Rate); provided that (i) the Term A Loan funded by the Incremental Assumption Agreement No. 1 Additional Lender pursuant to Section 2.01(e) on the Incremental Assumption Agreement No. 1 Effective Date shall initially take the form of a pro rata increase in each then outstanding Borrowing of Term A Loans and (ii) the Revolving Facility Loans funded by the Incremental Assumption Agreement No. 1 Additional Lender pursuant to the last sentence of Section 2.01(d) on the Incremental Assumption Agreement No. 1 Effective Date shall initially take the form of a pro rata increase in each then outstanding Revolving Facility Borrowing after giving effect to all prepayments of Revolving Facility Borrowings to occur on such date;
- (v) in the case of a Eurodollar Borrowing (subject to the proviso to clause (iv) above), the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (vi) the location and number of the Borrower's account to which funds are to be disbursed.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing (or prior to the Closing Date a Borrowing of Term B Loans accruing interest at the Applicable Term B Escrow Rate). If no Interest Period is specified with respect to any requested Eurodollar Borrowing then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall advise each applicable Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

Section 2.04 Swingline Loans.

(a) Subject to the terms and conditions set forth herein, the Swingline Lender hereby agrees to make Swingline Loans under any Revolving Facility in Dollars to the Borrower from time to time during the Availability Period, in an aggregate principal amount at any time outstanding that will not

result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding the Swingline Lender's Swingline Commitment or (ii) the Revolving Facility Credit Exposure of the applicable Class exceeding the total Revolving Facility Commitments of such Class; provided, that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Borrowing and the Swingline Lender shall not be under any obligation to make any Swingline Loan if it shall determine (which determination shall be conclusive and binding absent manifest error) that it has, or by the making of such Swingline Loan may have, Fronting Exposure. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Borrowing, the Borrower shall notify the Administrative Agent and the Swingline Lender of such request by telephone (confirmed by a Swingline Borrowing Request), not later than 2:00 p.m., Local Time, on the day of a proposed Swingline Borrowing. Each such notice and Swingline Borrowing Request shall be irrevocable and shall specify (i) the requested date of such Swingline Borrowing (which shall be a Business Day) and (ii) the amount of the requested Swingline Borrowing. The Swingline Lender shall consult with the Administrative Agent as to whether the making of the Swingline Loan is in accordance with the terms of this Agreement prior to the Swingline Lender funding such Swingline Loan. The Swingline Lender shall make each Swingline Loan on the proposed date thereof by wire transfer of immediately available funds by 4:00 p.m., Local Time, to the account of the Borrower.

(c) The Swingline Lender may, by written notice given to the Administrative Agent not later than 12:00 noon, Local Time, on any Business Day, require the Revolving Facility Lenders under the applicable Revolving Facility to acquire participations on such Business Day in all or a portion of the outstanding Swingline Loans made by it under such Revolving Facility. Such notice shall specify the aggregate amount of such Swingline Loans in which the Revolving Facility Lenders will participate. Promptly upon receipt of such notice, the Administrative Agent will give notice thereof to each such Lender, specifying in such notice such Revolving Facility Lender's applicable Revolving Facility Percentage of such Swingline Loan or Loans. Each Revolving Facility Lender hereby absolutely and unconditionally agrees, promptly upon receipt of notice as provided above (and in any event, if such notice is received by 12:00 noon, Local Time, on a Business Day no later than 2:00 p.m. Local Time on such Business Day and if received after 12:00 noon, Local Time, on a Business Day, no later than 12:00, noon, Local Time on the immediately succeeding Business Day), to pay to the Administrative Agent for the account of the Swingline Lender, such Revolving Facility Lender's applicable Revolving Facility Percentage of such Swingline Loan or Loans. Each Revolving Facility Lender acknowledges and agrees that its respective obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or Event of Default or reduction or termination of any Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Facility Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Revolving Facility Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Revolving Facility Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph (c), and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by such Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Revolving Facility Lenders that shall have made their payments pursuant to this paragraph and to such Swingline Lender, as their interests may appear;

provided, that any such payment so remitted shall be repaid to such Swingline Lender or to the Administrative Agent, as applicable, if and to the extent such payment is required to be refunded to the Borrower for any reason. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

Section 2.05 Letters of Credit.

(a) The Letter of Credit Commitment. (i) Subject to the terms and conditions set forth herein, (A) each Issuing Bank agrees, in reliance upon the agreements of the Revolving Facility Lenders set forth in this Section 2.05, (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date for the applicable Revolving Facility, to issue Letters of Credit for the account of the Borrower or any of its Subsidiaries under any Revolving Facility, and to amend or extend Letters of Credit previously issued by it, in accordance with Section 2.05(b), and (2) to honor drawings under the Letters of Credit; and (B) the Revolving Facility Lenders under each Revolving Facility severally agree to participate in Letters of Credit issued for the account of the Borrower or any of its Subsidiaries under such Revolving Facility and any drawings thereunder; provided that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (w) the Revolving Facility Credit Exposure under the applicable Revolving Facility shall not exceed the Revolving Facility Commitments thereunder, (x) the Revolving Facility Credit Exposure of any Lender under the applicable Revolving Facility shall not exceed such Lender's Revolving Facility Commitment thereunder, (y) the outstanding amount of the L/C Obligations under all Revolving Facilities shall not exceed the Letter of Credit Sublimit and (z) unless otherwise agreed by such Issuing Bank in its sole discretion, the outstanding amount of the L/C Obligations in respect of Letters of Credit issued by any Issuing Bank shall not exceed such Issuing Bank's Letter of Credit Commitment. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrower's and its Subsidiaries' ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower and its Subsidiaries may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. Any letter of credit issued by a person that is or becomes an Issuing Bank hereunder but which letter of credit was not originally a Letter of Credit but the terms of which then comply with the requirements applicable to Letters of Credit hereunder may, if agreed in writing by the Borrower, such Issuing Bank and the Administrative Agent be designated as a Letter of Credit hereunder (any such letter of credit subject to the foregoing, an "Existing Letter of Credit"), in which event, such Existing Letter of Credit shall, subject to the satisfaction of the applicable conditions set forth in Article IV, be deemed to be a Letter of Credit under this Agreement as of the date that is on or after the Closing Date that is specified in such written agreement.

(ii) No Issuing Bank shall issue any Letter of Credit under any Revolving Facility if:

(A) subject to Section 2.05(b)(iii), the expiry date of the requested Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Revolving Facility Lenders under such Revolving Facility have approved such expiry date; or

(B) the expiry date of the requested Letter of Credit would occur after the Letter of Credit Expiration Date for such Revolving Facility, unless (x) all the Revolving Facility Lenders under such Revolving Facility and such Issuing Bank have approved such expiry date or (y) such Letter of Credit is Cash Collateralized on terms and pursuant to arrangements satisfactory to the applicable Issuing Bank.

(iii) No Issuing Bank shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from issuing the Letter of Credit, or any Requirement of Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the issuance of letters of credit generally or the Letter of Credit in particular or shall impose upon such Issuing Bank with respect to the Letter of Credit any restriction, reserve or capital requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which such Issuing Bank in good faith deems material to it;

(B) the issuance of the Letter of Credit would violate one or more policies of such Issuing Bank applicable to letters of credit generally;

(C) except as otherwise agreed by the Administrative Agent and such Issuing Bank, the Letter of Credit is in an initial stated amount of less than \$500,000;

(D) such Letter of Credit is to be denominated in a currency other than Dollars;

(E) any Revolving Facility Lender under the applicable Revolving Facility is at that time a Defaulting Lender, unless such Issuing Bank has entered into arrangements, including for the delivery of Cash Collateral, satisfactory to such Issuing Bank (in its sole discretion) with the Borrower or such Lender to eliminate such Issuing Bank's actual or reasonably determined potential Fronting Exposure (after giving effect to Section 2.24(a)(iv) with respect to the Defaulting Lender arising from either the Letter of Credit then proposed to be issued or that Letter of Credit and all other L/C Obligations as to which such Issuing Bank has actual or reasonably determined potential Fronting Exposure, as it may elect in its sole discretion); or

(F) the Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder.

(iv) No Issuing Bank shall amend any Letter of Credit if such Issuing Bank would not have been permitted at such time to issue the Letter of Credit in its amended form under the terms of this Section 2.05(a).

(v) No Issuing Bank shall be under any obligation to amend any Letter of Credit if (A) such Issuing Bank would have no obligation at such time to issue the Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of the Letter of Credit does not accept the proposed amendment to the Letter of Credit.

(vi) Subject to the provisions of Section 2.05(f), each Issuing Bank shall act on behalf of the Revolving Facility Lenders under the applicable Revolving Facility with respect to any Letters of Credit issued by it under such Revolving Facility and the documents associated therewith, and each Issuing Bank shall have all of the benefits and immunities (A) provided to the Administrative Agent in Article IX with respect to any acts taken or omissions suffered by such Issuing Bank in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in Article VIII included such Issuing Bank with respect to such acts or omissions, and (B) as additionally provided herein with respect to the Issuing Banks.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable Issuing Bank (with a copy to the Administrative Agent) in the form of a Letter of Credit Request, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Request may be sent by facsimile, by United States mail, by overnight courier, by electronic transmission using the system provided by the applicable Issuing Bank, by personal delivery or by any other means acceptable to such Issuing Bank. Such Letter of Credit Request must be received by the applicable Issuing Bank and the Administrative Agent not later than 12:00 noon at least two Business Days (or such later date and time as the Administrative Agent and such Issuing Bank may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Request shall specify in form and detail reasonably satisfactory to the applicable Issuing Bank: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day);

(B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof;

(E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; (G) the purpose and nature of the requested Letter of Credit; (H) if more than one Revolving Facility is then in effect, the Revolving Facility under which such Letter of Credit is to be issued; and (I) such other matters as the applicable Issuing Bank may reasonably request. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Request shall specify in form and detail reasonably satisfactory to the applicable Issuing Bank (1) the Letter of Credit to be amended; (2) the proposed date of amendment thereof (which shall be a Business Day);

(3) the nature of the proposed amendment; and

(4) such other matters as the applicable Issuing Bank may reasonably request. Additionally, the Borrower shall furnish to the applicable Issuing Bank and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as such Issuing Bank or the Administrative Agent may reasonably request pursuant to its policies of general applicability to other account parties for whom such Issuing Bank issues letters of credit.

(ii) Promptly after receipt of any Letter of Credit Request, the applicable Issuing Bank will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Request from the Borrower and, if not, such Issuing Bank will provide the Administrative Agent with a copy thereof. Unless the applicable Issuing Bank has received written notice from the Required Revolving Facility Lenders, the Administrative Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article IV shall not then be satisfied, then, subject to the terms and conditions hereof, such Issuing Bank shall, on the requested date, issue a Letter of Credit for the account of the Borrower (or the applicable Subsidiary) or enter into the applicable amendment, as the case may be, in each case in accordance with such Issuing Bank's usual and customary business practices. Immediately upon the issuance of each Letter of Credit under a Revolving Facility, each Revolving Facility Lender under such Revolving Facility shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable Issuing Bank a risk participation in such Letter of Credit in an amount equal to the product of such Revolving Facility Lender's Revolving Facility Percentage of such Revolving Facility times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Request, an Issuing Bank may, in its discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit such Issuing Bank to prevent any such extension at least once in each twelve-month period (commencing

with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable Issuing Bank, the Borrower shall not be required to make a specific request to such Issuing Bank for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Revolving Facility Lenders shall be deemed to have authorized (but may not require) such Issuing Bank to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date of the applicable Revolving Facility; provided, however, that no Issuing Bank shall permit any such extension if (A) such Issuing Bank has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.05(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven Business Days before the Non-Extension Notice Date (1) from the Administrative Agent that the Required Revolving Facility Lenders under the applicable Revolving Facility have elected not to permit such extension or (2) from the Administrative Agent or the Borrower that one or more of the applicable conditions specified in Article IV is not then satisfied, and in each such case directing such Issuing Bank not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, each Issuing Bank will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable Issuing Bank shall notify the Borrower and the Administrative Agent thereof. Not later than 11:00 a.m. one Business Day after the date of notice of any payment by an Issuing Bank under a Letter of Credit or, if the Borrower shall have received such notice from the Issuing Bank later than 11:00 a.m. on any Business Day, not later than 4:00 p.m. on the next Business Day (each such date of payment by an Issuing Bank, an "Honor Date"), the Borrower shall reimburse such Issuing Bank through the Administrative Agent in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the applicable Issuing Bank by such time, the Administrative Agent shall promptly notify each Revolving Facility Lender under the applicable Revolving Facility of the Honor Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Revolving Facility Lender's Revolving Facility Percentage thereof. In such event, the Borrower shall be deemed to have requested a Borrowing of ABR Revolving Facility Loans under the applicable Revolving Facility to be disbursed on such date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of ABR Loans, but subject to the amount of the unutilized portion of the Revolving Facility Commitments under Section 4.02 and the conditions set forth in Section 4.02 (other than the delivery of a Borrowing Request). Any notice given by an Issuing Bank or the Administrative Agent pursuant to this Section 2.05(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Revolving Facility Lender under the applicable Revolving Facility shall upon any notice pursuant to Section 2.05(c)(i) make funds available (and the Administrative Agent may apply Cash Collateral provided for this purpose) for the account of the applicable Issuing Bank to Administrative Agent in an amount equal to its applicable Revolving Facility Percentage of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Administrative Agent, whereupon, subject to the provisions of Section 2.05(c)(iii), each Revolving Facility Lender that so

makes funds available shall be deemed to have made an ABR Revolving Facility Loan to the Borrower in such amount. The Administrative Agent shall remit the funds so received to the applicable Issuing Bank.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Revolving Facility Borrowing of ABR Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Borrower shall be deemed to have incurred from the applicable Issuing Bank an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the rate applicable to ABR Revolving Facility Loans of the applicable Class. In such event, each Revolving Facility Lender's payment to the Administrative Agent for the account of the applicable Issuing Bank pursuant to Section 2.05(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.05; provided that the amount of any drawing that is not reimbursed on the Honor Date shall bear interest at the rate applicable to ABR Revolving Facility Loans from and including the date of drawing to but excluding the date such amount becomes an Unreimbursed Amount.

(iv) Until each Revolving Facility Lender under the applicable Revolving Facility funds its Revolving Facility Loan or L/C Advance pursuant to this Section 2.05(c) to reimburse an Issuing Bank for any amount drawn under any Letter of Credit, interest in respect of such Lender's Revolving Facility Percentage of such amount shall be solely for the account of such Issuing Bank.

(v) Each Revolving Facility Lender's obligation to make Revolving Facility Loans or L/C Advances to reimburse the Issuing Banks for amounts drawn under Letters of Credit, as contemplated by this Section 2.05(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against any Issuing Bank, the Borrower or any other person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Revolving Facility Lender's obligation to make Revolving Facility Loans pursuant to this Section 2.05(c) is subject to the conditions set forth in Section 4.03 (other than delivery by the Borrower of a Borrowing Request). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse any Issuing Bank for the amount of any payment made by such Issuing Bank under any Letter of Credit, together with interest as provided herein.

(vi) If any Revolving Facility Lender fails to make available to the Administrative Agent for the account of an Issuing Bank any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.05(c) by the time specified in Section 2.05(c)(ii), then, without limiting the other provisions of this Agreement, such Issuing Bank shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to such Issuing Bank at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by such Issuing Bank in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by such Issuing Bank in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid (minus the foregoing interest and fees) shall constitute such Lender's Revolving Facility Loan included in the relevant Revolving Facility Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of an Issuing Bank submitted to any Revolving Facility Lender (through the Administrative Agent) with respect to any amounts owing under this Section 2.05(c)(vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after an Issuing Bank has made a payment under any Letter of Credit and has received from any Revolving Facility Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.05(c), if the Administrative Agent receives for the account of such Issuing Bank any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Revolving Facility Percentage thereof in the same funds as those received by the Administrative Agent.

(ii) If any payment received by the Administrative Agent for the account of an Issuing Bank pursuant to Section 2.05(c)(i) is required to be returned under any of the circumstances described in Section 9.22 (including pursuant to any settlement entered into by such Issuing Bank in its discretion), each Revolving Facility Lender shall pay to the Administrative Agent for the account of such Issuing Bank its Revolving Facility Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute. The obligation of the Borrower to reimburse the relevant Issuing Bank for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any person for whom any such beneficiary or any such transferee may be acting), such Issuing Bank or any other person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) waiver by such Issuing Bank of any requirement that exists for such Issuing Bank's protection and not the protection of the Borrower or any waiver by such Issuing Bank which does not in fact materially prejudice the Borrower;

(v) honor of a demand for payment presented electronically even if such Letter of Credit requires that demand be in the form of a draft;

(vi) any payment made by such Issuing Bank in respect of an otherwise complying item presented after the date specified as the expiration date of, or the date by which documents must be received under such Letter of Credit if presentation after such date is authorized by the UCC or the ISP, as applicable;

(vii) any payment by such Issuing Bank under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by such Issuing Bank under such Letter of Credit to any person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(viii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or any of its Subsidiaries.

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will promptly notify the relevant Issuing Bank. The Borrower shall be conclusively deemed to have waived any such claim against the relevant Issuing Bank and its correspondents unless such notice is given as aforesaid.

(f) Role of Issuing Banks. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, other than in respect of any sight draft, certificates and documents expressly required by the Letter of Credit, no Issuing Bank shall have any responsibility to obtain any document or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the person executing or delivering any such document. None of the Issuing Banks, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the Issuing Banks shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Revolving Facility Lenders or the Required Revolving Facility Lenders, as applicable, under the applicable Revolving Facility; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of the Issuing Banks, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of any Issuing Bank shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.05(e); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against an Issuing Bank, and such Issuing Bank may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by such Issuing Bank's willful misconduct or gross negligence, or such Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, each Issuing Bank may accept documents that appear on their face to be in compliance with the terms of the Letter of Credit, without responsibility for further investigation, regardless of any notice or information to the contrary, and no Issuing Bank shall be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason. Any Issuing Bank may send a Letter of Credit or conduct any communication to or from the beneficiary via the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") message or overnight courier, or any other commercially reasonable means of communicating with a beneficiary.

(g) Applicability of ISP. Unless otherwise expressly agreed by the relevant Issuing Bank and the Borrower when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the ISP shall apply to each Letter of Credit. Notwithstanding the foregoing, no Issuing Bank shall be responsible to the Borrower for, and no Issuing Bank's rights and remedies against the Borrower shall be impaired by, any action or inaction of such Issuing Bank required or permitted under any law, order, or practice that is required or permitted to be applied to any Letter of Credit or this Agreement, including any Requirements of Law or any order of a jurisdiction where such Issuing Bank or the beneficiary is located, the practice stated in the ISP or in the decisions, opinions, practice statements, or official commentary of the ICC Banking Commission, the Bankers Association for Finance and Trade - International Financial Services Association (BAFT-IFSA), or the Institute of International Banking Law & Practice, whether or not any Letter of Credit chooses such law or practice.

(h) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

(i) Letters of Credit Issued for Subsidiaries. Notwithstanding that a Letter of Credit issued or outstanding hereunder is in support of any obligations of, or is for the account of, a Subsidiary, the Borrower shall be obligated to reimburse the applicable Issuing Bank hereunder for any and all drawings under such Letter of Credit. The Borrower hereby acknowledges that the issuance of Letters of Credit for the account of Subsidiaries inures to the benefit of the Borrower, and that the Borrower's business derives substantial benefits from the businesses of such Subsidiaries.

(j) Cash Collateralization Following Certain Events. If and when the Borrower is required to Cash Collateralize any Revolving L/C Exposure relating to any outstanding Letters of Credit pursuant to any of Section 2.11(d), 2.11(e), 2.24(a)(v) or 7.01, the Borrower shall deposit in an account with or at the direction of the Collateral Agent, in the name of the Collateral Agent and for the benefit of the Revolving Facility Lenders under each Revolving Facility, an amount in cash equal to 102% of the Revolving L/C Exposure under such Revolving Facility as of such date plus any accrued but unpaid interest thereon (or, in the case of Sections 2.11(d), 2.11(e) and 2.24(a)(v), the portion thereof required by such sections). Each deposit of Cash Collateral (x) made pursuant to this paragraph or (y) made by the Administrative Agent pursuant to Section 2.24(a)(ii), in each case, shall be held by the Collateral Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Collateral Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account and the Borrower hereby grants the Collateral Agent, for the benefit of the Secured Parties, a security interest in such account. Such deposits shall not bear interest. Moneys in such account shall be applied by the Collateral Agent to reimburse each Issuing Bank for any disbursements under any Letter of Credit for which such Issuing Bank has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the Revolving L/C Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with Revolving L/C Exposure representing greater than 50% of the total Revolving L/C Exposure), be applied to satisfy other Loan Obligations. If the Borrower is required to provide an amount of Cash Collateral hereunder as a result of the occurrence of an Event of Default or the existence of a Defaulting Lender or the occurrence of a limit under Section 2.11(d) or (e) being exceeded, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three (3) Business Days after all Events of Default have been cured or waived or the termination of the Defaulting Lender status or the limits under Sections 2.11(d) and (e) no longer being exceeded, as applicable.

(k) Additional Issuing Banks. From time to time, the Borrower may by notice to the Administrative Agent designate any Revolving Facility Lender (in addition to the initial Issuing Banks) which agrees (in its sole discretion) to act in such capacity and is reasonably satisfactory to the

Administrative Agent as an Issuing Bank. Each such additional Issuing Bank shall execute a counterpart of this Agreement upon the approval of the Administrative Agent (which approval shall not be unreasonably withheld) and shall thereafter be an Issuing Bank hereunder for all purposes.

(l) Reporting. Unless otherwise requested by the Administrative Agent, each Issuing Bank (other than the Administrative Agent or its Affiliates) shall (i) provide to the Administrative Agent copies of any notice received from the Borrower pursuant to Section 2.05(b) no later than the next Business Day after receipt thereof (or, if earlier, the time specified thereon) and (ii) report in writing to the Administrative Agent (A) on or prior to each Business Day on which such Issuing Bank expects to issue, amend or extend any Letter of Credit, the date of such issuance, amendment or extension, and the aggregate face amount of the Letters of Credit to be issued, amended or extended by it and outstanding after giving effect to such issuance, amendment or extension occurred (and whether the amount thereof changed), and the Issuing Bank shall be permitted to issue, amend or extend such Letter of Credit if the Administrative Agent shall not have advised the Issuing Bank that such issuance, amendment or extension would not be in conformity with the requirements of this Agreement, (B) on each Business Day on which such Issuing Bank makes any disbursement under any Letter of Credit, the date of such disbursement and the amount of such disbursement and (C) on any other Business Day, such other information with respect to the outstanding Letters of Credit issued by such Issuing Bank as the Administrative Agent shall reasonably request.

Section 2.06 Funding of Borrowings.

(a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, Local Time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders; provided, that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower as specified in the applicable Borrowing Request; provided, that Borrowings made to finance the reimbursement of any disbursement under any Letter of Credit and reimbursements as provided in Section 2.05 (c) shall be remitted by the Administrative Agent to the applicable Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of Eurodollar Loans (or, in the case of any Borrowing of ABR Loans, prior to 11:00 a.m., Local Time, on the date of such Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with clause (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of a payment to be made by such Lender, the greater of (A) the Federal Funds Rate and (B) a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of a payment to be made by the Borrower, the interest rate then applicable to ABR Loans of the applicable Class. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing. The foregoing shall be without prejudice to any claim such Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

Section 2.07 Interest Elections.

(a) Each Borrowing initially shall be of the Type, and under the applicable Class, specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section 2.07 shall not apply to Swingline Loans, which may not be converted or continued. Notwithstanding any other provision of this Section 2.07, the Borrower shall not be permitted to change the Class of any Borrowing.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election (by telephone or irrevocable written notice), by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Borrowing of the Type and Class resulting from such election to be made on the effective date of such election.

Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or electronic means to the Administrative Agent of a written Interest Election Request signed by the Borrower. Notwithstanding any contrary provision herein, this Section 2.07 shall not be construed to permit the Borrower to (i) elect an Interest Period for Eurodollar Loans that does not comply with Section 2.02(d) or (ii) convert any Borrowing to a Borrowing of a Type not available under the Class of Commitments or Loans pursuant to which such Borrowing was made.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which Interest Period shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. If less than all the outstanding principal amount of any Borrowing shall be converted or continued, then each resulting Borrowing shall be in an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum and satisfy the limitations specified in Section 2.02(d) regarding the maximum number of Borrowings of the relevant Type.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender to which such Interest Election Request relates of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto or with respect to the Term B Loans prior to the Closing Date, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the written request (including a request through electronic means) of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the then current Interest Period.

Section 2.08 Termination and Reduction of Commitments.

(a) Unless previously terminated, the Revolving Facility Commitments of each Class shall automatically and permanently terminate on the applicable Revolving Facility Maturity Date for such Class. On the Effective Date (after giving effect to the funding of the Initial Term B Loans on such date), the Initial Term B Loan Commitments of each Term Lender with an Initial Term B Loan Commitment as of the Effective Date will automatically and permanently terminate. On the Closing Date (after giving effect to the funding of the Term A Loans to be made on such date), the Initial Term A Loan Commitments of each Term Lender with an Initial Term A Loan Commitment as of the Closing Date will automatically and permanently terminate. On the Closing Date (after giving effect to the funding of the Term A-1 Loans to be made on such date), the Initial Term A-1 Loan Commitments of each Term Lender with an Initial Term A-1 Loan Commitment as of the Closing Date will automatically and permanently terminate. On the Closing Date (after giving effect to the funding of the Initial Term B Loans on such date), the Initial Term B Loan Commitments of each Term Lender with an Initial Term B Loan Commitment as of the Closing Date will automatically and permanently terminate. Notwithstanding the foregoing, all Commitments shall automatically terminate upon the occurrence of the Outside Date if the Closing Date has not occurred at or prior to such time or if the Term B Loans are prepaid pursuant to Section 2.10(e). On the Incremental Assumption Agreement No. 1 Effective Date (after giving effect to the funding of the Term A Loan to be made thereunder on such date), the Incremental Assumption Agreement No. 1 Additional Term A Loan Commitment will automatically and permanently terminate.

(b) The Borrower may at any time terminate, or from time to time reduce, the Revolving Facility Commitments of any Class; provided, that (i) each reduction of the Revolving Facility Commitments of any Class shall be in an amount that is an integral multiple of \$5,000,000 and not less than \$10,000,000 (or, if less, the remaining amount of the Revolving Facility Commitments of such Class) and (ii) the Borrower shall not terminate or reduce the Revolving Facility Commitments of any Class if, after giving effect to any concurrent prepayment of the Revolving Facility Loans in accordance with Section 2.11 and any Cash Collateralization of Letters of Credit in accordance with Section 2.05(j), as applicable, the Revolving Facility Credit Exposure of such Class (excluding any Cash Collateralized Letter of Credit, to the extent so Cash Collateralized) would exceed the total Revolving Facility Commitments of such Class.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Facility Commitments of any Class under clause (b) of this Section 2.08 at least three (3) Business Days prior to the effective date of such termination or reduction (or such shorter

period acceptable to the Administrative Agent), specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the applicable Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section 2.08 shall be irrevocable; provided, that a notice of termination or reduction of the Revolving Facility Commitments of any Class delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, indentures or similar agreements or other transactions, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments of any Class shall be made ratably among the Lenders in accordance with their respective Commitments of such Class.

Section 2.09 Repayment of Loans; Evidence of Debt.

(a) The Borrower hereby unconditionally promise to pay (i) to the Administrative Agent for the account of each Revolving Facility Lender the then unpaid principal amount of each Revolving Facility Loan on the Revolving Facility Maturity Date applicable to such Revolving Facility Loans, (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Term Loan of such Lender as provided in Section 2.10 and (iii) to the Swingline Lender the then unpaid principal amount of each Swingline Loan made under any Revolving Facility on the Revolving Facility Maturity Date for such Revolving Facility; provided, that on each date that a Revolving Facility Borrowing is made by the Borrower, the Borrower shall repay all Swingline Loans then outstanding.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Facility, Class and Type thereof and the Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) any amount received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to clause (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided, that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note (a "Note"). In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in the form attached hereto as Exhibit H, or in another form approved by such Lender, the Administrative Agent and the Borrower in their sole discretion. Thereafter, unless otherwise agreed to by the applicable Lender, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the payee named therein (or, if requested by such payee, to such payee and its registered assigns).

Section 2.10 Repayment of Term Loans and Revolving Facility Loans and Prepayment Procedures.

(a) Subject to the other clauses of this Section 2.10 and to Section 9.08(e),

(i) the Borrower shall repay principal of outstanding Term A Loans on the last Business Day of each March, June, September and December of each year (commencing on the last Business Day of the first fiscal quarter of the Borrower commencing after the Closing Date) and on the Term A Maturity Date (each such date being referred to as a "Term A Loan Installment Date"), in an aggregate principal amount of Term A Loans equal to (i) for each Term A Loan Installment Date prior to the Term A Maturity Date, 1.25% of the aggregate principal amount of the Term A Loans incurred on the Closing Date **and the Incremental Assumption Agreement No. 1 Effective Date** and (ii) in the case of such payment due on the Term A Maturity Date, an amount equal to the then unpaid principal amount of such Term A Loans outstanding;

(ii) the Borrower shall repay principal of outstanding Term A-1 Loans on the last Business Day of each March, June, September and December of each year (commencing on the last Business Day of the first fiscal quarter of the Borrower commencing after the Closing Date) and on the Term A-1 Maturity Date (each such date being referred to as a "Term A-1 Loan Installment Date"), in an aggregate principal amount of Term A-1 Loans equal to (i) for each Term A-1 Loan Installment Date prior to the Term A-1 Maturity Date, 1.25% of the aggregate principal amount of the Term A-1 Loans incurred on the Closing Date and (ii) in the case of such payment due on the Term A-1 Maturity Date, an amount equal to the then unpaid principal amount of such Term A-1 Loans outstanding;

(iii) the Borrower shall repay principal of outstanding Term B Loans on the last Business Day of each March, June, September and December of each year (commencing on the last Business Day of the first fiscal quarter of the Borrower commencing after the Closing Date) and on the Term B Maturity Date (each such date being referred to as a "Term B Loan Installment Date"), in an aggregate principal amount of such Term B Loans equal to (A) for each such Term B Loan Installment Date prior to the Term B Facility Maturity Date, an amount equal to 0.25% of the aggregate principal amount of the Term B Loans incurred on the Effective Date, and (B) in the case of such payment due on the Term B Maturity Date, an amount equal to the then unpaid principal amount of such Term B Loans outstanding;

(iv) in the event that any Other Term Loans are made, the Borrower shall repay such Other Term Loans on the dates and in the amounts set forth in the related Incremental Assumption Agreement, Extension Amendment or Refinancing Amendment (each such date being referred to as an "Other Term Loan Installment Date"); and

(v) to the extent not previously paid, all outstanding Term Loans shall be due and payable on the applicable Term Facility Maturity Date.

(b) To the extent not previously paid, all outstanding Revolving Facility Loans and Swingline Loans shall be due and payable on the applicable Revolving Facility Maturity Date.

(c) Any mandatory prepayment of Term Loans pursuant to Section 2.11(b) or Section 2.11(c) shall be applied so that the aggregate amount of such prepayment is allocated among the Term A Loans, the Term A-1 Loans, the Term B Loans and the Other Term Loans, if any, pro rata based on the aggregate principal amount of outstanding Term A Loans, Term A-1 Loans, Term B Loans and Other

Term Loans, if any, to reduce amounts due on the succeeding Term Loan Installment Dates for such Classes; provided, that, subject to the pro rata application to Loans outstanding within any respective Class of Loans, (x) with respect to mandatory prepayments of Term Loans pursuant to Section 2.11(b)(1) and 2.11(c), any Class of Other Term Loans may receive less than its pro rata share thereof (so long as the amount by which its pro rata share exceeds the amount actually applied to such Class is applied to repay (on a pro rata basis) the outstanding Term A Loans, Term A-1 Loans, Term B Loans and any other Classes of then outstanding Other Term Loans, in each case to the extent the respective Class receiving less than its pro rata share has consented thereto) and (y) the Borrower shall allocate any repayments pursuant to Section 2.11(b)(2) to repay the respective Class or Classes or, in the case of Refinancing Term Loans incurred to refinance Indebtedness of LVL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt" (and, in the case of revolving Indebtedness to correspondingly reduce Commitments), the relevant Indebtedness, being refinanced, as provided in Section 2.11(b)(2). Any optional prepayments of the Term Loans pursuant to Section 2.11(a) shall be applied to the remaining installments of the Term Loans under the applicable Class or Classes as the Borrower may in each case direct.

Prior to any prepayment of any Loan under any Facility hereunder, the Borrower shall select the Borrowing or Borrowings under the applicable Facility to be prepaid and shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by electronic means) of such selection not later than (i) 10:00 a.m., Local Time, in the case of an ABR Borrowing or any Swingline Loan, on the scheduled date of such prepayment and (ii) 2:00 p.m., Local Time, in the case of a Eurodollar Borrowing, at least three (3) Business Days before the scheduled date of such prepayment (or, in each case, such shorter period acceptable to the Administrative Agent (and Swingline Lender, if applicable)). Each such notice shall be irrevocable; provided, that a notice of prepayment may state that such notice is conditioned upon the effectiveness of other credit facilities, indentures or similar agreements or other transactions, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent (and Swingline Lender, if applicable) on or prior to the specified effective date) if such condition is not satisfied. Each repayment of a Borrowing (x) in the case of the Revolving Facility of any Class, shall be applied to the Revolving Facility Loans included in the repaid Borrowing such that each Revolving Facility Lender receives its ratable share of such repayment (based upon its respective Revolving Facility Percentage of such Class at the time of such repayment) and (y) in all other cases, shall be applied ratably to the Loans included in the repaid Borrowing. All repayments of Loans shall be accompanied by (1) accrued interest on the amount repaid to the extent required by Section 2.13(d) and (2) break funding payments pursuant to Section 2.16. In connection with any prepayment of any Loan of any Lender hereunder that would otherwise occur from the proceeds of new Loans being funded hereunder on the date of such prepayment, if agreed to by the Borrower and such Lender in a writing provided to the Administrative Agent, the portion of the existing Loan of such Lender that would otherwise be prepaid on such date may instead be converted on a "cashless roll" basis into a like principal amount of the new Loans being funded on such date.

(d) The Borrower shall notify the Administrative Agent in writing of any mandatory prepayment of Term Loans required to be made pursuant to Section 2.11(b)(1) or 2.11(c) at least four (4) Business Days prior to the date of such prepayment. Each such notice shall specify the date of such prepayment and provide a reasonably detailed calculation of the amount of such prepayment. The Administrative Agent will promptly notify each Term Lender of the contents of any such prepayment notice and of such Term Lender's ratable portion of such prepayment (based on such Lender's pro rata share of each relevant Class of the Term Loans). Any Term Lender (a "Declining Term Lender") may elect, by delivering written notice to the Administrative Agent and the Borrower no later than 5:00 p.m. one (1) Business Day after the date of such Term Lender's receipt of notice from the Administrative Agent regarding such prepayment, that the full amount of any mandatory prepayment otherwise required to be made with respect to the Term Loans held by such Term Lender pursuant to Section 2.11(b)(1) or

2.11(c) not be made (the aggregate amount of such prepayments declined by the Declining Term Lenders, the "Declined Prepayment Amount"). If a Term Lender fails to deliver notice setting forth such rejection of a prepayment to the Administrative Agent within the time frame specified above or such notice fails to specify the principal amount of the Term Loans to be rejected, any such failure will be deemed an acceptance of the total amount of such mandatory prepayment of Term Loans. Any Declined Prepayment Amount which would otherwise have been applied to such Term Loans of the Declining Term Lenders shall instead be retained by the Borrower. For the avoidance of doubt, the Borrower may, at its option, apply any amounts retained in accordance with the immediately preceding sentence to prepay loans in accordance with Section 2.11(a) below.

(e) In the event the Escrowed Property is released to the Administrative Agent pursuant to Sections 3(b) of the Escrow Agreement, the Administrative Agent shall apply such funds when and as received to pay in full the outstanding Term B Loans at a prepayment price equal to 99.50% of the aggregate principal amount thereof (payment of such amount constituting repayment in full of the principal amount of the Term B Loans), together with all accrued interest on such Term B Loans and all other Obligations (other than principal) then due and payable and, thereafter, shall remit any remaining amounts to the Borrower.

Section 2.11 Prepayment of Loans.

(a) The Borrower shall have the right at any time and from time to time to prepay any Loan in whole or in part, without premium or penalty (but subject to Section 2.12(d), Section 2.12(e) and Section 2.16 and subject to prior notice in accordance with the provisions of Section 2.10(c)), in an aggregate principal amount that is an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum or, if less, the amount outstanding, subject to prior notice in accordance with the first sentence of Section 2.10(d).

(b) Beginning on the Closing Date, the Borrower shall apply (1) all Net Proceeds (other than Net Proceeds of the kind described in the following clause (2)) within five (5) Business Days after receipt thereof to prepay Term Loans in accordance with clauses (c) and (d) of Section 2.10 and (2) all Net Proceeds from any issuance or incurrence of Refinancing Notes, Refinancing Term Loans (other than Refinancing Term Loans incurred to refinance Indebtedness of LVLTL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt" (and, in the case of revolving Indebtedness to correspondingly reduce Commitments)) and Replacement Revolving Facility Commitments (other than solely by means of extending or renewing then existing Refinancing Notes, Refinancing Term Loans and Replacement Revolving Facility Commitments without resulting in any Net Proceeds) no later than three (3) Business Days after the date on which such Refinancing Notes, Refinancing Term Loans and Replacement Revolving Facility Commitments are issued or incurred, to prepay Term Loans and/or Revolving Facility Commitments in accordance with Section 2.23 and the definition of "Refinancing Notes" (as applicable). Notwithstanding anything to the contrary in this Section 2.11(b) or elsewhere in this Agreement, to the extent that (A) any or all of the Net Proceeds of any Asset Sale by a Foreign Subsidiary are prohibited by any Requirement of Law from being loaned, distributed or otherwise transferred to Borrower or any Domestic Subsidiary or materially adverse consequences (including any material Tax) would result therefrom or (B) any or all of the Net Proceeds of any Asset Sale or Recovery Event by a Subsidiary other than a Guarantor are prohibited from being transferred to the Borrower for application in accordance with this Section 2.11(b) by any applicable organizational documents, joint venture agreement, shareholder agreement, or similar agreement or any other contractual obligation with an unaffiliated third party (including any agreement governing Indebtedness) that was not created in contemplation of such Asset Sale or Recovery Event, then in each case the portion of such Net Cash Proceeds so affected will not be required to be applied at the times

provided in this Section 2.11(b) but may be retained by the applicable Subsidiary or applied in any other manner not prohibited by this Agreement.

(c) Not later than five (5) Business Days after the date on which the annual financial statements are, or are required to be, delivered under Section 5.04(a) with respect to each Excess Cash Flow Period, the Borrower shall calculate Excess Cash Flow for such Excess Cash Flow Period and, if and to the extent the amount of such Excess Cash Flow exceeds \$0, the Borrower shall apply an amount to prepay Term Loans equal to (i) the Required Percentage of such Excess Cash Flow minus (ii) to the extent not financed using the proceeds of funded Indebtedness, the sum of (a) the amount of any voluntary payments of Term Loans and amounts used to repurchase outstanding principal of Term Loans during such Excess Cash Flow Period pursuant to Sections 2.11(a) and Section 2.25 (it being understood that the amount of any such payments pursuant to Section 2.25 shall be calculated to equal the amount of cash used to repay principal and not the principal amount deemed prepaid therewith), (b) the amount of any voluntary payments of Revolving Facility Loans to the extent that Revolving Facility Commitments are terminated or reduced pursuant to Section 2.08 by the amount of such payments and (c) the amount used to fund any voluntary prepayments, voluntary repurchases or voluntary redemptions of any other Indebtedness of LVL, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt" (other than Indebtedness under any revolving credit facility except to the extent there is a corresponding reduction in the commitments thereunder), plus, in each case, without duplication of any amounts previously deducted under this clause (ii), the amount of any such voluntary payments, voluntary repurchases or voluntary redemptions of such Indebtedness after the end of such Excess Cash Flow Period but before the date of prepayment under this clause (c). Such calculation will be set forth in a certificate signed by a Financial Officer of the Borrower delivered to the Administrative Agent setting forth the amount, if any, of Excess Cash Flow for such fiscal year, the amount of any required prepayment in respect thereof and the calculation thereof in reasonable detail. Notwithstanding anything to the contrary in this Section 2.11(c) or elsewhere in this Agreement, to the extent that any or all of Excess Cash Flow that is attributable to a Foreign Subsidiary is prohibited by any Requirement of Law from being loaned, distributed or otherwise transferred to Borrower or any Domestic Subsidiary or materially adverse consequences (including any material Tax) would result therefrom then the portion of such Excess Cash Flow so affected will not be required to be applied at the times provided in this Section 2.11(c) but may be retained by the applicable Subsidiary or applied in any other manner not prohibited by this Agreement.

(d) In the event that the aggregate amount of Revolving Facility Credit Exposure of any Class exceeds the total Revolving Facility Commitments of such Class, the Borrower shall prepay Revolving Facility Borrowings and/or Swingline Borrowings of such Class (or, if no such Borrowings are outstanding, provide Cash Collateral in respect of outstanding Letters of Credit pursuant to Section 2.05(j)) in an aggregate amount equal to such excess.

(e) Prepayments pursuant to this Section 2.11 shall be in accordance with the procedures specified in clauses (c) and (d) of Section 2.10 (including, for the avoidance of doubt, that Term Lenders may decline such prepayments and the Borrower may retain any Declined Prepayment Amount).

Section 2.12 Fees.

(a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender, on the first Business Day following the end of each March, June, September and December (commencing on the first such Business Day that is at least three months after the Closing Date) and on the date on which the Revolving Facility Commitments of any Class of all the Lenders shall be terminated as provided herein, a commitment fee (a "Commitment Fee") in Dollars on the daily amount of the applicable Available Unused Commitment of such Lender during the preceding quarter (or other period

commencing with the Closing Date or ending with the date on which the last of the Revolving Facility Commitments of such Lender shall be terminated) at a rate equal to the Applicable Commitment Fee. All Commitment Fees shall be computed on the basis of the actual number of days elapsed (including the first day but excluding the last) in a year of 360 days. The Commitment Fee due to each Lender shall commence to accrue on the Closing Date and shall cease to accrue on the date on which the last of the Revolving Facility Commitments of such Lender shall be terminated as provided herein.

(b) The Borrower agrees to pay from time to time (i) to the Administrative Agent for the account of each Revolving Facility Lender of each Class, on the first Business Day following the end of each March, June, September and December (commencing on the first such Business Day that is at least three months after the Closing Date) and on the date on which the Revolving Facility Commitments of all the Lenders in such Class shall be terminated as provided herein, a fee (an "L/C Participation Fee") on such Lender's Revolving Facility Percentage of the daily average Revolving L/C Exposure (excluding the portion thereof attributable to unreimbursed disbursements under any Letter of Credit) of such Class, during the preceding quarter (or other period commencing with the Closing Date or ending with the Revolving Facility Maturity Date or the date on which the Revolving Facility Commitments of such Class shall be terminated; provided, that any such fees accruing after the date on which such Revolving Facility Commitments terminate shall be payable on demand) at the rate per annum equal to the Applicable Margin for Eurodollar Revolving Facility Borrowings of such Class effective for each day in such period, and (ii) to each Issuing Bank, for its own account (x) on the last Business Day of each March, June, September and December (commencing on the last Business Day of the first fiscal quarter commencing after the Closing Date) and on the date on which the Revolving Facility Commitments of all the Lenders shall be terminated, a fronting fee in Dollars in respect of each Letter of Credit issued by such Issuing Bank for the period from and including the date of issuance of such Letter of Credit to and including the termination of such Letter of Credit, computed at a rate equal to 0.125% per annum of the daily stated amount of such Letter of Credit (or such lesser amount as may be acceptable to the Issuing Bank in its sole discretion, or with respect to any additional Issuing Bank designated in accordance with Section 2.05(k) after the Closing Date, such greater amount as may be agreed with the Borrower), plus (y) in connection with the issuance, amendment, cancellation, negotiation, presentment, renewal, extension or transfer of any such Letter of Credit or any disbursement thereunder, such Issuing Bank's customary documentary and processing fees and charges (collectively, "Issuing Bank Fees"). All L/C Participation Fees and Issuing Bank Fees that are payable on a per annum basis shall be computed on the basis of the actual number of days elapsed (including the first day but excluding the last) in a year of 360 days.

(c) The Borrower agrees to pay to the Administrative Agent, for the account of the Administrative Agent, the "Senior Administration Fee" as set forth in the Fee Letter, in the amounts and, at the times specified therein (the "Administrative Agent Fees").

(d) If any Repricing Event occurs prior to the date occurring one year after the Closing Date, the Borrower agrees to pay to the Administrative Agent, for the ratable account of each Term Lender with Term B Loans that are subject to such Repricing Event (including any Term Lender which is replaced pursuant to Section 2.19(c) as a result of its refusal to consent to an amendment giving rise to such Repricing Event), a fee in an amount equal to 1.00% of the aggregate principal amount of the Term B Loans subject to such Repricing Event. Such fees shall be earned, due and payable upon the date of the occurrence of the respective Repricing Event.

(e) All Fees shall be paid on the dates due, in Dollars and immediately available funds, to the Administrative Agent for distribution, if and as appropriate, among the Lenders, except that Issuing Bank Fees shall be paid directly to the applicable Issuing Banks. Once paid, none of the Fees shall be refundable under any circumstances.

Section 2.13 Interest.

(a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the ABR plus the Applicable Margin.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Eurodollar Rate for the Interest Period in effect for such Borrowing plus the Applicable Margin. Prior to the Closing Date, all Term B Loans shall bear interest at the Applicable Term B Escrow Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any Fees or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding clauses of this Section 2.13 or (ii) in the case of any other overdue amount, 2% plus the rate applicable to ABR Loans as provided in clause (a) of this Section; provided, that this clause (c) shall not apply to any Event of Default that has been waived by the Lenders pursuant to Section 9.08.

(d) Accrued interest on each Loan shall be payable in arrears (i) on each Interest Payment Date for such Loan, (ii) in the case of Revolving Facility Loans, upon termination of the applicable Revolving Facility Commitments and (iii) in the case of the Term Loans, on the applicable Term Facility Maturity Date; provided, that (A) interest accrued pursuant to clause (c) of this Section 2.13 shall be payable on demand, (B) in the event of any repayment or prepayment of any Loan (other than a prepayment of a Revolving Facility Loan that is an ABR Loan that is not made in conjunction with a permanent commitment reduction), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment, (C) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion and (D) any Loan that is repaid on the same day on which it is made shall bear interest for one day.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the ABR shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable ABR or Eurodollar Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.14 Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing under any Facility:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Majority Lenders under such Facility that the Eurodollar Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the applicable Lenders by telephone or electronic means as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the applicable Lenders that the circumstances giving rise to such notice no

longer exist, (i) any Interest Election Request under such Facility that requests (or any deemed request for) the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and such Borrowing shall be converted to or continued as on the last day of the Interest Period applicable thereto an ABR Borrowing, and (ii) if any Borrowing Request under such Facility requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing; provided, that if the circumstances giving rise to such notice affect only one Type of Borrowings for a particular Facility or Class, then that Type of Borrowings for each other Facility and Class shall be permitted.

Section 2.15 Increased Costs.

(a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender or Issuing Bank; or

(ii) subject the Administrative Agent, any Lender or the Issuing Bank to any Tax with respect to any Loan Document (other than (i) Indemnified Taxes and Other Taxes indemnifiable under Section 2.17 or (ii) Excluded Taxes); or

(iii) impose on any Lender or Issuing Bank or the London or other relevant interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan or of maintaining its obligation to make any such Loan or to increase the cost to such Lender or Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or Issuing Bank hereunder, whether of principal, interest or otherwise, then the applicable Borrower will pay to the Administrative Agent, such Lender or Issuing Bank, as applicable, such additional amount or amounts as will compensate the Administrative Agent such Lender or Issuing Bank, as applicable, for such additional costs incurred or reduction suffered.

(b) If any Lender or Issuing Bank determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or Issuing Bank's capital or on the capital of such Lender's or Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans or Commitments made by, or participations in Letters of Credit or Swingline Loans held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy and liquidity), then from time to time the Borrower shall pay to such Lender or such Issuing Bank, as applicable, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or Issuing Bank or its holding company, as applicable, as specified in clause (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error; provided, that any such certificate claiming amounts described in clause (x) or (y) of the

definition of "Change in Law" shall, in addition, state the basis upon which such amount has been calculated and certify that such Lender's or Issuing Bank's demand for payment of such costs hereunder, and such method of allocation is not inconsistent with its treatment of other borrowers, which as a credit matter, are similarly situated to the Borrower and which are subject to similar provisions. The Borrower shall pay such Lender or Issuing Bank, as applicable, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Promptly after any Lender or Issuing Bank has determined that it will make a request for increased compensation pursuant to this Section 2.15, such Lender or Issuing Bank shall notify the Borrower thereof. Failure or delay on the part of any Lender or Issuing Bank to demand compensation pursuant to this Section 2.15 shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation; provided, that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to this Section 2.15 for any increased costs or reductions incurred more than 180 days prior to the date that such Lender or Issuing Bank, as applicable, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or Issuing Bank's intention to claim compensation therefor; provided, further, that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof.

Section 2.16 Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default or as a result of any prepayment pursuant to Section 2.10 or 2.11), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan on the date specified in any notice delivered pursuant hereto (whether or not such notice may be revoked under Section 2.10(c)) or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. Such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender (it being understood that the deemed amount shall not exceed the actual amount) to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Eurodollar Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in Dollars of a comparable amount and period from other banks in the Eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.16 shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 2.17 Taxes.

(a) Any and all payments made by or on behalf of a Loan Party under this Agreement or any other Loan Document shall be made free and clear of, and without deduction or withholding for or on account of, any Taxes; provided, that if a Loan Party, the Administrative Agent or any other applicable withholding agent shall be required by applicable Requirement of Law to deduct or withhold any Taxes from such payments, then (i) the applicable withholding agent shall make such deductions or withholdings as are reasonably determined by the applicable withholding agent to be required by any applicable Requirement of Law, (ii) the applicable withholding agent shall timely pay the full amount

deducted or withheld to the relevant Governmental Authority within the time allowed and in accordance with applicable Requirement of Law, and (iii) to the extent withholding or deduction is required to be made on account of Indemnified Taxes or Other Taxes, the sum payable by the Loan Party shall be increased as necessary so that after all required deductions and withholdings have been made (including deductions or withholdings applicable to additional sums payable under this Section 2.17) the Administrative Agent or any Lender, as applicable, receives an amount equal to the sum it would have received had no such deductions or withholdings been made. Whenever any Indemnified Taxes or Other Taxes are payable by a Loan Party, as promptly as possible thereafter, such Loan Party shall send to the Administrative Agent for its own account or for the account of a Lender, as the case may be, a copy of an official receipt (or other evidence acceptable to the Administrative Agent or such Lender, acting reasonably) received by the Loan Party showing payment thereof. Without duplication, after any payment of Taxes by any Loan Party or the Administrative Agent to a Governmental Authority as provided in this Section 2.17, the Borrower shall deliver to the Administrative Agent or the Administrative Agent shall deliver to the Borrower, as the case may be, a copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by applicable Requirements of Law to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Administrative Agent, as the case may be.

(b) The Borrower shall timely pay any Other Taxes imposed on or incurred by the Administrative Agent or any Lender to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall, without duplication of any additional amounts paid pursuant to Section 2.17(a)(iii) or any amounts paid pursuant to Section 2.17(b), indemnify and hold harmless the Administrative Agent and each Lender within fifteen (15) Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes imposed on the Administrative Agent or such Lender, as applicable, as the case may be (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.17), and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate setting forth in reasonable detail the basis and calculation of the amount of such payment or liability delivered to the Borrower by a Lender or by the Administrative Agent (as applicable) on its own behalf or on behalf of a Lender shall be conclusive absent manifest error.

(d) Any Lender that is entitled to an exemption from or reduction of 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(s) and in the manner(s) prescribed by applicable law or reasonably requested by the Borrower such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate. Notwithstanding anything to the contrary in the preceding sentence, the completion, execution and submission of such documentation shall only be required to the extent the relevant Lender is legally eligible to do so.

Each person that shall become a Participant pursuant to Section 9.04 or a Lender pursuant to Section 9.04 shall, upon the effectiveness of the related transfer, be required to provide all the forms and statements required pursuant to this Section 2.17(d) and Section 2.17(f); provided, that a Participant shall furnish all such required forms and statements to the participating Lender.

(i) Each Lender and Administrative Agent that is a U.S. Person (other than persons that are corporations or otherwise exempt from United States backup withholding Tax), shall

deliver at the time(s) and in the manner(s) prescribed by applicable law or reasonably requested by the Borrower, to the Borrower and the Administrative Agent (as applicable), a properly completed and duly executed United States Internal Revenue Form W-9 or any successor form, certifying that such person is exempt from United States backup withholding Tax on payments made hereunder.

(ii) Without limiting the foregoing:

(A) any Foreign Lender shall, to the extent it is legally eligible to do so, deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a party to this Agreement (and from time to time thereafter upon the reasonable request of the Borrower or the Administrative Agent), whichever of the following is applicable:

(1) in the case of a Foreign Lender (or, if such Foreign Lender is disregarded as an entity separate from its owner for U.S. Federal Tax purposes, the person treated as its owner for U.S. Federal Tax purposes) eligible for the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, duly completed and executed originals of IRS Form W-8BEN or IRS Form W-8BEN-E, whichever is applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such Tax treaty and (y) with respect to any other applicable payments under any Loan Document, duly completed and executed originals of IRS Form W-8BEN or IRS Form W-8BEN-E, whichever is applicable, establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such Tax treaty;

(2) duly completed and executed originals of IRS Form W-8ECI with respect to such Foreign Lender (or, if such Foreign Lender is disregarded as an entity separate from its owner for U.S. Federal Tax purposes, with respect to the person treated as its owner for U.S. Federal Tax purposes);

(3) in the case of a Foreign Lender (or, if such Foreign Lender is disregarded as an entity separate from its owner for U.S. Federal Tax purposes, the person treated as its owner for Federal Tax purposes) entitled to the benefits of the exemption for portfolio interest under Section 881(c) of the Code, (x) a certificate substantially in the form of Exhibit J-1 to the effect that such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, a "10 percent shareholder" of the Borrower within the meaning of Section 881(c)(3)(B) of the Code, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code (a "U.S. Tax Compliance Certificate") and (y) duly completed and executed originals of IRS Form W-8BEN or IRS Form W-8BEN-E, whichever is applicable; or

(4) to the extent a Foreign Lender (or, if such Foreign Lender is disregarded as an entity separate from its owner for U.S. Federal Tax purposes, the person treated as its owner for U.S. Federal Tax purposes) is not the beneficial owner of such payments, duly completed and executed originals of IRS Form W-8IMY, accompanied by IRS Form W-8ECI, IRS Form W-8BEN or

IRS Form W-8BEN-E, whichever is applicable, a U.S. Tax Compliance Certificate substantially in the form of Exhibit J-1 or Exhibit J-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; provided, that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit J-2 or Exhibit J-4 on behalf of each such direct and indirect partner.

(iii) Each Lender (A) shall promptly notify the Borrower and the Administrative Agent of any change in circumstance which would modify or render invalid any claimed exemption or reduction, and (B) agrees that if any form or certification it previously delivered pursuant to this Section 2.17 expires or becomes inaccurate in any respect, it shall promptly (x) update such form or certification or (y) notify the Borrower and the Administrative Agent in writing of its legal inability to do so.

(e) If any Lender or the Administrative Agent, as applicable, determines in good faith that it has received a refund of an Indemnified Tax or Other Tax for which a payment has been made by a Loan Party pursuant to this Agreement or any other Loan Document, which refund in the good faith judgment of such Lender or the Administrative Agent, as the case may be, is attributable to such payment made by such Loan Party, then the Lender or the Administrative Agent, as the case may be, shall reimburse the Loan Party for such amount (net of all reasonable out-of-pocket expenses of such Lender or the Administrative Agent, as the case may be, and without interest other than any interest received thereon from the relevant Governmental Authority with respect to such refund) as the Lender or Administrative Agent, as the case may be, determines in good faith to be the portion of the refund as will leave it, after such reimbursement, in no better or worse position (taking into account expenses or any Taxes imposed on the refund) than it would have been in if the Indemnified Tax or Other Tax giving rise to such refund had not been imposed in the first instance; provided, that the Loan Party, upon the request of the Lender or the Administrative Agent agrees to repay the amount paid over to the Loan Party (plus any penalties, interest (solely with respect to the time period during which the Loan Party actually held such funds, except to the extent that the refund was initially claimed at the written request of such Loan Party) or other charges imposed by the relevant Governmental Authority) to the Lender or the Administrative Agent in the event the Lender or the Administrative Agent is required to repay such refund to such Governmental Authority. In such event, such Lender or the Administrative Agent, as the case may be, shall, at the Borrower's request, provide the Borrower with a copy of any notice of assessment or other evidence of the requirement to repay such refund received from the relevant Governmental Authority (provided, that such Lender or the Administrative Agent may delete any information therein that it deems confidential). A Lender or the Administrative Agent shall claim any refund that it determines is available to it, unless it concludes in its reasonable discretion that it would be adversely affected by making such a claim. No Lender nor the Administrative Agent shall be obliged to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to any Loan Party in connection with this clause (f) or any other provision of this Section 2.17.

(f) If a payment made to any Lender or any Agent under this Agreement or any other Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender or such Agent were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender or such Agent shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be

necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA, to determine whether such Lender has or has not complied with such Lender's obligations under FATCA or to determine the amount, if any, to deduct and withhold from such payment. Solely for purposes of this Section 2.17(f), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(g) The agreements in this Section 2.17 shall survive the termination of this Agreement and the payment of the Loans and all other amounts payable under any Loan Document.

For purposes of this Section 2.17, the term "Lender" includes any Issuing Bank and the term "applicable Requirement of Law" includes FATCA.

Section 2.18 Payments Generally; Pro Rata Treatment; Sharing of Set-offs.

(a) Unless otherwise specified, the Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of any disbursement under any Letter of Credit, or of amounts payable under Sections 2.15, 2.16 or 2.17, or otherwise) prior to 2:00 p.m., Local Time, on the date when due, in immediately available funds, without condition or deduction for any defense, recoupment, set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent to the applicable account designated to the Borrower by the Administrative Agent, except payments to be made directly to the applicable Issuing Bank or the Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.05 shall be made directly to the persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other person to the appropriate recipient promptly following receipt thereof. Except as otherwise expressly provided herein, if any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments made under the Loan Documents shall be made in Dollars. Any payment required to be made by the Administrative Agent hereunder shall be deemed to have been made by the time required if the Administrative Agent shall, at or before such time, have taken the necessary steps to make such payment in accordance with the regulations or operating procedures of the clearing or settlement system used by the Administrative Agent to make such payment.

(b) [Reserved].

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of, or interest on, any of its Term Loans, Revolving Facility Loans or participations in any disbursement under any Letter of Credit or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Term Loans, Revolving Facility Loans and participations in any disbursement under any Letter of Credit and Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Term Loans, Revolving Facility Loans and participations in any disbursement under any Letter of Credit and Swingline Loans of such Class of such other Lenders to the extent necessary so that the benefit of all such payments shall be shared by all such Lenders ratably in accordance with the principal amount of each such Lender's respective Term Loans, Revolving Facility Loans and participations in any disbursement under any Letter of Credit and Swingline Loans and accrued interest thereon; provided, that

(i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such

recovery, without interest and (ii) the provisions of this clause (c) shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in any disbursement under any Letter of Credit to any assignee or participant. The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the relevant Lenders or the applicable Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the relevant Lenders or the applicable Issuing Bank, as applicable, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the relevant Lenders or the applicable Issuing Bank, as applicable, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) Subject to Section 2.24, if any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(b), 2.05(d) or (e), 2.06, or 2.18(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), (i) apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid and/or (ii) hold any such amounts in a segregated account as cash collateral for, and application to, any future funding obligations of such Lender under any such Section 2.18; in the case of each of clauses (i) and (ii) above, in any order as determined by the Administrative Agent in its discretion.

Section 2.19 Mitigation Obligations; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17 or mitigate the applicability of Section 2.20 or any event that gives rise to the operation of Section 2.20, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or Affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15 or 2.17, as applicable, in the future and (ii) would not subject such Lender to any material unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender in any material respect. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If (i) any Lender requests compensation under Section 2.15 (in excess of that being charged by other Lenders under the applicable Facility) or gives notice under Section 2.20, (ii) the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17 (in a material amount in excess of that being charged by other Lenders), or (iii) any Lender is a Defaulting Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require any such Lender to assign and

delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under the Loan Documents 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 (and, if in respect of any Revolving Facility Commitment, the Swingline Lender and each Issuing Bank), to the extent consent would be required under Section 9.04(b) for an assignment of Loans or Commitments, as applicable, which consent, in each case, shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in any disbursement under any Letter of Credit and Swingline 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), (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15, payments required to be made pursuant to Section 2.17 or a notice given under Section 2.20, such assignment will result in a reduction in such compensation or payments and (iv) such assignment does not conflict with any applicable Requirement of Law. 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. Nothing in this Section

2.19 shall be deemed to prejudice any rights that the Borrower may have against any Lender that is a Defaulting Lender. No action by or consent of the removed Lender shall be necessary in connection with such assignment, which shall be immediately and automatically effective upon payment of such purchase price. In connection with any such assignment the Borrower, Administrative Agent, such removed Lender and the replacement Lender shall otherwise comply with Section 9.04, provided, that if such removed Lender does not comply with Section 9.04 within one Business Day after the Borrower's request, compliance with Section 9.04 (but only on the part of the removed Lender) shall not be required to effect such assignment.

(c) If any Lender (such Lender, a "Non-Consenting Lender") has failed to consent to a proposed amendment, waiver or consent which pursuant to the terms of Section 9.08 requires the consent of all Lenders or all of the Lenders adversely affected and with respect to which the Required Lenders shall have granted their consent, then the Borrower shall have the right (unless such Non-Consenting Lender grants such consent) at its sole expense (including with respect to the processing and recordation fee referred to in Section 9.04(b)(ii)(C)) to replace such Non-Consenting Lender by requiring such Non-Consenting Lender to (and any such Non-Consenting Lender agrees that it shall, upon the Borrower's request) assign its Loans and its Commitments (or, at the Borrower's option, the Loans and Commitments under the Facility that is the subject of the proposed amendment, waiver or consent) hereunder to one or more assignees reasonably acceptable to (i) the Administrative Agent (unless, in the case of a Term Loan, such assignee is a Lender, an Affiliate of a Lender or an Approved Fund) and (ii) if in respect of any Revolving Facility Commitment, the Swingline Lender and the Issuing Bank; provided, that: (i) all Loan Obligations of the Borrower owing to such Non-Consenting Lender being replaced in respect of the assigned interest shall be paid in full in same day funds to such Non-Consenting Lender concurrently with such assignment, (ii) the replacement Lender shall purchase the foregoing by paying to such Non-Consenting Lender a price equal to the principal amount thereof plus accrued and unpaid interest thereon and the Borrower shall pay any amount required by Section 2.12(d), if applicable, and (iii) the replacement Lender shall grant its consent with respect to the applicable proposed amendment, waiver or consent. No action by or consent of the Non-Consenting Lender shall be necessary in connection with such assignment, which shall be immediately and automatically effective upon payment of such purchase price. In connection with any such assignment the Borrower, Administrative Agent, such Non-Consenting Lender and the replacement Lender shall otherwise comply with Section 9.04; provided, that if such Non-Consenting Lender does not comply with Section 9.04 within one Business Day after the Borrower's request, compliance with Section 9.04 (but only on the part of the Non-Consenting Lender) shall not be required to effect such assignment.

Section 2.20 Illegality. If any Lender reasonably determines that any Change in Law has made it unlawful, or that any Governmental Authority has asserted after the Closing Date that it is unlawful, for any Lender or its applicable lending office to make, maintain or fund any Eurodollar Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market then, on notice thereof by such Lender to the Borrower through the Administrative Agent, (i) any obligations of such Lender to make or continue Eurodollar Loans or to convert ABR Borrowings to Eurodollar Borrowings shall be suspended and (ii) if such notice asserts the illegality of such Lender making or maintaining ABR Loans the interest rate on which is determined by reference to the Eurodollar Rate component of the ABR, the interest rate on which ABR Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the ABR, in each case until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, (x) the Borrower shall upon demand from such Lender (with a copy to the Administrative Agent), convert all Eurodollar Borrowings of such Lender to ABR Borrowings (the interest rate on such ABR Loans of such Lender shall, if necessary to avoid such illegality, be determined by the Administrative Agent without reference to the Eurodollar Rate component of the ABR), either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Borrowings to such day, or immediately, if such Lender may not lawfully continue to maintain such Loans and (y) if such notice asserts the illegality of such Lender determining or charging interest rates based upon the Eurodollar Rate, the Administrative Agent shall during the period of such suspension compute the ABR applicable to such Lender without reference to the Eurodollar Rate component thereof until the Administrative Agent is advised in writing by such Lender that it is no longer illegal for such Lender to determine or charge interest rates based upon the Eurodollar Rate. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

Section 2.21 Incremental Commitments.

(a) After the Closing Date has occurred, the Borrower may, by written notice to the Administrative Agent from time to time, request Incremental Term Loan Commitments and/or Incremental Revolving Facility Commitments, as applicable, in an amount not to exceed the Incremental Amount available at the time such Incremental Term Loans are funded or Incremental Revolving Facility Commitments are established (except as set forth in clause (C) of the third paragraph under Section 6.01) from one or more Incremental Term Lenders and/or Incremental Revolving Facility Lenders (which, in each case, may include any existing Lender, but shall be required to be persons which would qualify as assignees of a Lender in accordance with Section 9.04) willing to provide such Incremental Term Loans and/or Incremental Revolving Facility Commitments, as the case may be, in their sole discretion; provided, that each Incremental Revolving Facility Lender providing a commitment to make revolving loans shall be subject to the approval of the Administrative Agent and, to the extent the same would be required for an assignment under Section 9.04, the Issuing Bank and the Swingline Lender (which approvals shall not be unreasonably withheld, conditioned or delayed). Such notice shall set forth (i) the amount of the Incremental Term Loan Commitments and/or Incremental Revolving Facility Commitments being requested (which shall be in minimum increments of \$5,000,000 and a minimum amount of \$10,000,000, or equal to the remaining Incremental Amount or, in each case, such lesser amount approved by the Administrative Agent), (ii) the date on which such Incremental Term Loan Commitments and/or Incremental Revolving Facility Commitments are requested to become effective, (iii) in the case of Incremental Term Loan Commitments, whether such Incremental Term Loan Commitments are to be (x) commitments to make term loans with terms identical to (and which shall together with any then outstanding Term A Loans, Term A-1 Loans or Term B Loans, as applicable, form a single Class of) Term A Loans, Term A-1 Loans or Term B Loans or (y) commitments to make term

loans with pricing, maturity, amortization, participation in mandatory prepayments and/or other terms different from the Term A Loans, Term A-1 Loans and Term B Loans ("Other Incremental Term Loans").

(b) The Borrower and each Incremental Term Lender and/or Incremental Revolving Facility Lender shall execute and deliver to the Administrative Agent an Incremental Assumption Agreement and such other documentation as the Administrative Agent shall reasonably specify to evidence the Incremental Term Loan Commitment of such Incremental Term Lender and/or Incremental Revolving Facility Commitment of such Incremental Revolving Facility Lender. Each Incremental Assumption Agreement shall specify the terms of the applicable Incremental Term Loans and/or Incremental Revolving Facility Commitments; provided, that:

(i) any (x)(A) commitments to make additional Term B Loans shall have the same terms as the Term B Loans, and shall form part of the same Class as the Term B Loans, (B) commitments to make additional Term A Loans shall have the same terms as the Term A Loans, and shall form part of the same Class as the Term A Loans (and shall only be permitted to the extent they are primarily syndicated to regulated banks in the primary syndication thereof) and (C) commitments to make additional Term A-1 Loans shall have the same terms as the Term A-1 Loans, and shall form part of the same Class as the Term A-1 Loans (and shall only be permitted to the extent they are primarily syndicated to regulated banks in the primary syndication thereof) and (y) Incremental Revolving Facility Commitments shall have the same terms as the then outstanding Class of Revolving Facility Commitments (or, if more than one Class of Revolving Facility Commitments is then outstanding, the Revolving Facility Commitments with the then latest Revolving Facility Maturity Date) and shall require no scheduled amortization or mandatory commitment reduction prior to the Maturity Date of all then outstanding Revolving Facility Commitments,

(ii) the Other Incremental Term Loans incurred pursuant to this Section 2.21 shall rank equally and ratably in right of security with the Term A Loans and Term B Loans,

(iii) the final maturity date of any Incremental Term A Loans shall be no earlier than the Term A Maturity Date in effect at the date of incurrence of such Incremental Term A Loans and, subject to clause (i) above, except as to pricing, amortization, final maturity date and participation in mandatory prepayments (which shall, subject to the other clauses of this proviso, be determined by the Borrower and the Incremental Term Lenders in their sole discretion), shall have terms that (as determined by the Borrower in good faith) are no more restrictive, taken as a whole, to the Borrower and its Subsidiaries, than the Term A Loans or such other terms as shall be reasonably satisfactory to the Administrative Agent and (y) the final maturity date of any Incremental Term Loans that are not additional Term A Loans, additional Term A-1 Loans, additional Term B Loans or Incremental Term A Loans shall be no earlier than the Term B Maturity Date in effect at the date of incurrence of such Incremental Term Loans and, except as to pricing, amortization, final maturity date and participation in mandatory prepayments (which shall, subject to the other clauses of this proviso, be determined by the Borrower and the Incremental Term Lenders in their sole discretion), shall have the terms that (as determined by the Borrower in good faith) are no more restrictive, taken as a whole, to the Borrower and its Subsidiaries, than the Term B Loans or such other terms as shall be reasonably satisfactory to the Administrative Agent,

(iv) the Weighted Average Life to Maturity of any Incremental Term A Loans shall be no shorter than the remaining Weighted Average Life to Maturity of the Term A Loans and (y) the Weighted Average Life to Maturity of any Incremental Term Loans that are not additional

Term A Loans, additional Term B Loans or Incremental Term A Loans shall be no shorter than the remaining Weighted Average Life to Maturity of the Term B Loans,

(v) with respect to any Other Incremental Term Loan incurred prior to the date that is 12 months after the Closing Date, the All-in Yield shall be as agreed by the respective Incremental Term Lenders and the Borrowers, except that the All-in Yield in respect of any such Other Incremental Term Loan may exceed the All-in Yield in respect of the Term B Loans by no more than 0.50%, or if it does so exceed such All-in Yield (such difference, the "Term Yield Differential") then the Applicable Margin (or the "LIBOR floor" as provided in the following proviso) applicable to such Term B Loans shall be increased such that after giving effect to such increase, the Term Yield Differential shall not exceed 0.50%; provided, that to the extent any portion of the Term Yield Differential is attributable to a higher "LIBOR floor" being applicable to such Other Incremental Term Loans, such floor shall only be included in the calculation of the Term Yield Differential to the extent such floor is greater than the Eurodollar Rate in effect for an Interest Period of three months' duration at such time, and, with respect to such excess, the "LIBOR floor" applicable to the outstanding Term B Loans shall be increased to an amount not to exceed the "LIBOR floor" applicable to such Other Incremental Term Loans prior to any increase in the Applicable Margin applicable to such Term B Loans then outstanding (this clause (v), the "MFN Provision"),

(vi) such Other Incremental Term Loans may require participation on a pro rata basis or a less than pro rata basis (but not a greater than pro rata basis) with the Term A Loans, Term A-1 Loans and Term B Loans in any mandatory prepayment hereunder,

(vii) there shall be no borrower (other than the Borrower) or guarantor (other than the Guarantors) in respect of any Incremental Term Loan Commitments or Incremental Revolving Facility Commitments,

(viii) Other Incremental Term Loans and Incremental Revolving Facility Commitments shall not be secured by any asset of the Borrower or its Subsidiaries other than the Collateral, and

(ix) the Borrower shall be in compliance with the Financial Covenants (if applicable) at the time of the incurrence of such Incremental Term Loans and/or Incremental Revolving Facility Commitments on a Pro Forma Basis for the then most recently ended Test Period.

Each party hereto hereby agrees that, upon the effectiveness of any Incremental Assumption Agreement, this Agreement shall be amended to the extent (but only to the extent) necessary to reflect the existence and terms of the Incremental Term Loan Commitments and/or Incremental Revolving Facility Commitments evidenced thereby as provided for in Section 9.08(e). Any amendment to this Agreement or any other Loan Document that is necessary to effect the provisions of this Section 2.21 and any such collateral and other documentation shall be deemed "Loan Documents" hereunder and may be memorialized in writing by the Administrative Agent with the Borrower's consent (not to be unreasonably withheld) and furnished to the other parties hereto.

(c) Notwithstanding the foregoing, no Incremental Term Loan Commitment or Incremental Revolving Facility Commitment shall become effective under this Section 2.21 unless (i) no Default or Event of Default shall exist; provided, that in the event that any tranche of Incremental Term Loans is used to finance a Limited Condition Transaction, (A) to the extent the Incremental Term Lenders participating in such tranche of Incremental Term Loans agree, the foregoing clause (i) and clause (ix) of the preceding paragraph (b) shall be tested at the time of the execution of the acquisition agreement, the

declaration of the dividend by the Board of Directors of the Borrower or the applicable Subsidiary or the giving of the irrevocable notice of repayment or redemption, as applicable related to such Limited Condition Transaction (provided, that such Incremental Term Lenders shall not be permitted to waive any Default or Event of Default then existing or existing after giving effect to such tranche of Incremental Term Loans) and (B) no Event of Default shall exist under Section 7.01(a) or, with respect to the Borrower only, under Sections 7.01(h) or 7.01(i) at the time such Incremental Term Loans are incurred; (ii) the representations and warranties of the Borrower set forth in this Agreement shall be true and correct in all material respects (other than to the extent qualified by materiality or "Material Adverse Effect," in which case, such representations and warranties shall be true and correct); provided, that in the event that the tranche of Incremental Term Loans is used to finance a Limited Condition Transaction and to the extent the Incremental Term Lenders participating in such tranche of Incremental Term Loans agree, the foregoing clause (ii) shall be limited to the Specified Representations (with the representation in Section 3.18 made on the date of funding of such Incremental Term Loans and after giving effect to such Limited Condition Transaction and other transactions on such date in connection therewith) and those representations of the seller or the target company (as applicable) included in the acquisition agreement related to the person or business to be acquired that are material to the interests of the Lenders and only to the extent that the Borrower or its applicable Subsidiary has the right to terminate its obligations under such acquisition agreement as a result of a failure of such representations to be accurate; and (iii) the Administrative Agent shall have received documents and legal opinions consistent with those delivered on the Closing Date as to such matters as are reasonably requested by the Administrative Agent. The Administrative Agent shall promptly notify each Lender as to the effectiveness of each Incremental Assumption Agreement.

(d) Each of the parties hereto hereby agrees that the Administrative Agent may take any and all action as may be reasonably necessary to ensure that (i) all Incremental Term Loans (other than Other Incremental Term Loans), when originally made, are included in each Borrowing of the outstanding applicable Class of Term Loans on a pro rata basis, and (ii) all Revolving Facility Loans in respect of Incremental Revolving Facility Commitments, when originally made, are included in each Borrowing of the applicable Class of outstanding Revolving Facility Loans on a pro rata basis. The Borrower agrees that Section 2.16 shall apply to any conversion of Eurodollar Loans to ABR Loans reasonably required by the Administrative Agent to effect the foregoing.

Section 2.22 Extensions of Loans and Commitments.

(a) Notwithstanding anything to the contrary in this Agreement, including Section 2.18(c) (which provisions shall not be applicable to this Section 2.22), pursuant to one or more offers made from time to time by the Borrower to all Lenders of any Class of Term Loans and/or Revolving Facility Commitments on a pro rata basis (based, in the case of an offer to the Lenders under any Class of Term Loans, on the aggregate outstanding Term Loans of such Class and, in the case of an offer to the Lenders under any Revolving Facility, on the aggregate outstanding Revolving Facility Commitments under such Revolving Facility, as applicable), and on the same terms to each such Lender ("Pro Rata Extension Offers"), the Borrower is hereby permitted to consummate transactions with individual Lenders that agree to such transactions from time to time to extend the maturity date of such Lender's Loans and/or Commitments of such Class and to otherwise modify the terms of such Lender's Loans and/or Commitments of such Class pursuant to the terms of the relevant Pro Rata Extension Offer (including, without limitation, increasing the interest rate or fees payable in respect of such Lender's Loans and/or Commitments and/or modifying the amortization schedule in respect of such Lender's Loans). For the avoidance of doubt, the reference to "on the same terms" in the preceding sentence shall mean, (i) in the case of an offer to the Lenders under any Class of Term Loans, that all of the Term Loans of such Class are offered to be extended for the same amount of time and that the interest rate changes and fees payable with respect to such extension are the same and (ii) in the case of an offer to the Lenders under any

Revolving Facility, that all of the Revolving Facility Commitments of such Facility are offered to be extended for the same amount of time and that the interest rate changes and fees payable with respect to such extension are the same. Any such extension (an "Extension") agreed to between the Borrower and any such Lender (an "Extending Lender") will be established under this Agreement by implementing an Other Term Loan for such Lender if such Lender is extending an existing Term Loan (such extended Term Loan, an "Extended Term Loan") or an Other Revolving Facility Commitment for such Lender if such Lender is extending an existing Revolving Facility Commitment (such extended Revolving Facility Commitment, an "Extended Revolving Facility Commitment", and any Revolving Facility Loan made pursuant to such Extended Revolving Facility Commitment, an "Extended Revolving Loan"). Each Pro Rata Extension Offer shall specify the date on which the Borrower proposes that the Extended Term Loan shall be made or the proposed Extended Revolving Facility Commitment shall become effective, which shall be a date not earlier than five (5) Business Days after the date on which notice is delivered to the Administrative Agent (or such shorter period agreed to by the Administrative Agent in its reasonable discretion).

(b) The Borrower and each Extending Lender shall execute and deliver to the Administrative Agent an amendment to this Agreement (an "Extension Amendment") and such other documentation as the Administrative Agent shall reasonably specify to evidence the Extended Term Loans and/or Extended Revolving Facility Commitments of such Extending Lender. Each Extension Amendment shall specify the terms of the applicable Extended Term Loans and/or Extended Revolving Facility Commitments; provided, that (i) except as to interest rates, fees and any other pricing terms, and amortization, final maturity date and participation in prepayments and commitment reductions (which shall, subject to clauses (ii) and (iii) of this proviso, be determined by the Borrower and set forth in the Pro Rata Extension Offer), the Extended Term Loans shall have the same terms as the existing Class of Term Loans from which they are extended except for any terms which shall not apply until after the then Latest Maturity Date, (ii) the final maturity date of any Extended Term Loans shall be no earlier than the Term Facility Maturity Date of the Class of Term Loans subject to such Pro Rata Extension Offer, (iii) the Weighted Average Life to Maturity of any Extended Term Loans shall be no shorter than the remaining Weighted Average Life to Maturity of the Class of Term Loans to which such offer relates, (iv) except as to interest rates, fees, any other pricing terms and final maturity (which shall be determined by the Borrower and set forth in the Pro Rata Extension Offer), any Extended Revolving Facility Commitment shall have the same terms as the existing Class of Revolving Facility Commitments from which they are extended except for any terms which shall not apply until after the then Latest Maturity Date and, in respect of any other terms that would affect the rights or duties of any Issuing Bank or Swingline Lender, such terms as shall be reasonably satisfactory to such Issuing Bank or Swingline Lender, and (v) any Extended Term Loans may require participation on a pro rata basis or a less than pro rata basis (but not a greater than pro rata basis) than the Term A Loans, Term A-1 Loans and Term B Loans in any mandatory prepayment hereunder. Upon the effectiveness of any Extension Amendment, this Agreement shall be amended to the extent (but only to the extent) necessary to reflect the existence and terms of the Extended Term Loans and/or Extended Revolving Facility Commitments evidenced thereby as provided for in Section 9.08(e). Any such deemed amendment may be memorialized in writing by the Administrative Agent with the Borrower's consent (not to be unreasonably withheld) and furnished to the other parties hereto. If provided in any Extension Amendment with respect to any Extended Revolving Facility Commitments, and with the consent of the Swingline Lender and each Issuing Bank, participations in Swingline Loans and Letters of Credit shall be reallocated to lenders holding such Extended Revolving Facility Commitments in the manner specified in such Extension Amendment, including upon effectiveness of such Extended Revolving Facility Commitment or upon or prior to the maturity date for any Class of Revolving Facility Commitments.

(c) Upon the effectiveness of any such Extension, the applicable Extending Lender's Term Loan will be automatically designated an Extended Term Loan and/or such Extending Lender's

Revolving Facility Commitment will be automatically designated an Extended Revolving Facility Commitment. For purposes of this Agreement and the other Loan Documents, (i) if such Extending Lender is extending a Term Loan, such Extending Lender will be deemed to have an Other Term Loan having the terms of such Extended Term Loan and (ii) if such Extending Lender is extending a Revolving Facility Commitment, such Extending Lender will be deemed to have an Other Revolving Facility Commitment having the terms of such Extended Revolving Facility Commitment.

(d) Notwithstanding anything to the contrary set forth in this Agreement or any other Loan Document (including without limitation this Section 2.22), (i) no Extended Term Loan or Extended Revolving Facility Commitment is required to be in any minimum amount or any minimum increment, (ii) any Extending Lender may extend all or any portion of its Term Loans and/or Revolving Facility Commitment pursuant to one or more Pro Rata Extension Offers (subject to applicable proration in the case of over participation) (including the extension of any Extended Term Loan and/or Extended Revolving Facility Commitment), (iii) there shall be no condition to any Extension of any Loan or Commitment at any time or from time to time other than notice to the Administrative Agent of such Extension and the terms of the Extended Term Loan or Extended Revolving Facility Commitment implemented thereby, (iv) all Extended Term Loans, Extended Revolving Facility Commitments and all obligations in respect thereof shall be Loan Obligations of the relevant Loan Parties under this Agreement and the other Loan Documents that rank equally and ratably in right of security with all other Obligations of the Class being extended (and all other Obligations secured by Other First Liens), (v) no Issuing Bank or Swingline Lender shall be obligated to provide Swingline Loans or issue Letters of Credit under such Extended Revolving Facility Commitments unless it shall have consented thereto and (vi) there shall be no borrower (other than the Borrower) and no guarantors (other than the Guarantors) in respect of any such Extended Term Loans or Extended Revolving Facility Commitments.

(e) Each Extension shall be consummated pursuant to procedures set forth in the associated Pro Rata Extension Offer; provided, that the Borrower shall cooperate with the Administrative Agent prior to making any Pro Rata Extension Offer to establish reasonable procedures with respect to mechanical provisions relating to such Extension, including, without limitation, timing, rounding and other adjustments.

Section 2.23 Refinancing Amendments.

(a) Notwithstanding anything to the contrary in this Agreement, including Section 2.18(c) (which provisions shall not be applicable to this Section 2.23), the Borrower may by written notice to the Administrative Agent at any time after the Closing Date establish one or more additional tranches of term loans under this Agreement (such loans, "Refinancing Term Loans"), all Net Proceeds of which are used to Refinance in whole or in part any Class of Term Loans pursuant to Section 2.11(b)(2) or any Indebtedness of LVLT, QC, Embarq or any of their respective Subsidiaries that is included in "Consolidated Priority Debt" (and, in the case of revolving Indebtedness, to correspondingly reduce commitments). Each such notice shall specify the date (each, a "Refinancing Effective Date") on which the Borrower proposes that the Refinancing Term Loans shall be made, which shall be a date not earlier than five (5) Business Days after the date on which such notice is delivered to the Administrative Agent (or such shorter period agreed to by the Administrative Agent in its sole discretion); provided, that:

(i) after giving effect to the borrowing of such Refinancing Term Loans on the Refinancing Effective Date each of the conditions set forth in Section 4.03 shall be satisfied;

(ii) the final maturity date of the Refinancing Term Loans shall be no earlier than the earlier of (x) the final maturity date of the refinanced Indebtedness and (y) the 91st day following the Latest Maturity Date in effect at the time of incurrence thereof;

(iii) the Weighted Average Life to Maturity of such Refinancing Term Loans shall be no shorter than the lesser of (x) the then-remaining Weighted Average Life to Maturity of the refinanced Indebtedness and (y) 91 days after the Weighted Average Life to Maturity of the Class of Term Loans then outstanding with the greatest remaining Weighted Average Life to Maturity;

(iv) the aggregate principal amount of the Refinancing Term Loans shall not exceed the outstanding principal amount of the refinanced Indebtedness plus amounts used to pay fees, premiums, costs and expenses (including original issue discount) and accrued interest associated therewith;

(v) all other terms applicable to such Refinancing Term Loans (other than provisions relating to original issue discount, upfront fees, interest rates and any other pricing terms and optional prepayment or mandatory prepayment terms, which shall be as agreed between the Borrower and the Lenders providing such Refinancing Term Loans) shall be substantially similar to, or (as determined by the Borrower in good faith) no more restrictive, taken as a whole, to the Borrower and its Subsidiaries than the terms applicable to the Term B Loans or, if applicable, the Term Loans being refinanced or, with respect to any such Refinancing Term Loans with amortization in excess of 1.0% per year that are being primarily syndicated to regulated banks in the primary syndication thereof and that are used to Refinance in whole or in part any Indebtedness of LVLTL, QC, Embarq or their respective Subsidiaries, the Term A Loans (except, in each case, to the extent such covenants and other terms apply solely to any period after the Latest Maturity Date or are otherwise reasonably acceptable to the Administrative Agent);

(vi) there shall be no borrower (other than the Borrower) and no guarantors (other than the Guarantors) in respect of such Refinancing Term Loans;

(vii) Refinancing Term Loans shall not be secured by any asset of the Borrower and its subsidiaries other than the Collateral; and

(viii) Refinancing Term Loans may participate on a pro rata basis or on a less than pro rata basis (but not on a greater than pro rata basis) in any mandatory prepayments (other than as provided otherwise in the case of such prepayments pursuant to Section 2.11(b)(2)) hereunder, as specified in the applicable Refinancing Amendment.

(b) The Borrower may approach any Lender or any other person that would be a permitted Assignee pursuant to Section 9.04 to provide all or a portion of the Refinancing Term Loans; provided, that any Lender offered or approached to provide all or a portion of the Refinancing Term Loans may elect or decline, in its sole discretion, to provide a Refinancing Term Loan. Any Refinancing Term Loans made on any Refinancing Effective Date shall be designated an additional Class of Term Loans for all purposes of this Agreement; provided, further, that any Refinancing Term Loans may, to the extent provided in the applicable Refinancing Amendment governing such Refinancing Term Loans, be designated as an increase in any previously established Class of Term Loans made to the Borrower.

(c) Notwithstanding anything to the contrary in this Agreement, including Section 2.18(c) (which provisions shall not be applicable to this Section 2.23), the Borrower may by written notice to the Administrative Agent at any time after the Closing Date establish one or more additional Facilities (each, a "Replacement Revolving Facility") providing for revolving commitments ("Replacement Revolving Facility Commitments" and the revolving loans thereunder, "Replacement Revolving Loans"), which replace in whole or in part any Class of Revolving Facility Commitments under this Agreement. Each such notice shall specify the date (each, a "Replacement Revolving Facility Effective Date") on which

the Borrower proposes that the Replacement Revolving Facility Commitments shall become effective, which shall be a date not less than five (5) Business Days after the date on which such notice is delivered to the Administrative Agent (or such shorter period agreed to by the Administrative Agent in its reasonable discretion); provided, that: (i) after giving effect to the establishment of such Replacement Revolving Facility Commitments on the Replacement Revolving Facility Effective Date, each of the conditions set forth in Section 4.03 shall be satisfied; (ii) after giving effect to the establishment of any Replacement Revolving Facility Commitments and any concurrent reduction in the aggregate amount of any other Revolving Facility Commitments, the aggregate amount of Revolving Facility Commitments shall not exceed the aggregate amount of the Revolving Facility Commitments outstanding immediately prior to the applicable Replacement Revolving Facility Effective Date plus amounts used to pay fees, premiums, costs and expenses (including upfront fees) and accrued interest associated therewith; (iii) no Replacement Revolving Facility Commitments shall have a final maturity date (or require commitment reductions or amortizations) prior to the Revolving Facility Maturity Date for the Revolving Facility Commitments being replaced; (iv) all other terms applicable to such Replacement Revolving Facility (other than provisions relating to (x) fees, interest rates and other pricing terms and prepayment and commitment reduction and optional redemption terms which shall be as agreed between the Borrower and the Lenders providing such Replacement Revolving Facility Commitments and (y) the amount of any letter of credit sublimit and swingline commitment under such Replacement Revolving Facility, which shall be as agreed between the Borrower, the Lenders providing such Replacement Revolving Facility Commitments, the Administrative Agent and the replacement issuing bank and replacement swingline lender, if any, under such Replacement Revolving Facility Commitments) shall be substantially similar to, or (as determined by the Borrower in good faith) no more restrictive, taken as a whole, to the Borrower and its Subsidiaries than, those applicable to the Revolving Facility Commitments so replaced (except to the extent such covenants and other terms apply solely to any period after the latest Revolving Facility Maturity Date in effect at the time of incurrence or are otherwise reasonably acceptable to the Administrative Agent); (v) there shall be no borrower (other than the Borrower) and no guarantors (other than the Guarantors) in respect of such Replacement Revolving Facility; and (vi) Replacement Revolving Facility Commitments and extensions of credit thereunder shall not be secured by any asset of the Borrower and its subsidiaries other than the Collateral. In addition, the Borrower may establish Replacement Revolving Facility Commitments to refinance and/or replace all or any portion of a Term Loan hereunder (regardless of whether such Term Loan is repaid with the proceeds of Replacement Revolving Loans or otherwise), so long as the aggregate amount of such Replacement Revolving Facility Commitments does not exceed the aggregate amount of Term Loans repaid at the time of establishment thereof plus amounts used to pay fees, premiums, costs and expenses (including upfront fees) and accrued interest associated therewith (it being understood that such Replacement Revolving Facility Commitment may be provided by the Lenders holding the Term Loans being repaid and/or by any other person that would be a permitted Assignee hereunder) so long as (i) after giving effect to the establishment such Replacement Revolving Facility Commitments on the Replacement Revolving Facility Effective Date each of the conditions set forth in Section 4.03 shall be satisfied to the extent required by the relevant agreement governing such Replacement Revolving Facility Commitments, (ii) the remaining life to termination of such Replacement Revolving Facility Commitments shall be no shorter than the Weighted Average Life to Maturity then applicable to the refinanced Term Loans, (iii) the final termination date of the Replacement Revolving Facility Commitments shall be no earlier than the Term Facility Maturity Date of the refinanced Term Loans, (iv) such Replacement Revolving Loans shall be secured by Liens on Collateral that rank pari passu in right of security to the other Loans, (v) there shall be no borrower (other than the Borrower) and no guarantors (other than the Guarantors) in respect of such Replacement Revolving Facility; and (vi) all other terms applicable to such Replacement Revolving Facility (other than provisions relating to (x) fees, interest rates and other pricing terms and prepayment and commitment reduction and optional redemption terms which shall be as agreed between the Borrower and the Lenders providing such Replacement Revolving Facility Commitments and (y) the amount of any letter of credit sublimit and swingline commitment under such Replacement Revolving

Facility, which shall be as agreed between the Borrower, the Lenders providing such Replacement Revolving Facility Commitments, the Administrative Agent and the replacement issuing bank and replacement swingline lender, if any, under such Replacement Revolving Facility Commitments) shall be substantially similar to, or (as determined by the Borrower in good faith) no more restrictive, taken as a whole, to the Borrower and its Subsidiaries than those applicable to the then effective Revolving Facilities (except to the extent such covenants and other terms apply solely to any period after the Latest Maturity Date or are otherwise reasonably acceptable to the Administrative Agent). Solely to the extent that an Issuing Bank or Swingline Lender is not a replacement issuing bank or replacement swingline lender, as the case may be, under a Replacement Revolving Facility, it is understood and agreed that such Issuing Bank or Swingline Lender shall not be required to issue any letters of credit or swingline loan under such Replacement Revolving Facility and, to the extent it is necessary for such Issuing Bank or Swingline Lender to withdraw as an Issuing Bank or Swingline Lender, as the case may be, at the time of the establishment of such Replacement Revolving Facility, such withdrawal shall be on terms and conditions reasonably satisfactory to such Issuing Bank or Swingline Lender, as the case may be, in its sole discretion. The Borrower agrees to reimburse each Issuing Bank or Swingline Lender, as the case may be, in full upon demand, for any reasonable and documented out-of-pocket cost or expense attributable to such withdrawal.

(d) The Borrower may approach any Lender or any other person that would be a permitted Assignee of a Revolving Facility Commitment pursuant to Section 9.04 to provide all or a portion of the Replacement Revolving Facility Commitments (subject to receipt of any consents that would be required for an assignment of Revolving Facility Commitments to such person pursuant to Section 9.04); provided, that any Lender offered or approached to provide all or a portion of the Replacement Revolving Facility Commitments may elect or decline, in its sole discretion, to provide a Replacement Revolving Facility Commitment. Any Replacement Revolving Facility Commitment made on any Replacement Revolving Facility Effective Date shall be designated an additional Class of Revolving Facility Commitments for all purposes of this Agreement; provided, that any Replacement Revolving Facility Commitments may, to the extent provided in the applicable Refinancing Amendment, be designated as an increase in any previously established Class of Revolving Facility Commitments.

(e) The Borrower and each Lender providing the applicable Refinancing Term Loans and/or Replacement Revolving Facility Commitments (as applicable) shall execute and deliver to the Administrative Agent an amendment to this Agreement (a "Refinancing Amendment") and such other documentation as the Administrative Agent shall reasonably specify to evidence such Refinancing Term Loans and/or Replacement Revolving Facility Commitments (as applicable). For purposes of this Agreement and the other Loan Documents, (A) if a Lender is providing a Refinancing Term Loan, such Lender will be deemed to have an Other Term Loan having the terms of such Refinancing Term Loan and (B) if a Lender is providing a Replacement Revolving Facility Commitment, such Lender will be deemed to have an Other Revolving Facility Commitment having the terms of such Replacement Revolving Facility Commitment. Notwithstanding anything to the contrary set forth in this Agreement or any other Loan Document (including without limitation this Section 2.23), (i) no Refinancing Term Loan or Replacement Revolving Facility Commitment is required to be in any minimum amount or any minimum increment, (ii) this Agreement shall impose no condition to any incurrence of any Refinancing Term Loan or Replacement Revolving Facility Commitment at any time or from time to time other than those set forth in clauses (a) or (c) above, as applicable, and (iii) all Refinancing Term Loans, Replacement Revolving Facility Commitments and all obligations in respect thereof shall be Loan Obligations under this Agreement and the other Loan Documents that rank equally and ratably in right of security with the Term A Loans, Term A-1 Loans, Term B Loans and other Loan Obligations.

Section 2.24 Defaulting Lenders.

(a) Defaulting Lender Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if any Lender becomes a Defaulting Lender, then, until such time as such Lender is no longer a Defaulting Lender, to the extent permitted by applicable law:

(i) Waivers and Amendments. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in the definitions of "Majority Lenders," "Required Lenders," "Required Pro Rata Lenders" or "Required Revolving Facility Lenders," as applicable, and Section 9.08.

(ii) Defaulting Lender Waterfall. Any payment of principal, interest, fees or other amounts received by the Administrative Agent for the account of such Defaulting Lender (whether voluntary or mandatory, at maturity, following an Event of Default or otherwise) or received by the Administrative Agent from a Defaulting Lender pursuant to Section 9.06 shall be applied at such time or times as may be determined by the Administrative Agent as follows: first, to the payment of any amounts owing by such Defaulting Lender to the Administrative Agent hereunder, second, to the payment on a pro rata basis of any amounts owing by such Defaulting Lender to any Issuing Bank or the Swingline Lender hereunder, third, to Cash Collateralize the Issuing Banks' Fronting Exposure with respect to such Defaulting Lender in accordance with Section 2.05(j), fourth, as the Borrower may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which such Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Administrative Agent, fifth, if so determined by the Administrative Agent and the Borrower, to be held in a deposit account and released pro rata in order to (x) satisfy such Defaulting Lender's potential future funding obligations with respect to Loans under this Agreement and (y) Cash Collateralize the Issuing Banks' future Fronting Exposure with respect to such Defaulting Lender with respect to future Letters of Credit issued under this Agreement, in accordance with Section 2.05(j), sixth, to the payment of any amounts owing to the Lenders, the Issuing Banks or the Swingline Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, Issuing Bank or Swingline Lender against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement, seventh, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrower as a result of any judgment of a court of competent jurisdiction obtained by the Borrower against such Defaulting Lender as a result of such Defaulting Lender's breach of its obligations under this Agreement, and eighth, to such Defaulting Lender or as otherwise directed by a court of competent jurisdiction. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post Cash Collateral pursuant to this Section 2.24 shall be deemed paid to and redirected by such Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees.

(A) No Defaulting Lender shall be entitled to receive any Commitment Fee for any period during which that Lender is a Defaulting Lender (and, except as provided in clause (C) below, the Borrower shall not be required to pay any such fee that otherwise would have been paid to that Defaulting Lender).

(B) Each Defaulting Lender shall be entitled to receive L/C Participation Fees for any period during which that Lender is a Defaulting Lender only to the extent allocable to its pro rata share of the stated amount of Letters of Credit for which it has provided Cash Collateral.

(C) With respect to any Commitment Fee or L/C Participation Fee not required to be paid to any Defaulting Lender pursuant to clause (A) or (B) above, the Borrower shall (x) pay to each Non-Defaulting Lender that portion of any such fee otherwise payable to such Defaulting Lender with respect to such Defaulting Lender's participation in Letters of Credit or Swingline Loans that has been reallocated to such Non-Defaulting Lender pursuant to clause (iv) below, (y) pay to each Issuing Bank and the Swingline Lender, as applicable, the amount of any such fee otherwise payable to such Defaulting Lender to the extent allocable to such Issuing Bank's or the Swingline Lender's Fronting Exposure to such Defaulting Lender, and (z) not be required to pay the remaining amount of any such fee.

(iv) Reallocation of Participations to Reduce Fronting Exposure. All or any part of such Defaulting Lender's participation in Letters of Credit and Swingline Loans under any Revolving Facility shall be reallocated among the Non-Defaulting Lenders in accordance with their respective pro rata Commitments under such Revolving Facility (calculated without regard to such Defaulting Lender's Commitment) such reallocation does not cause the aggregate Revolving Facility Credit Exposure of any Non-Defaulting Lender under such Revolving Facility to exceed such Non-Defaulting Lender's Revolving Facility Commitment under such Revolving Facility. Subject to Section 9.23, no reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

(v) Cash Collateral, Repayment of Swingline Loans. If the reallocation described in clause (iv) above cannot, or can only partially, be effected, the Borrower shall, without prejudice to any right or remedy available to it hereunder or under law, within three (3) Business Days following the written request of the (i) Administrative Agent or (ii) the Swingline Lender or any Issuing Bank, as applicable (with a copy to the Administrative Agent), (x) first, prepay Swingline Loans in an amount equal to the Swingline Lender's Fronting Exposure and (y) second, Cash Collateralize the Issuing Banks' Fronting Exposure in accordance with the procedures set forth in Section 2.05(j).

(b) Defaulting Lender Cure. If the Borrower, the Administrative Agent and the Swingline Lender and each Issuing Bank agree in writing that a Lender is no longer a Defaulting Lender, the Administrative Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any Cash Collateral), that Lender will, to the extent applicable, purchase at par (together with any break funding costs incurred by the non-Defaulting Lenders as a result of such purchase) that portion of outstanding Revolving Facility Loans of the other Lenders or take such other actions as the Administrative Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit and Swingline Loans to be held pro rata by the Lenders in accordance with their Revolving Facility Commitments (without giving effect to Section 2.24(a)(iv)), whereupon such Lender will cease to be a Defaulting Lender; provided, that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrower while that Lender was a Defaulting Lender; provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

(c) New Swingline Loans/Letters of Credit. So long as any Lender is a Defaulting Lender, (i) the Swingline Lender shall not be required to fund any Swingline Loans unless it is satisfied that it will have no Fronting Exposure after giving effect to such Swingline Loan and (ii) the Issuing Banks

shall not be required to issue, extend, renew or increase any Letter of Credit unless it is satisfied that it will have no Fronting Exposure after giving effect thereto.

Section 2.25 Loan Repurchases.

(a) Subject to the terms and conditions set forth or referred to below, the Borrower may from time to time, at its discretion, conduct modified Dutch auctions in order to purchase Term Loans of one or more Classes (as determined by the Borrower but excluding the Term A Loans and the Term A-1 Loans) (each, a "Purchase Offer"), each such Purchase Offer to be managed exclusively by the Administrative Agent (or such other financial institution chosen by the Borrower and reasonably acceptable to the Administrative Agent) (in such capacity, the "Auction Manager"), so long as the following conditions are satisfied:

(i) each Purchase Offer shall be conducted in accordance with the procedures, terms and conditions set forth in this Section 2.25 and the Auction Procedures;

(ii) no Default or Event of Default shall have occurred and be continuing on the date of the delivery of each notice of an auction and at the time of (and immediately after giving effect to) the purchase of any Term Loans in connection with any Purchase Offer;

(iii) the principal amount (calculated on the face amount thereof) of each and all Classes of Term Loans that the Borrower offers to purchase in any such Purchase Offer shall be no less than \$25,000,000 (unless another amount is agreed to by the Administrative Agent) (across all such Classes);

(iv) the principal amount of all Term Loans of the applicable Class or Classes so purchased by the Borrower shall automatically be cancelled and retired by the Borrower on the settlement date of the relevant purchase (and may not be resold) (without any increase to EBITDA as a result of any gains associated with cancellation of debt), and in no event shall the Borrower be entitled to any vote hereunder in connection with such Term Loans;

(v) no more than one Purchase Offer with respect to any Class may be ongoing at any one time;

(vi) the Borrower represents and warrants that no Loan Party shall have any material non-public information with respect to the Loan Parties or their Subsidiaries, or with respect to the Loans or the securities of any such person, that (A) has not been previously disclosed in writing to the Administrative Agent and the Lenders (other than because such Lender does not wish to receive such material non-public information) prior to such time and (B) could reasonably be expected to have a material effect upon, or otherwise be material to, a Lender's decision to participate in the Purchase Offer;

(vii) at the time of each purchase of Term Loans through a Purchase Offer, the Borrower shall have delivered to the Auction Manager an officer's certificate of a Responsible Officer certifying as to compliance with the preceding clause (vi);

(viii) any Purchase Offer with respect to any Class shall be offered to all Term Lenders holding Term Loans of such Class on a pro rata basis; and

(ix) no purchase of any Term Loans shall be made from the proceeds of any Revolving Facility Loan or Swingline Loan.

(b) The Borrower must terminate any Purchase Offer if it fails to satisfy one or more of the conditions set forth above which are required to be met at the time which otherwise would have been the time of purchase of Term Loans pursuant to such Purchase Offer. If the Borrower commences any Purchase Offer (and all relevant requirements set forth above which are required to be satisfied at the time of the commencement of such Purchase Offer have in fact been satisfied), and if at such time of commencement the Borrower reasonably believes that all required conditions set forth above which are required to be satisfied at the time of the consummation of such Purchase Offer shall be satisfied, then the Borrower shall have no liability to any Term Lender for any termination of such Purchase Offer as a result of its failure to satisfy one or more of the conditions set forth above which are required to be met at the time which otherwise would have been the time of consummation of such Purchase Offer, and any such failure shall not result in any Default or Event of Default hereunder. With respect to all purchases of Term Loans of any Class or Classes made by the Borrower pursuant to this Section 2.25, (x) the Borrower shall pay on the settlement date of each such purchase all accrued and unpaid interest (except to the extent otherwise set forth in the relevant offering documents), if any, on the purchased Term Loans of the applicable Class or Classes up to the settlement date of such purchase and (y) such purchases (and the payments made by the Borrower and the cancellation of the purchased Loans, in each case in connection therewith) shall not constitute voluntary or mandatory payments or prepayments for purposes of Section 2.11 hereof.

(c) The Administrative Agent and the Lenders hereby consent to the Purchase Offers and the other transactions effected pursuant to and in accordance with the terms of this Section 2.25; provided, that notwithstanding anything to the contrary contained herein, no Lender shall have an obligation to participate in any such Purchase Offer. For the avoidance of doubt, it is understood and agreed that the provisions of Sections 2.16, 2.18 and 9.04 will not apply to the purchases of Term Loans pursuant to Purchase Offers made pursuant to and in accordance with the provisions of this Section 2.25. The Auction Manager acting in its capacity as such hereunder shall be entitled to the benefits of the provisions of Article VIII and Section 9.05 to the same extent as if each reference therein to the "Agents" were a reference to the Auction Manager, and the Administrative Agent shall cooperate with the Auction Manager as reasonably requested by the Auction Manager in order to enable it to perform its responsibilities and duties in connection with each Purchase Offer.

(d) This Section 2.25 shall supersede any provisions in Section 2.18 or 9.06 to the contrary.

ARTICLE III

Representations and Warranties

On (i) the Effective Date and the Closing Date (in each case, after giving effect to the Transactions, but subject to Section 7.02) and (ii) the date of each Credit Event (after the Closing Date), as provided in Section 4.03, the Borrower represents and warrants to the Lenders that (it being understood and agreed that the only representations and warranties in this Article III or any other Loan Document that are required to be true and correct as a condition to the Closing Date, the release of the Escrowed Property to the Borrower on the Closing Date, the funding of the Loans on the Closing Date and the use of the proceeds thereof on the Closing Date to consummate the Mergers are solely those referred to in Section 4.02(c)):

Section 3.01 Organization; Powers. The Borrower and each of the Subsidiaries which is a Loan Party or a Significant Subsidiary (a) is a partnership, limited liability company, corporation or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization (to the extent that each such concept exists in such jurisdiction), (b) has all requisite power and authority to own its property and assets and to carry on its business as now conducted, (c) is qualified

to do business in each jurisdiction where such qualification is required, except in the case of clause (a) (other than with respect to the Borrower), clause (b) (other than with respect to the Borrower), and clause (c), where the failure so to be or have, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and (d) has the power and authority to execute, deliver and perform its obligations under each of the Loan Documents and each other agreement or instrument contemplated thereby to which it is or will be a party and, in the case of the Borrower, to borrow and otherwise obtain credit hereunder.

Section 3.02 Authorization. The execution, delivery and performance by the Borrower and each of the Guarantors of each of the Loan Documents to which it is a party and the borrowings and other extensions of credit hereunder (a) have been duly authorized by all corporate, stockholder, partnership, limited liability company or other organizational action required to be obtained by the Borrower and such Guarantors and (b) will not (i) violate (A) any provision of law, statute, rule or regulation applicable to the Borrower or any such Guarantor, (B) the certificate or articles of incorporation or other constitutive documents (including any partnership, limited liability company or operating agreements) or by-laws of the Borrower, or any such Guarantor, (C) any applicable order of any court or any law, rule, regulation or order of any Governmental Authority applicable to the Borrower or any such Guarantor or (D) any provision of any indenture, certificate of designation for preferred stock, agreement or other instrument to which the Borrower or any such Guarantor is a party or by which any of them or any of their property is or may be bound, (ii) result in a breach of or constitute (alone or with due notice or lapse of time or both) a default under, give rise to a right of or result in any cancellation or acceleration of any right or obligation (including any payment) under any such indenture, certificate of designation for preferred stock, agreement or other instrument, where any such conflict, violation, breach or default referred to in clause (i) or (ii) of this Section 3.02(b), would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, or (iii) result in the creation or imposition of any Lien upon or with respect to any property or assets now owned or hereafter acquired by the Borrower or any such Guarantor, other than the Liens created by the Loan Documents and Permitted Liens.

Section 3.03 Enforceability. This Agreement has been duly executed and delivered by the Borrower and constitutes, and each other Loan Document when executed and delivered by the Borrower and each Guarantor that is party thereto will constitute, a legal, valid and binding obligation of such Loan Party enforceable against the Borrower and each such Guarantor in accordance with its terms, subject to (a) the effects of bankruptcy, insolvency, moratorium, reorganization, fraudulent conveyance or other similar laws affecting creditors' rights generally, (b) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), (c) implied covenants of good faith and fair dealing, and (d) the need for filings and registrations necessary to perfect the Liens on the Collateral granted by the Loan Parties in favor of the Collateral Agent.

Section 3.04 Governmental Approvals. No action, consent or approval of, registration or filing with or any other action by any Governmental Authority is or will be required for the execution, delivery or performance of each Loan Document to which the Borrower or any Guarantor is a party, except for (a) the filing of Uniform Commercial Code financing statements, (b) filings with the United States Patent and Trademark Office and the United States Copyright Office and comparable offices in foreign jurisdictions and equivalent filings in foreign jurisdictions, (c) such as have been made or obtained and are in full force and effect, (d) such actions, consents and approvals the failure of which to be obtained or made would not reasonably be expected to have a Material Adverse Effect and (e) filings or other actions listed on Schedule 3.04 and any other filings or registrations required to perfect Liens created by the Security Documents.

Section 3.05 Financial Statements. (a) The audited consolidated balance sheets and the statements of income, stockholders' equity, and cash flow (i) for CenturyLink and its consolidated subsidiaries as of and for each fiscal year of CenturyLink in the three-fiscal year period ended on December 31, 2016 and (ii) for LVLТ and its consolidated subsidiaries as of and for each fiscal year of LVLТ in the three-fiscal year period ended December 31, 2016, and (b) the unaudited consolidated balance sheets and statements of income, stockholders' equity and cash flow (i) for CenturyLink and its consolidated subsidiaries as of and for the fiscal quarter ended March 31, 2017 and (ii) for LVLТ and its consolidated subsidiaries as of and for the fiscal quarter ended March 31, 2017, in each case, including the notes thereto, if applicable, present fairly in all material respects the consolidated financial position of the Borrower and its consolidated subsidiaries or LVLТ and its consolidated subsidiaries (as applicable) as of the dates and for the periods referred to therein and the results of operations and cash flows for the periods then ended, and were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered thereby, except, in the case of interim period financial statements, for the absence of footnotes and for normal year-end adjustments and except as otherwise noted therein.

Section 3.06 No Material Adverse Effect. Since December 31, 2016 (for this purpose, assuming that the Transaction had been consummated before such date), there has been no event or circumstance that, individually or in the aggregate with other events or circumstances, has had or would reasonably be expected to have a Material Adverse Effect.

Section 3.07 Title to Properties; Possession Under Leases. Each of the Borrower and the Subsidiaries has valid title in fee simple or equivalent to, or valid leasehold interests in, or easements or other limited property interests in, all its Real Properties and has valid title to its personal property and assets, in each case, free and clear of all Liens except for Permitted Liens and except for defects in title that do not materially interfere with its ability to conduct its business as currently conducted or to utilize such properties and assets for their intended purposes and except where the failures to have such title would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. Prior to the Closing Date, references to the Borrower in this Section 3.07 only shall be deemed to refer to CenturyLink.

Section 3.08 Subsidiaries.

(a) Schedule 3.08(a) of the Effective Date Certificate sets forth as of the Closing Date, after giving effect to the Transactions, the name and jurisdiction of incorporation, formation or organization of each subsidiary of CenturyLink (other than any Immaterial Subsidiary) and, as to each such subsidiary, the percentage of the Equity Interests of such subsidiary owned by CenturyLink or by any such subsidiary.

(b) As of the Closing Date, after giving effect to the Transactions, there are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than stock options granted to employees or directors (or entities controlled by directors) and shares held by directors (or entities controlled by directors)) relating to any Equity Interests of any of the Subsidiaries, except as set forth on Schedule 3.08(b) of the Effective Date Certificate.

Section 3.09 Litigation; Compliance with Laws.

(a) There are no actions, suits, proceedings or investigations at law or in equity or by or on behalf of any Governmental Authority or in arbitration now pending, or, to the knowledge of the Borrower, threatened in writing against the Borrower or (prior to the Closing Date) CenturyLink or any of the Subsidiaries or any business, property or rights of any such person (i) that involve any Loan Document, to the extent that the applicable action, suit, proceeding or investigation is brought by the

Borrower or (prior to the Closing Date) CenturyLink or any of its subsidiaries or (ii) that would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, except for any action, suit or proceeding at law or in equity or by or on behalf of any Governmental Authority or in arbitration which has been disclosed in any of the Borrower's Annual Report on Form 10-K for the year ended December 31, 2016, the Borrower's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017, LVLT's Annual Report on Form 10-K for the year ended December 31, 2016, or LVLT's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017. There have been no developments in any such matter disclosed in the Annual or Quarterly Reports described above which would reasonably be expected, individually or in the aggregate with any such other matters or any additional actions, suits, proceedings or investigations, to result in a Material Adverse Effect.

(b) None of the Borrower, the Subsidiaries and their respective properties or assets is in violation of (nor will the continued operation of their material properties and assets as currently conducted violate) any law, rule or regulation (including any zoning, building, ordinance, code or approval or any building permit, but excluding any Environmental Laws, which are the subject of Section 3.16) or any restriction of record or indenture, agreement or instrument affecting any Real Property, or is in default with respect to any judgment, writ, injunction or decree of any Governmental Authority, where such violation or default would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

Section 3.10 Federal Reserve Regulations. No part of the proceeds of any Loans or any Letter of Credit will be used by the Borrower and its Subsidiaries in any manner that would result in a violation of Regulation T, Regulation U or Regulation X.

Section 3.11 Investment Company Act. None of the Borrower or any of the other Loan Parties is required to be registered as an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

Section 3.12 Use of Proceeds.

(a) The Borrower will use the proceeds of the Revolving Facility Loans and Swingline Loans, and may request the issuance of Letters of Credit, solely for general corporate purposes (including, without limitation, for working capital purposes, for capital expenditures, for the Transactions, for Permitted Business Acquisitions and, in the case of Letters of Credit, for the back-up or replacement of existing letters of credit); provided, that on the Closing Date, the aggregate amount of undrawn Revolving Facility Commitments shall be at least (A) \$1,000,000,000 minus (B) the amount of Revolving Facility Commitments drawn on the Closing Date for ordinary course working capital needs.

(b) The Borrower will use the proceeds of the Term A Loans borrowed on the Closing Date and the Term B Loans borrowed on the Effective Date directly or indirectly to finance a portion of the Transactions. The Borrower will use the proceeds of the Term A-1 Loans borrowed on the Closing Date to refinance the Existing Term Loan Agreement and to pay fees, expenses and accrued interest in connection therewith and in connection with the Term A-1 Loans; provided, however, that the Borrower may use any excess proceeds for general corporate purposes.

(c) The Borrower will use the proceeds of any Incremental Loans solely for general corporate purposes of the Borrower and its Subsidiaries.

Section 3.13 Tax Returns.

(a) Except as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, the Borrower and each of the Subsidiaries has filed or caused to be filed all federal, state, local and non-U.S. Tax returns required to have been filed by it (including in its capacity as withholding agent) and each such Tax return is true and correct;

(b) Except as would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect, the Borrower and each of the Subsidiaries has timely paid or caused to be timely paid all Taxes shown to be due and payable by it on the returns referred to in clause (a) and all other Taxes or assessments (or made adequate provision (in accordance with GAAP) for the payment of all Taxes due), except Taxes or assessments for which the Borrower or any of the Subsidiaries (as the case may be) has set aside on its books adequate reserves in accordance with GAAP and, to the extent such Taxes are due and payable pursuant to a governmental assessment, the amount thereof is being contested in good faith by appropriate proceedings; and

(c) Other than as would not be, individually or in the aggregate, reasonably expected to have a Material Adverse Effect, as of the Closing Date, with respect to the Borrower and each of the Subsidiaries, there are no claims being asserted in writing with respect to any Taxes.

Section 3.14 No Material Misstatements.

(a) All written information (other than the Projections, forward looking information and information of a general economic or industry specific nature) (the "Information") concerning the Borrower, the Subsidiaries, the Transactions and any other transactions contemplated hereby included in the Information Memorandum or otherwise prepared by or on behalf of the foregoing or their representatives and made available to any Lenders or the Administrative Agent in connection with the Transactions or the other transactions contemplated hereby, when taken as a whole, was true and correct in all material respects, as of the date such Information was furnished to the Lenders (and as of the Closing Date, with respect to Information provided prior thereto) and did not, taken as a whole, contain any untrue statement of a material fact as of any such date or omit to state a material fact necessary in order to make the statements contained therein, taken as a whole, not materially misleading in light of the circumstances under which such statements were made.

(b) The Projections and other forward looking information prepared by or on behalf of the Borrower or any of their representatives and that have been made available to any Lenders or the Administrative Agent in connection with the Transactions or the other transactions contemplated hereby have been prepared in good faith based upon assumptions believed by the Borrower to be reasonable as of the date thereof (it being understood that such Projections and other forward looking information are as to future events and are not to be viewed as facts, such Projections and other forward looking information are subject to significant uncertainties and contingencies and that actual results during the period or periods covered by any such Projections or other forward looking information may differ significantly from the projected results, and that no assurance can be given that the projected results will be realized), as of the date such Projections and information were furnished to the Lenders.

Section 3.15 Employee Benefit Plans. Except as would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect: (a) no Reportable Event has occurred during the past five years as to which the Borrower, any of its Subsidiaries or any ERISA Affiliate was required to file a report with the PBGC; (b) no ERISA Event has occurred or is reasonably expected to occur; and (c) none of the Borrower, the Subsidiaries or any of their ERISA Affiliates has received any written notification that any Multiemployer Plan is in reorganization or has been terminated within the

meaning of Title IV of ERISA. The Borrower represents and warrants as of the Effective Date and as of the Closing Date that the Borrower is not and will not be (1) an employee benefit plan subject to Title I of ERISA, (2) a plan or account subject to Section 4975 of the Code; (3) an entity deemed to hold "plan assets" of any such plans or accounts for purposes of ERISA or the Code; or (4) a "governmental plan" within the meaning of ERISA.

Section 3.16 Environmental Matters. Except as to matters that would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect: (a) no written notice, request for information, order, complaint or penalty has been received by the Borrower or any of its Subsidiaries, and there are no judicial, administrative or other actions, suits or proceedings pending or, to the Borrower's knowledge, threatened which allege a violation of or liability under any Environmental Laws, in each case relating to the Borrower or any of its Subsidiaries, (b) each of the Borrower and its Subsidiaries has all environmental permits, licenses, authorizations and other approvals necessary for its operations to comply with all Environmental Laws ("Environmental Permits") and is in compliance with the terms of such Environmental Permits and with all other Environmental Laws, (c) except as set forth on Schedule 3.16, no Hazardous Material is located at, on or under any property currently or, to the Borrower's knowledge, formerly owned, operated or leased by the Borrower or any of its Subsidiaries that would reasonably be expected to give rise to any cost, liability or obligation of the Borrower or any of its Subsidiaries under any Environmental Laws or Environmental Permits, and no Hazardous Material has been generated, used, treated, stored, handled, disposed of or controlled, transported or released at any location in a manner that would reasonably be expected to give rise to any cost, liability or obligation of the Borrower or any of its Subsidiaries under any Environmental Laws or Environmental Permits, (d) there are no agreements in which the Borrower or any of its Subsidiaries has expressly assumed or undertaken responsibility for any known or reasonably likely liability or obligation of any other person arising under or relating to Environmental Laws, and (e) there has been no written environmental assessment or audit conducted (other than customary assessments not revealing anything that would reasonably be expected to result in a Material Adverse Effect), by or on behalf of the Borrower or any of the Subsidiaries of any property currently or, to the Borrower's knowledge, formerly owned, operated or leased by the Borrower or any of the Subsidiaries that has not been made available to the Administrative Agent prior to the Closing Date.

Section 3.17 Security Documents.

(a) Each Security Document is effective to create in favor of the Collateral Agent (for the benefit of the Secured Parties, or, in the case of the Escrow Agreement, for the benefit of the "Secured Parties" as defined therein) a legal, valid and enforceable security interest in the Collateral described therein and proceeds thereof. As of the Closing Date, in the case of the Pledged Collateral described in the Collateral Agreement, when certificates or promissory notes, as applicable, representing such Pledged Collateral and required to be delivered under the applicable Security Document are delivered to the Collateral Agent, and in the case of the other Collateral described in the Collateral Agreement (other than the Intellectual Property), when financing statements and other filings specified in the Perfection Certificate are filed in the offices specified in the Perfection Certificate, the Collateral Agent (for the benefit of the Secured Parties) shall have a fully perfected Lien (subject to all Permitted Liens) on, and security interest in, all right, title and interest of the Loan Parties in such Collateral and, subject to Section 9-315 of the New York Uniform Commercial Code, the proceeds thereof, as security for the Obligations to the extent perfection can be obtained by filing Uniform Commercial Code financing statements or possession, in each case prior and superior in right to the Lien of any other person (except Permitted Liens).

(b) When the Collateral Agreement or an ancillary document thereunder is properly filed and recorded in the United States Patent and Trademark Office and the United States Copyright Office,

and, with respect to Collateral in which a security interest cannot be perfected by such filings, upon the proper filing of the financing statements referred to in clause (a) above, the Collateral Agent (for the benefit of the Secured Parties) shall have a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties thereunder in the material United States Intellectual Property included in the Collateral listed in such ancillary document, in each case prior and superior in right to the Lien of any other person, except for Permitted Liens (it being understood that subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a Lien on material registered trademarks and patents, trademark and patent applications and registered copyrights acquired by the Loan Parties after the Closing Date).

(c) Notwithstanding anything herein (including this Section 3.17) or in any other Loan Document to the contrary, no Borrower or any other Loan Party makes any representation or warranty as to the effects of perfection or non-perfection, the priority or the enforceability of any pledge of or security interest in any Equity Interests of any Foreign Subsidiary, or as to the rights and remedies of the Agents or any Lender with respect thereto, under foreign law.

Section 3.18 Solvency. (A) On the Effective Date and (B) (immediately after giving effect to the Transactions on the Closing Date and the making of each Loan on the Closing Date and the application of the proceeds of such Loans) on the Closing Date, (i) the fair value of the assets of the Borrower and its Subsidiaries on a consolidated basis, exceeds, on a consolidated basis, their debts and liabilities, subordinated, contingent or otherwise; (ii) the present fair saleable value of the property of the Borrower and its Subsidiaries, on a consolidated basis, is greater than the amount that will be required to pay the probable liability, on a consolidated basis, of their debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) the Borrower and its Subsidiaries, on a consolidated basis, are able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) the Borrower and its Subsidiaries, on a consolidated basis, are not engaged in, and are not about to engage in, business for which they have unreasonably small capital. For purposes of the foregoing, the amount of any contingent liability at any time shall be computed as the amount that would reasonably be expected to become an actual and matured liability.

Section 3.19 Labor Matters. Except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect: (a) there are no strikes or other labor disputes pending or threatened against the Borrower or any of the Subsidiaries; (b) the hours worked and payments made to employees of the Borrower and the Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable law dealing with such matters; and (c) all payments due from the Borrower or any of the Subsidiaries or for which any claim may be made against the Borrower or any of the Subsidiaries, on account of wages and employee health and welfare insurance and other benefits have been paid or accrued as a liability on the books of the Borrower or such Subsidiary to the extent required by GAAP. Except as, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, the consummation of the Transactions will not give rise to a right of termination or right of renegotiation on the part of any union under any material collective bargaining agreement to which the Borrower or any of the Subsidiaries (or any predecessor) is a party or by which the Borrower or any of the Subsidiaries (or any predecessor) is bound.

Section 3.20 Insurance. Schedule 3.20 of the Effective Date Certificate sets forth a true, complete and correct description, in all material respects, of all material insurance (excluding any title insurance) maintained by or on behalf of any Loan Party as of the Closing Date after giving effect to the Transactions. As of such date, such insurance is in full force and effect.

Section 3.21 Intellectual Property; Licenses, Etc. Except as would not reasonably be expected to have a Material Adverse Effect or as set forth in Schedule 3.21, (a) the Borrower and each of its Subsidiaries owns, or possesses the right to use, all Intellectual Property that are used or held for use or is otherwise reasonably necessary in the operation of their respective businesses, (b) to the knowledge of the Borrower and its Subsidiaries are not interfering with, infringing upon, misappropriating or otherwise violating Intellectual Property of any person, and (c) (i) no claim or litigation regarding any of the Intellectual Property owned by the Borrower and its Subsidiaries is pending or, to the knowledge of the Borrower, threatened and (ii) to the knowledge of the Borrower, no claim or litigation regarding any other Intellectual Property described in the foregoing clauses (a) and (b) is pending or threatened.

Section 3.22 Communications and Regulatory Matters.

(a) Except as would not reasonably be expected to have a Material Adverse Effect, (I) the business of each Loan Party is being conducted in compliance with the Telecommunications Laws, (ii) each Loan Party possess all registrations, licenses, authorizations, and certifications issued by the FCC and the State PUCs necessary to conduct their respective businesses as currently conducted, and (III) all FCC Licenses and State PUC Licenses required for the operations of each Loan Party is in full force and effect.

(b) To the best of the Borrower's knowledge, there is no proceeding being conducted or threatened by any Governmental Authority, which would reasonably be expected to cause the termination, suspension, cancellation, or nonrenewal of any of the FCC Licenses or the State PUC Licenses, or the imposition of any penalty or fine by any Governmental Authority with respect to any of the FCC Licenses or the State PUC Licenses, in each case which would reasonably be expected to have a Material Adverse Effect.

(c) There is no (I) outstanding decree, decision, judgment, or order that has been issued by the FCC or a State PUC against the Loan Parties, the FCC Licenses, or the State PUC Licenses or (II) notice of violation, order to show cause, complaint, investigation or other administrative or judicial proceeding pending or, to the best of the Borrower's knowledge, threatened by or before the FCC or a State PUC against the Loan Parties, the FCC Licenses, or the State PUC Licenses that, in each case, would reasonably be expected to have a Material Adverse Effect.

(d) The Loan Parties each have filed with the FCC and State PUCs all necessary reports, documents, instruments, information, or applications required to be filed pursuant to the Telecommunications Laws, and have paid all fees required to be paid pursuant to the Telecommunications Laws, except in each case as would not reasonably be expected to have a Material Adverse Effect.

Section 3.23 USA PATRIOT Act. The Borrower and each of its Subsidiaries is in compliance in all material respects with the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56, and other applicable anti-money laundering laws.

Section 3.24 Anti-Corruption Laws and Sanctions. (a) Neither the Borrower nor any Subsidiary, nor any director or officer of the Borrower, nor, to the knowledge of the Borrower, any employee, agent or affiliate of the Borrower or any Subsidiary of the Borrower, nor any director or officer of any Subsidiary, is the subject of Sanctions or in violation of any Anti-Corruption Laws, (b) neither the Borrower nor any Subsidiary is located, organized or resident in a Sanctioned Country and (c) no part of the proceeds of the Loans and no Letter of Credit shall be used, directly or indirectly, in a manner that would result in a violation of Anti-Corruption Laws or Sanctions by any party hereto.

Section 3.25 EEA Financial Institutions. No Loan Party is an EEA Financial Institution.

ARTICLE IV

Conditions of Lending

Section 4.01 Effective Date. The effectiveness of the Commitments hereunder and the obligation of each Lender with an Initial Term B Loan Commitment to make Initial Term B Loans to the Borrower on the Effective Date are subject to the satisfaction (or waiver in accordance with Section 9.08) of the following conditions:

- (a) The Administrative Agent shall have received from each of the Borrower, the Issuing Bank and the Lenders a counterpart of this Agreement signed on behalf of such party.
- (b) The Administrative Agent shall have received, on behalf of itself, the Lenders and each Issuing Bank, a written opinion of (i) Wachtell, Lipton, Rosen & Katz, as special New York counsel for the Loan Parties, (ii) Covington & Burling LLP, as federal communications regulatory counsel for the Loan Parties, with respect to the enforceability of the applicable Loan Documents and other related matters, in each case (A) dated the Effective Date, (B) addressed to each Issuing Bank, the Administrative Agent and the Lenders on the Effective Date and (C) in form and substance reasonably satisfactory to the Administrative Agent covering such matters relating to the Loan Documents as the Administrative Agent shall reasonably request.
- (c) The Administrative Agent shall have received a certificate of the Secretary or Assistant Secretary or similar officer of the Borrower dated the Effective Date and certifying:
 - (i) that attached thereto is a true and complete copy of the certificate or articles of incorporation, certificate of limited partnership, certificate of formation or other equivalent constituent and governing documents, including all amendments thereto, of the Borrower, certified as of a recent date by the Secretary of State (or other similar official or Governmental Authority) of the jurisdiction of its organization or by the Secretary or Assistant Secretary or similar officer of the Borrower or other person duly authorized by the constituent documents of the Borrower,
 - (ii) that attached thereto is a true and complete copy of a certificate as to the good standing of the Borrower as of a recent date from such Secretary of State (or other similar official or Governmental Authority),
 - (iii) that attached thereto is a true and complete copy of the limited liability company agreement of the Borrower as in effect on the Effective Date and at all times since a date prior to the date of the resolutions described in the following clause (iv),
 - (iv) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors (or equivalent governing body) of the Borrower, authorizing the execution, delivery and performance by the Borrower of this Agreement and the borrowings hereunder, and the execution, delivery and performance of each of the other Loan Documents required hereby with respect to the Borrower and that such resolutions have not been modified, rescinded or amended and are in full force and effect on the Effective Date, and

(v) as to the incumbency and specimen signature of each officer or authorized signatory executing this Agreement or any other Loan Document delivered in connection herewith on behalf of the Borrower.

(d) The Administrative Agent shall have received a Borrowing Request with respect to the Initial Term B Loans as required by Section 2.03.

(e) The Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower attaching and certifying as true and correct a copy of the Escrow Agreement signed on behalf of each party thereto, together with evidence reasonably satisfactory to the Administrative Agent that, prior to or substantially concurrently with the funding of the Initial Term B Loans on the Effective Date, the "Initial Escrow Deposit" (as defined in the Escrow Agreement) shall have been deposited with the Escrow Agent pursuant to the Escrow Agreement.

(f) (i) The Specified Representations are true and correct in all material respects as of the Effective Date as though made on and as of such date, except to the extent such representations and warranties (A) expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as of such earlier date) or (B) expressly relate to the Closing Date; provided that any representation and warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such respective dates, and (ii) the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that the condition set forth in the foregoing clause (f)(i) has been satisfied.

(g) The Administrative Agent shall have received, at least three (3) Business Days prior to the Effective Date, all documentation and other information required with respect to the Borrower by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation the USA PATRIOT Act to the extent requested in writing at least 10 Business Days prior to the Effective Date.

(h) The Administrative Agent shall have received an executed counterpart of the Pro Rata Ticking Fee Letter signed by the Borrower.

(i) The Administrative Agent shall have received an executed copy of the Effective Date Certificate signed by the Borrower.

Section 4.02 Closing Date. The obligations of (i) (a) the Revolving Facility Lenders to make Revolving Facility Loans and the Swingline Lender to make Swingline Loans, (b) any Issuing Bank to issue, amend, extend or renew Letters of Credit or increase the stated amounts of Letters of Credit hereunder, (c) each Lender with an Initial Term A Loan Commitment to make Initial Term A Loans to the Borrower and (d) each Lender with an Initial Term A-1 Loan Commitment to make Initial Term A-1 Loans to the Borrower and (ii) the release of the Escrowed Property to the Borrower (or as directed by the Borrower), in each case, on the Closing Date are subject solely to the satisfaction (or waiver in accordance with Section 9.08) of the following conditions at or prior to the Outside Date:

(a) The Administrative Agent shall have received in the case of any Borrowing on the Closing Date, a Borrowing Request as required by Section 2.03 (or a Borrowing Request shall have been deemed given in accordance with the last paragraph of Section 2.03) or, in the case of the issuance of any Letter of Credit to be issued on the Closing Date, the applicable

Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance of such Letter of Credit as required by Section 2.05(b).

(b) To the extent required to be satisfied on the Closing Date, the Collateral and Guarantee Requirement shall be satisfied as of the Closing Date.

(c) (i) The Specified Representations are true and correct in all material respects as of the Closing Date (after giving effect to the Transactions) as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall be true and correct in all material respects as of such earlier date); provided that any representation and warranty that is qualified as to "materiality," "Material Adverse Effect" or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such respective dates, (ii) the Merger Agreement LVL T Representations are true and correct to the extent contemplated by the definition of "Merger Agreement LVL T Representations", and (iii) the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower certifying that the conditions set forth in the foregoing clauses (c)(i) and (ii) have been satisfied.

(d) The Lenders shall have received a solvency certificate substantially in the form of Exhibit C and signed by the chief financial officer, chief accounting officer or other officer with equivalent duties of the Borrower confirming the solvency of the Borrower and its subsidiaries on a consolidated basis immediately after giving effect to the Transactions on the Closing Date.

(e) The Administrative Agent shall have received, on behalf of itself, the Lenders and each Issuing Bank, a written opinion of (i) Wachtell, Lipton, Rosen & Katz, as special New York counsel for the Loan Parties, (ii) Jones Walker LLP, as Louisiana counsel for the Loan Parties, (iii) local counsel reasonably acceptable to the Administrative Agent in each other jurisdiction of formation or incorporation of any Loan Party and (iv) Covington & Burling LLP, as federal communications regulatory counsel for the Loan Parties, or, in each case, such other firm as may be reasonably acceptable to the Administrative Agent, with respect to the enforceability of the Loan Documents (other than this Agreement) and other related matters, in each case (A) dated the Closing Date, (B) addressed to each Issuing Bank, the Administrative Agent and the Lenders on the Closing Date and (C) in form and substance reasonably satisfactory to the Administrative Agent covering such matters relating to the Loan Documents as the Administrative Agent shall reasonably request.

(f) The Administrative Agent shall have received a certificate of the Secretary or Assistant Secretary or similar officer of each Loan Party (other than the Borrower) dated the Closing Date and certifying:

(i) that attached thereto is a true and complete copy of the certificate or articles of incorporation, certificate of limited partnership, certificate of formation or other equivalent constituent and governing documents, including all amendments thereto, of such Loan Party, certified as of a recent date by the Secretary of State (or other similar official or Governmental Authority) of the jurisdiction of its organization or by the Secretary or Assistant Secretary or similar officer of such Loan Party or other person duly authorized by the constituent documents of such Loan Party,

(ii) that attached thereto is a true and complete copy of a certificate as to the good standing of such Loan Party (to the extent that such concept exists in such

jurisdiction) as of a recent date from such Secretary of State (or other similar official or Governmental Authority),

(iii) that attached thereto is a true and complete copy of the by-laws (or partnership agreement, limited liability company agreement or other equivalent constituent and governing documents) of such Loan Party as in effect on the Closing Date and at all times since a date prior to the date of the resolutions described in the following clause (iv),

(iv) that attached thereto is a true and complete copy of resolutions duly adopted by the Board of Directors (or equivalent governing body) of such Loan Party (or its managing general partner or managing member), authorizing the execution, delivery and performance of the Loan Documents to which such person is a party and that such resolutions have not been modified, rescinded or amended and are in full force and effect on the Closing Date, and

(v) as to the incumbency and specimen signature of each officer or authorized signatory executing any Loan Document or any other document delivered in connection herewith on behalf of such Loan Party.

(g) The Administrative Agent shall have received a completed Perfection Certificate, dated the Closing Date and signed by a Responsible Officer of the Borrower, together with all attachments contemplated thereby, and the results of a search of the Uniform Commercial Code (or equivalent), Tax and judgment, United States Patent and Trademark Office and United States Copyright Office filings made with respect to the Loan Parties in the jurisdictions contemplated by the Perfection Certificate and copies of the financing statements (or similar documents) disclosed by such search and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) are Permitted Liens or have been, or will be simultaneously or substantially concurrently with the Closing Date, released (or arrangements reasonably satisfactory to the Administrative Agent for such release shall have been made).

(h) Substantially concurrently with initial Credit Event on the Closing Date and the release of the Escrowed Property to the Borrower on the Closing Date, the Mergers shall be consummated in accordance with the Merger Agreement and none of the Borrower, Merger Sub 1 or Merger Sub 2 shall have waived, amended, or provided any consent with respect to, any term or condition of the Merger Agreement in a manner that materially and adversely affects the interests of the Lenders in their capacities as such without the prior written consent of the Arrangers (such consent not to be unreasonably withheld, delayed or conditioned) (it being understood and agreed that (1) any increase in the purchase price in respect of the Mergers shall be deemed not to be adverse to the interests of the Lenders to the extent funded by the issuance of common shares by the Borrower and (2) any decrease in the consideration for the Mergers in an amount less than 10% shall be deemed not to be adverse to the interest of the Lenders so long as there is a corresponding reduction in the amount of the Term A Facility, the Term A-1 Facility and the Term B Facility on a pro rata basis).

(i) The Administrative Agent shall have received (i) audited consolidated balance sheets and related statements of income and cash flows of each of the Borrower and LVLTL for their respective most recent three full fiscal years ended at least 90 days prior to the Closing Date and (ii) unaudited consolidated balance sheets and related statements of income and cash flows of each of the Borrower and LVLTL for each subsequent interim quarterly period ended after the

close of its most recent fiscal year and at least 45 days prior to the Closing Date (but excluding the fourth quarter of any fiscal year). The Administrative Agent acknowledges that it has received each of the financial statements in the foregoing clauses (i) and (ii) for each fiscal year and fiscal quarter of the Borrower and LVLТ ended prior to March 31, 2017 and that the Borrower's or LVLТ's filing of any required audited financial statements on Form 10-K or required unaudited financial statements on Form 10-Q, in each case, will satisfy the requirements under clauses (i) or (ii), as applicable, of this Section 4.02(i).

(j) The Administrative Agent shall have received, at least three (3) Business Days prior to the Closing Date, all documentation and other information required with respect to the Loan Parties by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation the USA PATRIOT Act to the extent requested in writing at least 10 Business Days prior to the Closing Date.

(k) Except as otherwise expressly disclosed in the Company SEC Reports (as defined in the Merger Agreement) filed prior to October 31, 2016 (other than (i) any information that is contained solely in the "Risk Factors" section of such Company SEC Reports and (ii) any forward-looking statements, or other statements that are similarly predictive or forward-looking in nature, contained in such Company SEC Reports) or as set forth in the corresponding sections or subsections of the Company Disclosure Schedule (as defined in the Merger Agreement) (or, pursuant to Section 10.2(b) of the Merger Agreement, as set forth in any section or subsection of the Company Disclosure Schedule to the extent the applicability thereof is readily apparent from the face of the Company Disclosure Schedule), since December 31, 2015, there has not been any LVLТ Material Adverse Effect (as defined below). "LVLТ Material Adverse Effect" shall have the meaning given the term "Company Material Adverse Effect" in the Merger Agreement as in effect on October 31, 2016.

(l) Prior to, or consummated substantially concurrently with, each Credit Event on the Closing Date and the release of the Escrowed Property to the Borrower on the Closing Date, (A) at CenturyLink's option, either the Escrow Merger shall occur or the Escrow Assumption Agreement shall be entered into by the parties thereto, and (B) the Closing Date Refinancing shall have been consummated and all commitments in respect thereof, and any security interests and guaranties granted in connection therewith, if any, shall have been terminated and released (or have been authorized to be released pursuant to a customary payoff letter).

(m) The Agents shall have received all fees payable thereto or to any Lender on or prior to the Closing Date and, to the extent invoiced at least two (2) Business Days prior to the Closing Date, reimbursement or payment of all reasonable and documented out-of-pocket expenses (including reasonable fees, charges and disbursements of Cahill Gordon & Reindel LLP) required to be reimbursed or paid by the Loan Parties hereunder, under the Fee Letter or under any Loan Document on or prior to the Closing Date.

Section 4.03 Subsequent Credit Events. Each Credit Event after the Closing Date is subject to the satisfaction (or waiver in accordance with Section 9.08) of the following conditions on the date of each Borrowing and on the date of each issuance, amendment, extension or renewal of a Letter of Credit:

(a) The Administrative Agent shall have received, in the case of a Borrowing, a Borrowing Request as required by Section 2.03 (or a Borrowing Request shall have been deemed given) or, in the case of the issuance of a Letter of Credit, the applicable Issuing Bank and the Administrative Agent shall have received a notice requesting the issuance of such Letter of Credit as required by Section 2.05(b).

(b) Except as set forth in Section 2.21(c) with respect to Incremental Term Loans used to finance a Limited Condition Transaction, the representations and warranties of the Borrowers and each other Loan Party contained in Article III or any other Loan Document shall be true and correct in all material respects on and as of the date of such Credit Event; provided, that, to the extent that such representations and warranties specifically refer to an earlier date, they shall be true and correct in all material respects as of such earlier date; provided, further, that any representation and warranty that is qualified as to "materiality," "Material Adverse Effect" or similar language shall be true and correct (after giving effect to any qualification therein) in all respects on such respective dates.

(c) Except as set forth in Section 2.21(c) with respect to Incremental Term Loans used to finance a Limited Condition Transaction, at the time of and immediately after such Credit Event (other than an amendment, extension or renewal of a Letter of Credit without any increase in the stated amount of such Letter of Credit), as applicable, no Event of Default or Default shall have occurred and be continuing.

Section 4.04 Determinations Under Sections 4.01 and 4.02. For purposes of determining compliance with the conditions specified in Sections 4.01 and 4.02, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Administrative Agent or the Lenders unless an officer of the Administrative Agent responsible for the transactions contemplated by this Agreement shall have received written notice from such Lender prior to, with respect to conditions specified in Section 4.01, the Effective Date and with respect to conditions specified in Section 4.02, the Closing Date, specifying its objection thereto in reasonable detail. The Administrative Agent shall promptly notify the Lenders and the Borrower in writing of the occurrence of each of the Effective Date, the Closing Date and each such notification shall be conclusive and binding.

ARTICLE V

Affirmative Covenants

The Borrower covenants and agrees with each Lender that from and after the Effective Date (with respect to the following Sections 5.01, 5.03, 5.05, 5.06, 5.07, 5.08, and 5.11 only) and from and after the Closing Date until the Termination Date, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and will cause each of the Subsidiaries to:

Section 5.01 Existence; Business and Properties.

(a) Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except (i) in the case of a Subsidiary of the Borrower, where the failure to do so would not reasonably be expected to have a Material Adverse Effect, (ii) as otherwise permitted under Section 6.05, and (iii) for the liquidation or dissolution of Subsidiaries if the assets of any such Subsidiary (to the extent they exceed estimated liabilities of such Subsidiary) are acquired by the Borrower or a Wholly-Owned Subsidiary of the Borrower in such liquidation or dissolution; provided, that (x) Guarantors may not be liquidated into Subsidiaries that are not Loan Parties, and (y) Domestic Subsidiaries may not be liquidated into Foreign Subsidiaries (except in each case as permitted under Section 6.05).

(b) Except where the failure to do so would not reasonably be expected to have a Material Adverse Effect, do or cause to be done all things necessary to (i) lawfully obtain, preserve, renew, extend and keep in full force and effect the permits, franchises, authorizations, Intellectual Property, licenses and

rights with respect thereto used in the conduct of its business, and (ii) at all times maintain, protect and preserve all property necessary to the normal conduct of its business and keep such property in good repair, working order and condition (ordinary wear and tear excepted), from time to time make, or cause to be made, all needful and proper repairs, renewals, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith, if any, may be properly conducted at all times (in each case except as permitted by this Agreement).

Section 5.02 Insurance. Maintain, with financially sound and reputable insurance companies, insurance (subject to customary deductibles and retentions) in such amounts and against such risks as are customarily maintained by similarly situated companies engaged in the same or similar businesses operating in the same or similar locations (as determined by the Borrower in good faith), and cause the Collateral Agent to be listed as a co-loss payee on property and casualty policies with respect to tangible personal property and assets constituting Collateral located in the United States of America and as an additional insured on all general liability policies. Notwithstanding the foregoing, the Borrower and the Subsidiaries may (i) maintain all such insurance with any combination of primary and excess insurance, (ii) maintain any or all such insurance pursuant to master or so-called "blanket policies" insuring any or all Collateral and/or other assets which do not constitute Collateral (and in such event the co-payee endorsement shall be limited or otherwise modified accordingly), and/or self-insure with respect to such risks with respect to which companies of established reputation engaged in the same general line of business in the same general area usually self-insure (as reasonably determined by the Borrower).

(a) In connection with the covenants set forth in this Section 5.02(a), it is understood and agreed that:

(i) the Administrative Agent, the Collateral Agent, the Lenders, the Issuing Bank and their respective agents or employees shall not be liable for any loss or damage insured by the insurance policies required to be maintained under this Section 5.02, it being understood that (A) the Loan Parties shall look solely to their insurance companies or any other parties other than the aforesaid parties for the recovery of such loss or damage and (B) such insurance companies shall have no rights of subrogation against the Administrative Agent, the Collateral Agent, the Lenders, any Issuing Bank or their agents or employees. If, however, the insurance policies, as a matter of the internal policy of such insurer, do not provide waiver of subrogation rights against such parties, as required above, then the Borrower, on behalf of itself and behalf of each of its Subsidiaries, hereby agrees, to the extent permitted by law, to waive, and further agrees to cause each of their Subsidiaries to waive, its right of recovery, if any, against the Administrative Agent, the Collateral Agent, the Lenders, any Issuing Bank and their agents and employees; and

(ii) the designation of any form, type or amount of insurance coverage by the Collateral Agent (including acting in the capacity as the Collateral Agent) under this Section 5.02 shall in no event be deemed a representation, warranty or advice by the Collateral Agent or the Lenders that such insurance is adequate for the purposes of the business of the Borrower and the Subsidiaries or the protection of their properties.

Section 5.03 Taxes. Pay its obligations in respect of all Tax liabilities, assessments and governmental charges, before the same shall become delinquent or in default, except where (i) the Borrower or a Subsidiary thereof has set aside on its books adequate reserves therefor in accordance with GAAP and, to the extent due and payable pursuant to a governmental assessment, the amount thereof is being contested in good faith by appropriate proceedings or (ii) the failure to make payment could not reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

Section 5.04 Financial Statements, Reports, Etc. Furnish to the Administrative Agent (which will promptly furnish such information to the Lenders):

(a) within 90 days after the end of each fiscal year, commencing with the fiscal year ending December 31, 2017, a consolidated balance sheet and related statements of operations, cash flows and owners' equity showing the financial position of the Borrower and its Subsidiaries as of the close of such fiscal year and the consolidated results of their operations during such year and setting forth in comparative form the corresponding figures for the prior fiscal year, which consolidated balance sheet and related statements of operations, cash flows and owners' equity shall be accompanied by customary management's discussion and analysis and audited by independent public accountants of recognized national standing and accompanied by an opinion of such accountants (which opinion shall not be qualified as to scope of audit or as to the status of the Borrower as a going concern other than with respect to or resulting from, an upcoming maturity date of any Indebtedness under this Agreement occurring within one year from the time such opinion is delivered) to the effect that such consolidated financial statements fairly present, in all material respects, the financial position and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP (it being understood that the delivery by the Borrower of annual reports on Form 10-K of the Borrower and its consolidated Subsidiaries shall satisfy the requirements of this Section 5.04(a) to the extent such annual reports include the information specified herein and are delivered within the time period specified above);

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year (commencing with the first fiscal quarter (other than the fourth fiscal quarter of the Borrower's fiscal year) after the most recent fiscal quarter for which financial statements have been delivered pursuant to Section 4.02(i)), a consolidated balance sheet and related statements of operations and cash flows showing the financial position of the Borrower and its Subsidiaries as of the close of such fiscal quarter and the consolidated results of their operations during such fiscal quarter and the then-elapsed portion of the fiscal year and setting forth in comparative form the corresponding figures for the corresponding periods of the prior fiscal year, all of which shall be in reasonable detail, which consolidated balance sheet and related statements of operations and cash flows shall be accompanied by customary management's discussion and analysis and which consolidated balance sheet and related statements of operations and cash flows shall be certified by a Financial Officer of the Borrower on behalf of the Borrower as fairly presenting, in all material respects, the financial position and results of operations of the Borrower and its Subsidiaries on a consolidated basis in accordance with GAAP (subject to normal year-end audit adjustments and the absence of certain footnotes) (it being understood that the delivery by the Borrower of quarterly reports on Form 10-Q of the Borrower and its consolidated Subsidiaries shall satisfy the requirements of this Section 5.04(b) to the extent such quarterly reports include the information specified herein and are delivered within the time period specified above);

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying that no Event of Default or Default has occurred since the date of the last certificate delivered pursuant to this Section 5.04(c) (or since the Effective Date in the case of the first such certificate) or, if such an Event of Default or Default has occurred, specifying the nature and extent thereof and any corrective action taken or proposed to be taken with respect thereto and (ii) commencing with the end of the first full fiscal quarter after the Closing Date, setting forth computations in reasonable detail satisfactory to the Administrative Agent demonstrating compliance with the Financial Covenants (if applicable);

(d) promptly after the same become publicly available, copies of all periodic and other publicly available reports, proxy statements and, to the extent requested by the Administrative Agent, other materials filed by the Borrower or any of the Subsidiaries with the SEC, or distributed to its stockholders generally, as applicable; provided, however, that such reports, proxy statements, filings and other materials required to be delivered pursuant to this clause (d) shall be deemed delivered for purposes of this Agreement when posted to the website of the Borrower or the website of the SEC and written notice of such posting has been delivered to the Administrative Agent;

(e) within 90 days after the beginning of each fiscal year that commences after the Effective Date, a consolidated annual budget for such fiscal year consisting of a projected consolidated balance sheet of the Borrower and its Subsidiaries as of the end of such fiscal year and the related consolidated statements of projected cash flow and projected income (collectively, the "Budget"), which Budget shall in each case be accompanied by the statement of a Financial Officer of the Borrower to the effect that the Budget is based on assumptions believed by the Borrower to be reasonable as of the date of delivery thereof;

(f) concurrently with the delivery of financial statements under clause (a) above, an updated Perfection Certificate reflecting all changes since the date of the information most recently received pursuant to this clause (f) or Section 4.03, as applicable (or a certificate of a Responsible Officer certifying as to the absence of any changes to the previously delivered update, if applicable); and

(g) promptly, from time to time, such other information regarding the operations, business affairs and financial condition of the Borrower or any of the Subsidiaries, or compliance with the terms of any Loan Document as in each case the Administrative Agent may reasonably request (for itself or on behalf of any Lender).

The Borrower hereby acknowledges that (a) the Administrative Agent and/or the Arrangers may, but shall not be obligated to, make available to the Lenders and the Issuing Banks materials and/or information provided by or on behalf of the Borrower hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks, Syndtrak, ClearPar, or a substantially similar electronic transmission system (the "Platform") and (b) certain of the Lenders (each, a "Public Lender") may have personnel who do not wish to receive material non-public information with respect to the Borrower or its Affiliates, or the respective securities of any of the foregoing, and who may be engaged in investment and other market-related activities with respect to such persons' securities. The Borrower hereby agrees that (w) the Borrower Materials that are to be distributed to the Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Borrower shall be deemed to have authorized the Administrative Agent, the Arrangers, the Issuing Banks and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Borrower, its Subsidiaries or any of their respective securities for purposes of United States Federal and state securities laws; (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Side Information"; and (z) the Administrative Agent and the Arrangers shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Side Information."

Section 5.05 Litigation and Other Notices. Furnish to the Administrative Agent (which will promptly thereafter furnish to the Lenders) written notice of the following promptly after any Responsible Officer of the Borrower obtains actual knowledge thereof:

- (a) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) proposed to be taken with respect thereto;
- (b) the filing or commencement of, or any written threat or notice of intention of any person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority or in arbitration, against the Borrower or any of the Subsidiaries as to which an adverse determination is reasonably probable and which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;
- (c) any other development specific to the Borrower or any of the Subsidiaries that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect; and
- (d) the occurrence of any ERISA Event that, together with all other ERISA Events that have occurred, would reasonably be expected to have a Material Adverse Effect.

Each notice delivered under this Section 5.05 shall be accompanied by a statement of a Responsible Officer of the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.06 Compliance with Laws. Comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect; provided, that this Section 5.06 shall not apply to Environmental Laws, which are the subject of Section 5.09, or to laws related to Taxes, which are the subject of Section 5.03.

Section 5.07 Maintaining Records; Access to Properties and Inspections. Maintain all financial records in accordance with GAAP and permit any persons designated by the Administrative Agent or, upon the occurrence and during the continuance of an Event of Default, any Lender to visit and inspect the financial records and the properties of the Borrower or any of the Subsidiaries at reasonable times, upon reasonable prior notice to the Borrower, and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any persons designated by the Administrative Agent or, upon the occurrence and during the continuance of an Event of Default, any Lender upon reasonable prior notice to the Borrower to discuss the affairs, finances and condition of the Borrower or any of the Subsidiaries with the officers thereof and independent accountants therefor (so long as the Borrower has the opportunity to participate in any such discussions with such accountants), in each case, subject to reasonable requirements of confidentiality, including requirements imposed by law or by contract.

Section 5.08 Use of Proceeds. Use the proceeds of the Loans made and Letters of Credit issued in the manner contemplated by Section 3.12.

Section 5.09 Compliance with Environmental Laws. Comply, and make reasonable efforts to cause all lessees and other persons occupying its properties to comply, with all applicable Environmental Laws; and obtain and renew all required Environmental Permits, except, in each case with respect to this Section 5.09, to the extent the failure to do so would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

Section 5.10 Further Assurances; Additional Security.

(a) Execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that the Collateral Agent may reasonably request (including, without limitation, those required by applicable law), to satisfy the Collateral and Guarantee Requirement and to cause the Collateral and Guarantee Requirement to be and remain satisfied, all at the expense of the Loan Parties and provide to the Collateral Agent, from time to time upon reasonable request, evidence reasonably satisfactory to the Collateral Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

(b) If any asset is acquired by any Collateral Guarantor after the Closing Date or owned by an entity at the time it becomes a Collateral Guarantor (in each case other than (x) assets constituting Collateral under a Security Document that automatically become subject to the Lien of such Security Document upon acquisition thereof, (y) assets constituting Excluded Property and (z) assets of any Collateral Guarantor organized outside the United States), such Collateral Guarantor will, (i) notify the Collateral Agent of such acquisition or ownership and (ii) cause such asset to be subjected to a Lien (subject to any Permitted Liens) securing the Obligations by, and take, and cause the Collateral Guarantors to take, such actions as shall be reasonably requested by the Collateral Agent to satisfy the Collateral and Guarantee Requirement to be satisfied with respect to such asset, including actions described in clause (a) of this Section 5.10, all at the expense of the Loan Parties, subject to the penultimate and last paragraphs of this Section 5.10 and the definition of "Excluded Property."

(c) If any additional direct or indirect Subsidiary of the Borrower is formed, acquired or ceases to constitute an Excluded Subsidiary following the Closing Date and such Subsidiary is (1) a Wholly-Owned Domestic Subsidiary of the Borrower that is not an Excluded Subsidiary or (2) any other Domestic Subsidiary of the Borrower that may be designated by the Borrower in its sole discretion, within twenty (20) days after the date such Subsidiary is formed or acquired or meets such criteria (or first becomes subject to such requirement) (or such longer period as the Collateral Agent may agree in its sole discretion), notify the Collateral Agent thereof and, within thirty (30) days after the date such Subsidiary is formed or acquired or meets such criteria (or first becomes subject to such requirement) or such longer period as the Collateral Agent may agree in its sole discretion, cause such Subsidiary to become a Collateral Guarantor (or, in the case of any Subsidiary of QCF or Embarq, to become a Guarantor) and cause the Collateral and Guarantee Requirement to be satisfied with respect to such Subsidiary and with respect to any Equity Interest in or Indebtedness of such Subsidiary owned by or on behalf of any Collateral Guarantor, subject to the third to last and penultimate paragraphs of this Section

5.10. Notwithstanding anything to the contrary herein, in no circumstance shall an Excluded Subsidiary become a Guarantor unless designated as a Guarantor by the Borrower in its sole discretion and in no circumstance shall QCF, Embarq and their respective Subsidiaries be required to become Collateral Guarantors.

(d) Furnish to the Collateral Agent prompt written notice of any change (A) in any Loan Party's corporate or organization name, (B) in any Loan Party's identity or organizational structure, (C) in any Loan Party's organizational identification number (to the extent relevant in the applicable jurisdiction of organization) and (D) in any Loan Party's jurisdiction of organization; provided, that the Borrower shall not effect or permit any such change unless all filings have been made, or will have been made within 10 days following such change (or such longer period as the Collateral Agent may agree in its sole discretion), under the Uniform Commercial Code (or its equivalent in any applicable jurisdiction) that are required in order for the Collateral Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral in which a security interest may be perfected by such filing, for the benefit of the Secured Parties.

(e) If any additional Foreign Subsidiary of the Borrower is formed or acquired after the Closing Date (with any Subsidiary Redesignation resulting in an Unrestricted Subsidiary becoming a Subsidiary being deemed to constitute the acquisition of a Subsidiary) and if such Subsidiary is a "first tier" Foreign Subsidiary of a Collateral Guarantor, within thirty (30) days after the date such Foreign Subsidiary is formed or acquired (or such longer period as the Collateral Agent may agree in its reasonable discretion), notify the Collateral Agent thereof and, within sixty (60) days after the date such Foreign Subsidiary is formed or acquired or such longer period as the Collateral Agent may agree in its reasonable discretion, cause the Collateral and Guarantee Requirement to be satisfied with respect to any Equity Interest in such Foreign Subsidiary owned by or on behalf of any Loan Party, subject to the penultimate and last paragraphs of this Section 5.10 and the definition of "Excluded Property."

Notwithstanding anything to the contrary in this Agreement or in the other Loan Documents, the Collateral and Guarantee Requirement and the other provisions of this Section 5.10 and the other Loan Documents with respect to Collateral need not be satisfied with respect to any of the following (collectively, the "Excluded Property"): (i) any interest in Real Property; (ii) motor vehicles and other assets subject to certificates of title (other than to the extent that a security interest therein can be perfected by the filing of a financing statement under the Uniform Commercial Code); (iii) letter of credit rights (other than to the extent that a security interest therein can be perfected by the filing of a financing statement under the Uniform Commercial Code); (iv) commercial tort claims (as defined in the Uniform Commercial Code) with a value of less than \$25,000,000; (v) leases, licenses, permits and other agreements to the extent, and so long as, the pledge thereof as Collateral would violate the terms thereof or create a right of termination in favor of any other party thereto (other than the Borrower or a Guarantor), but only to the extent, and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the Uniform Commercial Code, the Bankruptcy Code or other Requirement of Law; (vi) other assets to the extent the pledge thereof or the security interest therein is prohibited by applicable law, rule or regulation (other than to the extent such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the Uniform Commercial Code, Bankruptcy Code or any other Requirement of Law) or which could require governmental (including regulatory) consent, approval, license or authorization to be pledged (unless such consent, approval, license or authorization has been received); (vii) those assets as to which the Administrative Agent and the Borrower shall reasonably agree that the costs or other adverse consequences (including, without limitations, Tax consequences) of obtaining such security interest are excessive in relation to the value of the security to be afforded thereby; (ix) "intent-to-use" trademark applications prior to the filing of a "Statement of Use" or "Amendment to Allege Use" with respect thereto, to the extent that the grant of a security interest therein would impair the validity or enforceability of, or render void or voidable or result in the cancellation of the applicable grantor's right, title or interest therein or in any trademark issued as a result of such application under applicable law; (x) any governmental licenses, permits or state or local franchises, charters and authorizations, to the extent Liens and security interests therein are prohibited or restricted thereby, (xi) any asset owned by a Regulated Subsidiary to the extent prohibited by any Requirement of Law or that would if pledged, in the good faith judgment of the Borrower, result in adverse regulatory consequences or impair the conduct of the business of the Borrower and the Subsidiaries (provided, in the case of this clause (xi), the Borrower shall promptly notify the Administrative Agent thereof and, if requested by the Administrative Agent, shall use commercially reasonable efforts to obtain any necessary approvals or authorizations to permit such assets to be pledged), but only to the extent, and for so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective by the Uniform Commercial Code or any such adverse consequence or impairment is not eliminated; (xii) Excluded Securities and (xiii) for the avoidance of doubt, any assets of any person other than a Collateral Guarantor; provided, that the Borrower may in its sole discretion elect to exclude any property from the definition of Excluded Property by expressly notifying the Agent of its decision to do so with reference to this proviso.

In addition, in no event shall (1) control agreements or control, lockbox or similar agreements or arrangements be required with respect to deposit accounts, securities accounts or commodities accounts, (2) landlord, mortgagee and bailee waivers or subordination agreements (other than any subordination agreement expressly contemplated by Sections 6.01(a), (e), or (m) of this Agreement) be required, (3) notices be required to be sent to account debtors or other contractual third parties unless an Event of Default has occurred and is continuing and (4) foreign-law governed security documents or perfection under foreign law be required.

Notwithstanding anything herein to the contrary herein, (A) the Collateral Agent may grant extensions of time or waiver or modification of requirement for the creation or perfection of security interests in or the obtaining of insurance with respect to particular assets (including extensions beyond the Closing Date for the perfection of security interests in the assets of the Collateral Guarantors on such date) where it reasonably determines, in consultation with the Borrower, that perfection or obtaining of such items cannot reasonably be accomplished without undue effort or expense or is otherwise impracticable by the time or times at and/or in the form or manner in which it would otherwise be required by this Agreement or the other Loan Documents and (B) Liens required to be granted from time to time pursuant to, or any other requirements of, the Collateral and Guarantee Requirement and the Security Documents shall be subject to exceptions and limitations set forth in the Security Documents.

Section 5.11 Ratings. Use commercially reasonable efforts to obtain and to maintain (a) public ratings from Moody's and S&P for the Term Loans and (b) public corporate credit ratings and corporate family ratings from Moody's and S&P in respect of the Borrower; provided, however, in each case, that the Borrower and its subsidiaries shall not be required to obtain or maintain any specific rating. Prior to the Closing Date, references to the Borrower in this Section 5.11 shall be deemed to refer to CenturyLink.

Section 5.12 Restricted and Unrestricted Subsidiaries. Designate any Subsidiary as an Unrestricted Subsidiary only in accordance with the definition of "Unrestricted Subsidiary" contained herein.

Section 5.13 Post-Closing. Take all necessary actions to satisfy the items described on Schedule 5.13 to the Effective Date Certificate within the applicable period of time specified in such Schedule (or such longer period as the Administrative Agent may agree in its sole discretion).

Section 5.14 Farm Credit Equity and Security.

(a) So long as a Farm Credit Lender is a Lender hereunder, the Borrower will acquire, directly or through one or more of its Subsidiaries (and such Farm Credit Lender will make available to the Borrower or its applicable Subsidiaries for purchase) equity in such Farm Credit Lender in such amounts and at such times as such Farm Credit Lender may require in accordance with such Farm Credit Lender's Bylaws and Capital Plan (or their equivalent) (as each may be amended from time to time), except that the maximum amount of equity that the Borrower shall be required pursuant to this sentence to purchase, directly or through its applicable Subsidiaries, in such Farm Credit Lender in connection with the Loans made by such Farm Credit Lender shall not exceed the maximum amount required by the Bylaws and the Capital Plan (or the equivalent) on the Closing Date. The Borrower acknowledges receipt of documents from each Farm Credit Lender that describe the nature of the Borrower's stock and other equities in such Farm Credit Lender acquired in connection with its patronage loan from such Farm Credit Lender (the "Farm Credit Equities") as well as capitalization requirements, and agrees to be bound by the terms thereof.

(b) Each party hereto acknowledges that each Farm Credit Lender's Bylaws and Capital Plan (or their equivalent) (as each may be amended from time to time) shall govern (x) the rights and obligations of the parties with respect to the Farm Credit Equities and any patronage refunds or other distributions made on account thereof or on account of the Borrower's patronage with such Farm Credit Lender, (y) the Borrower's eligibility for patronage distributions from such Farm Credit Lender (in the form of Farm Credit Equities and cash) and (z) patronage distributions, if any, in the event of a sale of a participation interest. Each Farm Credit Lender 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 acknowledges that each Farm Credit Lender has a statutory first lien pursuant to the Farm Credit Act of 1971 (as amended from time to time) on all Farm Credit Equities that the Borrower may now own or hereafter acquire, which statutory lien shall be for such Farm Credit Lender's sole and exclusive benefit. The Farm Credit Equities shall not constitute security for the Obligations due to any other Secured Party. To the extent that any of the Loan Documents create a Lien on the Farm Credit Equities or on patronage accrued by such Farm Credit Lender for the account of the Borrower (including, in each case, proceeds thereof), such Lien shall be for such Farm Credit Lender's sole and exclusive benefit and shall not be subject to pro rata sharing hereunder. Neither the Farm Credit Equities nor any accrued patronage shall be offset against the Obligations except that, in the event of an Event of Default, a Farm Credit Lender 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, ACB shall have no obligation to retire the Farm Credit 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.

ARTICLE VI

Negative Covenants

The Borrower covenants and agrees with each Lender that from the Closing Date until the Termination Date, unless the Required Lenders (or, in the case of the Pro Rata Only Covenants, the Required Pro Rata Lenders) shall otherwise consent in writing, the Borrower will not, and will not permit any of the Subsidiaries to:

Section 6.01 Indebtedness. Incur, create, assume or permit to exist any Indebtedness, except:

(a) Indebtedness, including Capitalized Lease Obligations (other than Indebtedness described in Section 6.01(b) below) existing or committed on the Closing Date (provided, that any such Indebtedness that is owed to any person other than the Borrower and/or one or more of its Subsidiaries, in an aggregate amount in excess of \$25,000,000 shall be set forth in Schedule 6.01 of the Effective Date Certificate) and any Permitted Refinancing Indebtedness incurred to Refinance such Indebtedness;

(b) Indebtedness created hereunder (including pursuant to Section 2.21, Section 2.22 and Section 2.23) and under the other Loan Documents and any Refinancing Notes incurred to Refinance such Indebtedness;

(c) Indebtedness of the Borrower or any Subsidiary pursuant to Hedging Agreements entered into for non-speculative purposes;

(d) Indebtedness owed to (including obligations in respect of letters of credit or bank guarantees or similar instruments for the benefit of) any person providing workers' compensation, health, disability or other employee benefits or property, casualty or liability insurance to the Borrower or any Subsidiary, pursuant to reimbursement or indemnification obligations to such person, in each case in the ordinary course of business or consistent with past practice or industry practices;

(e) subject to Section 6.08, Indebtedness of the Borrower to any Subsidiary and of any Subsidiary to the Borrower or any other Subsidiary; provided, that (i) Indebtedness of any Subsidiary that is not a Loan Party owing to a Loan Party incurred pursuant to this Section 6.01(e) shall be subject to Section 6.04(b) and (ii) Indebtedness owed by any Loan Party to any Subsidiary that is not a Guarantor and Indebtedness of any Guarantor owing to the Borrower incurred pursuant to this Section 6.01(e) shall be subordinated in right of payment to the Loan Obligations on terms reasonably satisfactory to the Administrative Agent;

(f) Indebtedness in respect of performance bonds, bid bonds, appeal bonds, surety bonds and completion guarantees and similar obligations, in each case provided in the ordinary course of business or consistent with past practice or industry practices, including those incurred to secure health, safety and environmental obligations in the ordinary course of business or consistent with past practice or industry practices;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business or other cash management services, in each case incurred in the ordinary course of business;

(h) (i) Indebtedness of a Subsidiary acquired after the Closing Date or a person merged or consolidated with the Borrower or any Subsidiary after the Closing Date and Indebtedness otherwise assumed by any Loan Party in connection with the acquisition of assets or Equity Interests (including a Permitted Business Acquisition), where such acquisition, merger, amalgamation or consolidation is not prohibited by this Agreement; provided, that, (x) Indebtedness acquired or assumed pursuant to this subclause (h)(i) shall be in existence prior to the respective merger or acquisition of assets or Equity Interests (including a Permitted Business Acquisition) and shall not have been created in contemplation thereof or in connection therewith, and (y) after giving effect to the acquisition or assumption of such Indebtedness, (A) the Borrower shall be in compliance with the Financial Covenants (if applicable) and (B) the Total Leverage Ratio shall not be greater than 5.00 to 1.00, in each case calculated on a Pro Forma Basis for the then most recently ended Test Period; and (ii) any Permitted Refinancing Indebtedness incurred to Refinance any such Indebtedness;

(i) Capitalized Lease Obligations (and any Permitted Refinancing Indebtedness in respect thereof) in an aggregate principal amount not to exceed the greater of (x) \$250,000,000 and (y) 2.75% of Pro Forma LTM EBITDA measured at the time of incurrence, creation or assumption (plus any increase in the amount thereof in connection with any refinancing, renewal or extension thereof to the extent such increase is permitted by the definition of "Permitted Refinancing Indebtedness");

(j) (x) mortgage financings and other Indebtedness incurred by the Borrower or any Subsidiary prior to or within 360 days after the acquisition, lease, construction, repair, replacement or improvement of fixed or capital assets in order to finance such acquisition, lease, construction, repair, replacement or improvement (whether through the direct purchase of

property or the Equity Interests of any person owning such property), in an aggregate principal amount that immediately after giving effect to the incurrence of such Indebtedness and the use of proceeds thereof, together with the aggregate principal amount of any other Indebtedness outstanding pursuant to this Section 6.01(j), would not exceed the greater of (x) \$2,000,000,000 and (ii) 21.5% of Pro Forma LTM EBITDA measured when incurred, created or assumed, and (y) any Permitted Refinancing Indebtedness in respect thereof;

(k) other Indebtedness of the Borrower or any Subsidiary (including, for the avoidance of doubt, any Guarantees thereof), in an aggregate principal amount not to exceed the greater of (x) \$1,000,000,000 and (y) 10.75% of Pro Forma LTM EBITDA (measured when incurred, created or assumed) at any time outstanding;

(l) [Reserved];

(m) Guarantees (A) by the Borrower of Indebtedness of any Subsidiary, (B) by any Subsidiary that is not a Guarantor or a Subsidiary of a Guarantor of Indebtedness of any other Subsidiary that is not a Guarantor or a Subsidiary of a Guarantor and (C) by any Guarantor or Subsidiary of such Guarantor of Indebtedness of any other Subsidiary of such Guarantor;

(n) Indebtedness arising from agreements of the Borrower or any Subsidiary providing for indemnification, adjustment of purchase or acquisition price or similar obligations (including earn-outs), in each case, incurred or assumed in connection with any Permitted Business Acquisition or similar Investment or the disposition of any business, assets or a Subsidiary not prohibited by this Agreement;

(o) Indebtedness in respect of letters of credit, bank guarantees, warehouse receipts or similar instruments issued in the ordinary course of business or consistent with past practice or industry practices and not supporting obligations in respect of Indebtedness for borrowed money;

(p) (i) Permitted Unsecured Debt so long as immediately after giving effect to the incurrence of such Permitted Unsecured Debt and the use of proceeds thereof, the Total Leverage Ratio shall not be greater than (A) solely for the benefit of the Term A Facility, the Term A-1 Facility and the Revolving Facility following the second anniversary of the Closing Date, 4.75 to 1.00 (this subclause (p)(i)(A) the "Pro Rata Only Debt Restriction") or (B) 5.00 to 1.00, in each case calculated on a Pro Forma Basis for the then most recently ended Test Period (including, for the avoidance of doubt, any Guarantees of such Permitted Unsecured Debt by the Guarantors, which shall be subordinated to the extent required by the definition of "Permitted Unsecured Debt") and (ii) any Permitted Refinancing Indebtedness in respect thereof;

(q) obligations in respect of Cash Management Agreements in the ordinary course of business;

(r) Indebtedness incurred in the ordinary course of business in respect of obligations of the Borrower or any Subsidiary to pay the deferred purchase price of goods or services or progress payments in connection with such goods and services; provided, that such obligations are incurred in connection with open accounts extended by suppliers on customary trade terms in the ordinary course of business and not in connection with the borrowing of money or any Hedging Agreements;

(s) Indebtedness representing deferred compensation to employees, consultants or independent contractors of the Borrower or any Subsidiary incurred in the ordinary course of business;

(t) (i) Indebtedness incurred by LVLTL and its Subsidiaries so long as immediately after giving effect to the incurrence of such Indebtedness and the use of proceeds thereof, (A) the Priority Leverage Ratio shall not be greater than 3.00 to 1.00 and (B) the LVLTL Leverage Ratio shall not be greater than 3.75 to 1.00, in each case calculated on a Pro Forma Basis for the then most recently ended Test Period and (ii) any Permitted Refinancing Indebtedness in respect thereof;

(u) (i) Indebtedness incurred by QC and its Subsidiaries so long as immediately after giving effect to the incurrence of such Indebtedness and the use of proceeds thereof, (A) the Priority Leverage Ratio shall not be greater than 3.00 to 1.00 and (B) the QC Leverage Ratio shall not be greater than 1.90 to 1.00, in each case calculated on a Pro Forma Basis for the then most recently ended Test Period and (ii) any Permitted Refinancing Indebtedness in respect thereof;

(v) Indebtedness issued by the Borrower (and, for the avoidance of doubt, the Guarantee thereof by any Guarantor) and in the form of one or more series of senior or subordinated notes or loans (which may be unsecured or secured on a junior lien basis or a pari passu basis with the Liens securing the Obligations), (the "Incremental Equivalent Debt"; provided that (i) no Event of Default shall have occurred and be continuing or would exist after giving effect to such Indebtedness, (ii) any such Incremental Equivalent Debt in the form of term loans secured on a pari passu basis with the Liens securing the Obligations shall be subject to the MFN Provision as if such Indebtedness was Other Incremental Term Loans, (iii) such Incremental Equivalent Debt (A) shall have no borrower (other than the Borrower) or guarantor (other than the Guarantors), (B) if secured, shall not be secured by any assets other than the Collateral, (C) shall have a Weighted Average Life to Maturity no shorter than the remaining Weighted Average Life to Maturity of the Term B Loans, (iv) such Incremental Equivalent Debt shall not be subject to any maturity, mandatory redemption, repurchase, prepayment or sinking fund obligation (other than customary offers to repurchase and prepayment events upon a change of control, asset sale or event of loss (or from the proceeds of an equity offering or Permitted Refinancing Indebtedness) and a customary acceleration right after an event of default) prior to the then Latest Maturity Date, (D) shall have a final maturity no earlier than the Latest Maturity Date in effect at the date of incurrence of such Incremental Equivalent Debt (provided that such Incremental Equivalent Debt may be incurred in the form of a customary "bridge" or other interim credit facility intended to be refinanced or replaced with long-term indebtedness so long as, subject only to customary conditions the failure of which to be satisfied would otherwise result in an Event of Default, it would either be automatically converted into or required to be exchanged for permanent financing which satisfies the requirements of this clause (D)), (E) shall be subject to a Permitted First Lien Intercreditor Agreement or a Permitted Junior Intercreditor Agreement, as applicable, (v) such Incremental Equivalent Debt shall have terms and conditions (other than (x) pricing, rate floors, discounts, fees, premiums and optional prepayment or redemption provisions and (y) covenants or other provisions applicable only to periods after the Latest Maturity Date at the time of incurrence of such Indebtedness) that (i) in the good faith judgment of the Borrower are not materially less favorable (when taken as a whole) to the Borrower than the terms and conditions of the Loan Documents (when taken as a whole) or (ii) are otherwise reasonably satisfactory to the Administrative Agent (provided, that a certificate of a financial officer of the Borrower delivered to the Administrative Agent at least five (5) Business Days prior to the incurrence of such Incremental Equivalent Debt, together with a

reasonably detailed description of the material terms and conditions thereof or drafts of the documentation relating thereto, stating that the Borrower has determined in good faith that such terms and conditions satisfy the requirement set forth in this clause (v), shall be conclusive evidence that such terms and conditions satisfy such requirement unless the Administrative Agent provides notice to the Borrower of its objection during such five (5) Business Day period (including a reasonable description of the basis upon which it objects)); (vi) the Borrower shall be in compliance with the Financial Covenants (if applicable) at the time of the incurrence of such Incremental Equivalent Debt on a Pro Forma Basis for the then most recently ended Test Period; provided, that for purposes of calculating compliance with the Financial Covenants under this clause (vi), any Revolving Facility Commitments (including any Incremental Revolving Facility Commitments) in excess of \$2,000,000 shall be deemed to be fully drawn and (vii) after giving effect to the incurrence of such Incremental Equivalent Debt, the aggregate principal amount of all Incremental Equivalent Debt (together with all Incremental Loans and Incremental Commitments) shall not exceed the Incremental Amount;

(w) (i) Capitalized Lease Obligations and any other Indebtedness incurred by the Borrower or any Subsidiary arising from any Permitted Sale Lease-Back Transaction and (ii) any Permitted Refinancing Indebtedness in respect thereof;

(x) Indebtedness issued by the Borrower or any Subsidiary to current or former officers, directors and employees, their respective estates, spouses or former spouses to finance the purchase or redemption of Equity Interests of the Borrower permitted by Section 6.06;

(y) Indebtedness consisting of obligations of the Borrower or any Subsidiary under deferred compensation or other similar arrangements incurred by such person in connection with the Transactions and Permitted Business Acquisitions or any other Investment permitted hereunder; and

(z) Indebtedness consisting of (i) the financing of insurance premiums or (ii) take-or-pay obligations contained in supply arrangements, in each case, in the ordinary course of business.

For purposes of determining compliance with this Section 6.01 or Section 6.02, the amount of any Indebtedness denominated in any currency other than Dollars shall be calculated based on currency exchange rates in effect, in the case of such Indebtedness incurred (in respect of term Indebtedness) or committed (in respect of revolving Indebtedness) on or prior to the Closing Date, on the Closing Date and, in the case of such Indebtedness incurred (in respect of term Indebtedness) or committed (in respect of revolving Indebtedness) after the Closing Date, on the date on which such Indebtedness was incurred (in respect of term Indebtedness) or committed (in respect of revolving Indebtedness); provided, that if such Indebtedness is incurred to refinance other Indebtedness denominated in a currency other than Dollars (or in a different currency from the Indebtedness being refinanced), and such refinancing would cause the applicable Dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such Dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed (i) the outstanding or committed principal amount, as applicable, of such Indebtedness being refinanced plus (ii) the aggregate amount of fees, underwriting discounts, premiums (including tender premiums), defeasance costs and other costs and expenses incurred in connection with such refinancing.

Further, for purposes of determining compliance with this Section 6.01, (A) Indebtedness need not be permitted solely by reference to one category of permitted Indebtedness (or any portion thereof) described in Sections 6.01(a) through (z) but may be permitted in part under any relevant combination

thereof (and subject to compliance, where relevant, with Section 6.02), (B) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of one or more of the categories of permitted Indebtedness (or any portion thereof) described in Sections 6.01(a) through (z), the Borrower may, in its sole discretion, classify or divide such item of Indebtedness (or any portion thereof) in any manner that complies with this Section 6.01 (including, in the case of Indebtedness incurred on the same day, electing the order in which such Indebtedness shall be deemed incurred for purposes of computing the available amount under any category) and will be entitled to only include the amount and type of such item of Indebtedness (or any portion thereof) in one of the above clauses (or any portion thereof) and such item of Indebtedness (or any portion thereof) shall be treated as having been incurred or existing pursuant to only such clause or clauses (or any portion thereof); provided, that all Indebtedness outstanding under this Agreement shall at all times be deemed to have been incurred pursuant to clause (b) of this Section

6.1 and (C) at the option of the Borrower by written notice to the Administrative Agent, any Indebtedness and/or Lien incurred to finance a Limited Condition Transaction shall be deemed to have been incurred on the date of execution of the acquisition agreement, the declaration of the dividend by the Board of Directors of the Borrower or the applicable Subsidiary or the giving of the irrevocable notice of repayment or redemption, as applicable, related to such Limited Condition Transaction (and not at the time such Limited Condition Transaction is consummated) and the Total Leverage Ratio, Priority Leverage Ratio, LVLTL Leverage Ratio and/or QC Leverage Ratio shall be tested (x) in connection with such incurrence, as of the date of execution of the acquisition agreement, the declaration of the dividend by the Board of Directors of the Borrower or the applicable Subsidiary or the giving of the irrevocable notice of repayment or redemption, as applicable related to such Limited Condition Transaction was entered into, giving pro forma effect to such Limited Condition Transaction, to any such Indebtedness or Lien, and to all transactions in connection therewith and (y) in connection with any other incurrence after the date definitive acquisition agreement was entered into, the date of declaration of the dividend by the Board of Directors of the Borrower or the applicable Subsidiary or the date of giving of the irrevocable notice of repayment or redemption, as applicable related to such Limited Condition Transaction and prior to the earlier of the consummation of such Limited Condition Transaction or the termination of such definitive agreement or abandonment of such dividend, repayment or redemption prior to the incurrence (but not, for the avoidance of doubt, for purposes of determining the Applicable Margin, the Required Percentage or actual compliance with the Financial Covenants), both (i) on the basis set forth in clause (x) above and (ii) without giving effect to such Limited Condition Transaction or the incurrence of any such Indebtedness or Liens or the other transactions in connection therewith. In addition, with respect to any Indebtedness that was permitted to be incurred hereunder on the date of such incurrence, any Increased Amount of such Indebtedness shall also be permitted hereunder after the date of such incurrence.

This Agreement will not treat (1) unsecured Indebtedness as subordinated or junior in right of payment to secured Indebtedness merely because it is unsecured or (2) senior Indebtedness as subordinated or junior in right of payment to any other senior Indebtedness merely because it has a junior priority with respect to the same collateral.

Section 6.02 Liens. Create, incur, assume or permit to exist any Lien on any property or assets (including stock or other securities of any person) of the Borrower or any Subsidiary now owned or hereafter acquired by it or on any income or revenues or rights in respect of any thereof, except the following (collectively, "Permitted Liens"):

(a) Liens on property or assets of the Borrower and the Subsidiaries existing on the Closing Date and, to the extent securing Indebtedness in an aggregate principal amount in excess of \$25,000,000, set forth on Schedule 6.02(a) of the Effective Date Certificate and any modifications, replacements, renewals or extensions thereof; provided, that such Liens shall secure only those obligations that they secure on the Closing Date (and any Permitted

Refinancing Indebtedness in respect of such obligations permitted by Section 6.01) and shall not subsequently apply to any other property or assets of the Borrower or any Subsidiary other than (A) after-acquired property that is affixed or incorporated into the property covered by such Lien and (B) proceeds and products thereof;

(b) any Lien created under the Loan Documents (including Liens under the Security Documents securing obligations in respect of Secured Hedge Agreements and Secured Cash Management Agreements) and statutory Liens described in Section 5.14(c);

(c) any Lien on any property or asset of the Borrower or any Subsidiary securing Indebtedness or Permitted Refinancing Indebtedness permitted by Section 6.01(h); provided, that

(i) such Lien is not created in contemplation of or in connection with such acquisition or such person becoming a Subsidiary, as the case may be, and (ii) such Lien does not apply to any other property or assets of the Borrower or any of the Subsidiaries not securing such Indebtedness at the date of the acquisition of such property or asset and accessions and additions thereto and proceeds and products thereof (other than accessions thereto and proceeds thereof so acquired or any after-acquired property of such person becoming a Subsidiary (but not of the Borrower or any other Loan Party, including any Loan Party into which such acquired entity is merged) required to be subjected to such Lien pursuant to the terms of such Indebtedness (and Permitted Refinancing Indebtedness in respect thereof));

(d) Liens for Taxes, assessments or other governmental charges or levies not yet delinquent by more than 30 days or that are being contested in good faith in compliance with Section 5.03;

(e) Liens imposed by law, constituting landlord's, carriers', warehousemen's, mechanics', materialmen's, repairmen's, supplier's, construction or other like Liens, securing obligations that are not overdue by more than 30 days or that are being contested in good faith by appropriate proceedings and in respect of which, if applicable, the Borrower or any Subsidiary shall have set aside on its books reserves in accordance with GAAP;

(f) (i) pledges and deposits and other Liens made in the ordinary course of business in compliance with the Federal Employers Liability Act or any other workers' compensation, unemployment insurance and other social security laws or regulations and deposits securing liability to insurance carriers under insurance or self-insurance arrangements in respect of such obligations and (ii) pledges and deposits and other Liens securing liability for reimbursement or indemnification obligations of (including obligations in respect of letters of credit or bank guarantees for the benefit of) insurance carriers providing property, casualty or liability insurance to the Borrower or any Subsidiary;

(g) deposits and other Liens to secure the performance of bids, trade contracts (other than for Indebtedness), leases (other than Capitalized Lease Obligations), statutory obligations, surety and appeal bonds, performance and return of money bonds, bids, leases, government contracts, trade contracts, agreements with utilities, and other obligations of a like nature (including letters of credit in lieu of any such bonds or to support the issuance thereof), in each case to the extent such deposits and other Liens are incurred in the ordinary course of business, including those incurred to secure health, safety and environmental obligations in the ordinary course of business;

(h) zoning, land use and building restrictions, regulations and ordinances, easements, survey exceptions, minor encroachments by and on the Real Property, railroad

trackage rights, sidings and spur tracks, leases (other than Capitalized Lease Obligations), subleases, licenses, special assessments, rights-of-way, covenants, conditions, restrictions and declarations on or with respect to the use of Real Property, reservations, restrictions and leases of or with respect to oil, gas, mineral, riparian and water rights and water usage, servicing agreements, development agreements, site plan agreements and other similar encumbrances incurred in the ordinary course of business and title defects or irregularities that are of a minor nature and that, in the aggregate, do not interfere in any material respect with the ordinary conduct of the business of the Borrower or any Subsidiary;

(i) Liens securing Indebtedness permitted by Sections 6.01(i) and 6.01(j); provided, that such Liens do not apply to any property or assets of the Borrower or any Subsidiary other than the property or assets acquired, leased, constructed, replaced, repaired or improved with such Indebtedness (or the Indebtedness Refinanced thereby), and accessions and additions thereto, proceeds and products thereof, customary security deposits and related property; provided, further, that individual financings provided by one lender may be cross-collateralized to other financings provided by such lender (and its Affiliates);

(j) Liens arising out of any Permitted Sale Lease-Back Transaction, so long as such Liens attach only to the property sold and being leased in such transaction and any accessions and additions thereto or proceeds and products thereof and related property;

(k) non-consensual Liens securing judgments that do not constitute an Event of Default under Section 7.01(j);

(l) any interest or title of a ground lessor or any other lessor, sublessor or licensor under any ground leases or any other leases, subleases or licenses entered into by the Borrower or any Subsidiary in the ordinary course of business, and all Liens suffered or created by any such ground lessor or any other lessor, sublessor or licensor (or any predecessor in interest) with respect to any such interest or title in the real property which is subject thereof;

(m) Liens that are contractual rights of set-off (i) relating to the establishment of depository relations with banks and other financial institutions not given in connection with the issuance of Indebtedness, (ii) relating to pooled deposits, sweep accounts, reserve accounts or similar accounts of the Borrower or any Subsidiary to permit satisfaction of overdraft or similar obligations incurred in the ordinary course of business of the Borrower or any Subsidiary, including with respect to credit card charge-backs and similar obligations, or (iii) relating to purchase orders and other agreements entered into with customers, suppliers or service providers of the Borrower or any Subsidiary in the ordinary course of business;

(n) Liens (i) arising solely by virtue of any statutory or common law provision relating to banker's liens, rights of set-off or similar rights, (ii) attaching to commodity trading accounts or other commodity brokerage accounts incurred in the ordinary course of business, (iii) encumbering reasonable customary initial deposits and margin deposits and similar Liens attaching to brokerage accounts incurred in the ordinary course of business and not for speculative purposes, (iv) in respect of Third Party Funds or (v) in favor of credit card companies pursuant to agreements therewith;

(o) Liens securing obligations in respect of letters of credit, bank guarantees, warehouse receipts or similar obligations permitted under Section 6.01(f) or (o) and incurred in the ordinary course of business or consistent with past practice or industry practices and not supporting obligations in respect of Indebtedness for borrowed money;

(p) leases or subleases, and licenses or sublicenses (including with respect to any fixtures, furnishings, equipment, vehicles or other personal property, or Intellectual Property), granted to others in the ordinary course of business not interfering in any material respect with the business of the Borrower and its Subsidiaries, taken as a whole;

(q) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(r) Liens solely on any cash earnest money deposits made by the Borrower or any of the Subsidiaries in connection with any letter of intent or purchase agreement in respect of any Investment permitted hereunder;

(s) Liens with respect to property or assets of any Subsidiary that is not a Loan Party securing obligations in respect of Indebtedness of any Subsidiary that is not a Loan Party permitted under Section 6.01;

(t) Liens on any amounts held by a trustee under any indenture or other debt agreement issued in escrow pursuant to customary escrow arrangements pending the release thereof, or under any indenture or other debt agreement pursuant to customary discharge, redemption or defeasance provisions;

(u) the prior rights of consignees and their lenders under consignment arrangements entered into in the ordinary course of business;

(v) agreements to subordinate any interest of the Borrower or any Subsidiary in any accounts receivable or other proceeds arising from inventory consigned by the Borrower or any of their Subsidiaries pursuant to an agreement entered into in the ordinary course of business;

(w) Liens arising from precautionary Uniform Commercial Code financing statements regarding operating leases or other obligations not constituting Indebtedness;

(x) Liens (i) on Equity Interests in joint ventures that are not Subsidiaries (A) securing obligations of such joint venture or (B) pursuant to the relevant joint venture agreement or arrangement and (ii) on Equity Interests in Unrestricted Subsidiaries;

(y) Liens on securities that are the subject of repurchase agreements constituting Permitted Investments under clause (c) of the definition thereof;

(z) Liens on the Collateral securing Permitted Refinancing Indebtedness in respect of LVLT, Embarq, QC and their respective Subsidiaries that was included in "Consolidated Priority Debt" to the extent contemplated by the definition of "Permitted Refinancing Indebtedness";

(aa) Liens securing insurance premiums financing arrangements; provided, that such Liens are limited to the applicable unearned insurance premiums;

(bb) in the case of Real Property that constitutes a leasehold interest, any Lien to which the fee simple interest (or any superior leasehold interest) is subject;

(cc) Liens securing Indebtedness or other obligations (i) of the Borrower or a Subsidiary in favor of the Borrower or any Guarantor and (ii) of any Subsidiary that is not a Guarantor in favor of any Subsidiary that is not a Guarantor;

(dd) Liens on cash or Permitted Investments securing Hedging Agreements in the ordinary course of business submitted for clearing in accordance with applicable Requirements of Law;

(ee) Liens on goods or inventory the purchase, shipment or storage price of which is financed by a documentary letter of credit or bank guarantee issued or created for the account of the Borrower or any Subsidiary in the ordinary course of business; provided, that such Lien secures only the obligations of the Borrower or such Subsidiaries in respect of such letter of credit, bank guarantee or banker's acceptance to the extent permitted under Section 6.01;

(ff) Subordination, non-disturbance and/or attornment agreements with any ground lessor, lessor or any mortgagor of any of the foregoing, with respect to any ground lease or other lease or sublease entered into by Borrower or any Subsidiary;

(gg) Liens on Collateral that are Other First Liens or Junior Liens, so long as such Other First Liens or Junior Liens secure Indebtedness permitted by Section 6.01(b) or Section 6.01(v);

(hh) liens arising out of conditional sale, title retention or similar arrangements for the sale or purchase of goods by the Borrower or any of the Subsidiaries in the ordinary course of business;

(ii) with respect to any Real Property which is acquired in fee after the Closing Date, Liens which exist immediately prior to the date of acquisition, excluding any Liens securing Indebtedness which is not otherwise permitted hereunder provided, that (i) such Lien is not created in contemplation of or in connection with such acquisition and (ii) such Lien does not apply to any other property or assets of the Borrower or any of its Subsidiaries; and

(jj) other Liens (i) incidental to the conduct of the Borrower's and its Subsidiaries' businesses or the ownership of its property not securing any Indebtedness of the Borrower or a Subsidiary of the Borrower, and which do not in the aggregate materially detract from the value of the Borrower's and its Subsidiaries' property when taken as a whole, or materially impair the use thereof in the operation of its business and (ii) with respect to property or assets of the Borrower or any Subsidiary securing obligations in an aggregate outstanding principal amount that, together with the aggregate principal amount of other obligations that are secured pursuant to this clause (jj)(ii), immediately after giving effect to the incurrence of such Liens, would not exceed \$250,000,000.

For purposes of determining compliance with this Section 6.02, (A) a Lien securing an item of Indebtedness need not be permitted solely by reference to one category of permitted Liens (or any portion thereof) described in Sections 6.02(a) through (jj) but may be permitted in part under any combination thereof and (B) in the event that a Lien securing an item of Indebtedness (or any portion thereof) meets the criteria of one or more of the categories of permitted Liens (or any portion thereof) described in Sections 6.02(a) through (jj), the Borrower may, in its sole discretion, classify or divide such Lien securing such item of Indebtedness (or any portion thereof) in any manner that complies with this Section

6.2 (including, in the case of Lien incurred on the same day, electing the order in which such Lien shall be deemed incurred for purposes of computing the available amount under any category) and will be entitled to only include the amount and type of such Lien or such item of Indebtedness secured by such Lien (or any portion thereof) in one of the above clauses and such Lien securing such item of Indebtedness (or portion thereof) will be treated as being incurred or existing pursuant to only such clause or clauses (or any portion thereof).

Section 6.03 [Reserved].

Section 6.04 Investments, Loans and Advances. (i) Purchase or acquire (including pursuant to any merger with a person that is not a Wholly-Owned Subsidiary immediately prior to such merger) any Equity Interests, evidences of Indebtedness or other securities of any other person, (ii) make any loans or advances to or Guarantees of the Indebtedness of any other person, or (iii) purchase or otherwise acquire, in one transaction or a series of related transactions, (x) all or substantially all of the property and assets or business of another person or (y) assets constituting a business unit, line of business or division of such person (each of the foregoing, an "Investment"), except:

- (a) Investments to effect the Transactions;
- (b) Investments by the Borrower or any Subsidiary in the Borrower or any Subsidiary;
- (c) Permitted Investments and Investments that were Permitted Investments when made;
- (d) Investments arising out of the receipt by the Borrower or any Subsidiary of non-cash consideration for the Disposition of assets permitted under Section 6.05;
- (e) loans and advances to officers, directors, employees or consultants of the Borrower or any Subsidiary (i) in the ordinary course of business in an aggregate outstanding amount (valued at the time of the making thereof, and without giving effect to any write-downs or write-offs thereof) not to exceed \$25,000,000, (ii) in respect of payroll payments and expenses in the ordinary course of business and (iii) in connection with such person's purchase of Equity Interests of the Borrower;
- (f) accounts receivable, security deposits and prepayments arising and trade credit granted in the ordinary course of business and any assets or securities received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss and any prepayments and other credits to suppliers made in the ordinary course of business;
- (g) Hedging Agreements entered into for non-speculative purposes;
- (h) Investments (not in Subsidiaries, which are provided in clause (b) above) existing on, or contractually committed as of, the Closing Date and set forth on Schedule 6.04 of the Effective Date Certificate and any extensions, renewals, replacements or reinvestments thereof, so long as the aggregate amount of all Investments pursuant to this clause (h) is not increased at any time above the amount of such Investment existing or committed on the Closing Date (other than pursuant to an increase as required by the terms of any such Investment as in existence on the Closing Date or as otherwise permitted by this Section 6.04);
- (i) Investments resulting from pledges and deposits under Sections 6.02(f), (g), (n), (q), (r), (dd) and (ii);
- (j) other Investments by the Borrower or any Subsidiary in an aggregate outstanding amount (valued at the time of the making thereof, and without giving effect to any write-downs or write-offs thereof) not to exceed the greater of (x) \$500,000,000 and (y) 5.5% of Pro Forma LTM EBITDA (measured at the time of the making of any such Investment); provided, that if

any Investment pursuant to this Section 6.04(j) is made in any person that was not a Subsidiary on the date on which such Investment was made but becomes a Subsidiary thereafter, then such Investment may, at the option of the Borrower, upon such person becoming a Subsidiary and so long as such person remains a Subsidiary, be deemed to have been made pursuant to Section 6.04(b) (to the extent permitted by the provisions thereof) and not in reliance on this Section 6.04(j);

(k) Investments constituting Permitted Business Acquisitions;

(l) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with or judgments against, customers and suppliers, in each case in the ordinary course of business or Investments acquired by the Borrower or a Subsidiary as a result of a foreclosure by the Borrower or any of the Subsidiaries with respect to any secured Investments or other transfer of title with respect to any secured Investment in default;

(m) Investments of a Subsidiary acquired after the Closing Date or of a person merged into the Borrower or merged into or consolidated with a Subsidiary after the Closing Date, in each case, (i) to the extent such acquisition, merger, amalgamation or consolidation is permitted under this Section 6.04, (ii) in the case of any acquisition, merger, amalgamation or consolidation, in accordance with Section 6.05 and (iii) to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation;

(n) acquisitions by the Borrower of obligations of one or more officers or other employees of the Borrower or its Subsidiaries in connection with such officer's or employee's acquisition of Equity Interests of the Borrower, so long as no cash is actually advanced by the Borrower or any of the Subsidiaries to such officers or employees in connection with the acquisition of any such obligations;

(o) Guarantees by the Borrower or any Subsidiary of operating leases (other than Capitalized Lease Obligations) or of other obligations that do not constitute Indebtedness of the kind described in clauses (b), (e), (f), (g), (h), (i), (j) or (k) of the definition thereof, in each case entered into by the Borrower or any Subsidiary in the ordinary course of business;

(p) Investments to the extent that payment for such Investments is made with Qualified Equity Interests of the Borrower;

(q) Investments in the ordinary course of business consisting of Uniform Commercial Code Article 3 endorsements for collection or deposit and Uniform Commercial Code Article 4 customary trade arrangements with customers;

(r) [Reserved];

(s) advances in the form of a prepayment of expenses, so long as such expenses are being paid in accordance with customary trade terms of the Borrower or such Subsidiary;

(t) Investments by the Borrower and the Subsidiaries, if the Borrower or any Subsidiary would otherwise be permitted to make a Restricted Payment under Section 6.06(g) in

such amount (provided, that the amount of any such Investment shall also be deemed to be a Restricted Payment under Section 6.06(g) for all purposes of this Agreement);

(u) [Reserved];

(v) Investments consisting of the licensing or contribution of Intellectual Property pursuant to joint marketing or other similar arrangements with other persons;

(w) to the extent constituting Investments, purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licenses or leases of Intellectual Property in each case in the ordinary course of business;

(x) any Investment in fixed income or other assets by any Subsidiary that is a so-called "captive" insurance company (each, an "Insurance Subsidiary") consistent with its customary practices of portfolio management; and

(y) additional Investments, so long as, at the time any such Investment is made and immediately after giving effect thereto, (i) no Default or Event of Default shall have occurred and is continuing and (ii) the Total Leverage Ratio on a Pro Forma Basis is not greater than (A) solely for the benefit of the Term A Facility, the Term A-1 Facility and the Revolving Facility, 4.50 to 1.00 (the "Pro Rata Only Investment Restriction") or (B) 5.00 to 1.00.

For purposes of determining compliance with this Section 6.04, (A) an Investment need not be permitted solely by reference to one category of permitted Investments (or any portion thereof) described in Sections 6.04(a) through (y) but may be permitted in part under any relevant combination thereof and

(B) in the event that an Investment (or any portion thereof) meets the criteria of one or more of the categories of permitted Investments (or any portion thereof) described in Sections 6.04(a) through (y), the Borrower may, in its sole discretion, classify or divide such Investment (or any portion thereof) in any manner that complies with this Section 6.04 and will be entitled to only include the amount and type of such Investment (or any portion thereof) in one or more (as relevant) of the above clauses (or any portion thereof) and such Investment (or any portion thereof) shall be treated as having been made or existing pursuant to only such clause or clauses (or any portion thereof); provided, that all Investments described in Schedule 6.04 of the Effective Date Certificate shall be deemed outstanding under Section 6.04(h).

The amount of any Investment made other than in the form of cash or cash equivalents shall be the Fair Market Value thereof valued at the time of the making thereof, and without giving effect to any subsequent write-downs or write-offs thereof.

Section 6.05 Mergers, Consolidations, Sales of Assets and Acquisitions. Merge into, amalgamate with or consolidate with any other person, or permit any other person to merge into, amalgamate with or consolidate with it, or Dispose of (in one transaction or in a series of related transactions) all or any part of its assets (whether now owned or hereafter acquired), or Dispose of any Equity Interests of any Subsidiary, or purchase, lease or otherwise acquire (in one transaction or a series of related transactions) all or substantially all of the assets of any other person or division or line of business of a person, except that this Section 6.05 shall not prohibit:

(a) (i) the purchase and Disposition of inventory or equipment, (ii) the acquisition or lease (pursuant to an operating lease) of any other asset, (iii) the Disposition of surplus, obsolete, damaged or worn out equipment or other property and (iv) the Disposition of Permitted Investments, in each case pursuant to this clause (a) (as determined in good faith by the

Borrower), by the Borrower or any Subsidiary in the ordinary course of business or, with respect to operating leases, otherwise for Fair Market Value on market terms;

(b) if at the time thereof and immediately after giving effect thereto no Event of Default shall have occurred and be continuing or would result therefrom, (i) the merger, amalgamation or consolidation of any Subsidiary with or into the Borrower in a transaction in which such Borrower is the survivor, (ii) the merger, amalgamation or consolidation of any Subsidiary with or into any Guarantor in a transaction in which the surviving or resulting entity is or becomes a Guarantor and, in the case of each of clauses (i) and (ii), no person other than the Borrower or a Guarantor receives any consideration (unless otherwise permitted by Section 6.04), (iii) the merger, amalgamation or consolidation of any Subsidiary that is not a Guarantor with or into any other Subsidiary that is not a Guarantor, (iv) the liquidation or dissolution or change in form of entity of any Subsidiary if (x) the Borrower determines in good faith that such liquidation, dissolution or change in form is in the best interests of the Borrower and is not materially disadvantageous to the Lenders and (y) the same meets the requirements contained in the proviso to Section 5.01(a), (v) any Subsidiary may merge, amalgamate or consolidate with any other person in order to effect an Investment permitted pursuant to Section 6.04 so long as the continuing or surviving person shall be a Subsidiary (unless otherwise permitted by Section 6.04 (other than Section 6.04(m)(ii))), which shall be a Loan Party if the merging, amalgamating or consolidating Subsidiary was a Loan Party and which together with each of its Subsidiaries shall have complied with any applicable requirements of Section 5.10 or (vi) any Subsidiary may merge, amalgamate or consolidate with any other person in order to effect an Asset Sale otherwise permitted pursuant to this Section 6.05;

(c) Dispositions to the Borrower or a Subsidiary;

(d) Dispositions of any property subject to a Permitted Sale Lease-Back Transaction;

(e) (i) Investments permitted by Section 6.04 (other than Section 6.04(m)(ii)), Permitted Liens, and Restricted Payments permitted by Section 6.06 and (ii) the Transactions to the extent otherwise prohibited by this Section 6.05;

(f) the discount or sale, in each case without recourse and in the ordinary course of business, of past due receivables arising in the ordinary course of business, but only in connection with the compromise or collection thereof consistent with customary industry practice (and not as part of any bulk sale or financing of receivables);

(g) other Dispositions of assets; provided, that (i) the Net Proceeds thereof, if any, are applied in accordance with Section 2.11(b) to the extent required thereby, (ii) any such Dispositions shall comply with the final sentence of this Section 6.05 and (iii) the Borrower may not dispose of all or substantially all of the assets of the Borrower and its Subsidiaries taken as a whole in one transaction or a series of related transactions pursuant to this clause (g);

(h) Permitted Business Acquisitions (including any merger, consolidation or amalgamation in order to effect a Permitted Business Acquisition); provided, that following any such merger, consolidation or amalgamation involving the Borrower, such Borrower is the surviving entity or the requirements of Section 6.05(n) are otherwise complied with;

(i) leases, licenses or subleases or sublicenses of any real or personal property in the ordinary course of business;

(j) Dispositions of inventory or Dispositions or abandonment of Intellectual Property of the Borrower and its Subsidiaries determined in good faith by the management of the Borrower to be no longer economically practicable to maintain or useful or necessary in the operation of the business of the Borrower or any of the Subsidiaries;

(k) Dispositions (whether in one transaction or in a series of related transactions) of assets having a Fair Market Value not in excess of \$50,000,000 per transaction or series of related transactions;

(l) the Transactions;

(m) any exchange or swap of assets (other than cash and Permitted Investments) in the ordinary course of business for other assets (other than cash and Permitted Investments) of comparable or greater value or usefulness to the business of the Borrower and the Subsidiaries as a whole, determined in good faith by the management of the Borrower; and

(n) if at the time thereof and immediately after giving effect thereto no Event of Default shall have occurred and be continuing or would result therefrom, (A) any Subsidiary or any other person may be merged, amalgamated or consolidated with or into the Borrower; provided that the Borrower shall be the surviving entity or (B) any Subsidiary or any other person may be merged, amalgamated or consolidated with or into the Borrower or all or substantially all of the assets of the Borrower and its Subsidiaries taken as a whole may be Disposed of to any person; provided that, in the case of this subclause (B) either the Borrower shall be the surviving entity or, if the surviving person (or the person to whom all or substantially all of the assets of the Borrower and its Subsidiaries are disposed) is not the Borrower (such other person, the "Successor Borrower"), (1) the Successor Borrower shall be an entity organized or existing under the laws of the United States, any state thereof or the District of Columbia, (2) the Successor Borrower shall expressly assume all the obligations of the Borrower under this Agreement and the other Loan Documents pursuant to a supplement hereto or thereto in form reasonably satisfactory to the Administrative Agent, (3) each Guarantor, unless it is the other party to such merger, amalgamation or consolidation, shall have by a supplement to the Subsidiary Guarantee Agreement, as applicable, confirmed that its guarantee thereunder shall apply to any Successor Borrower's obligations under this Agreement, (4) each Collateral Guarantor, unless it is the other party to such merger, amalgamation or consolidation, shall have by a supplement to any applicable Security Document affirmed that its obligations thereunder shall apply to its guarantee as reaffirmed pursuant to clause (3), and (5) the Successor Borrower shall have delivered to the Administrative Agent (x) a certificate of a Responsible Officer stating that such merger, amalgamation or consolidation does not violate this Agreement or any other Loan Document and (y) if requested by the Administrative Agent, an opinion of counsel to the effect that such merger, amalgamation or consolidation does not violate this Agreement or any other Loan Document and covering such other matters as are contemplated by the Collateral and Guarantee Requirement to be covered in opinions of counsel (it being understood that if the foregoing are satisfied, the Successor Borrower will succeed to, and be substituted for, the Borrower under this Agreement); provided that this subclause (B) shall not apply at any time any Revolving Facility Commitments, Term A Loans or Term A-1 Loans are outstanding.

Notwithstanding anything to the contrary contained in Section 6.05 above, no Disposition of assets under Section 6.05(g) shall in each case be permitted unless (i) no Event of Default shall have occurred and be continuing at the time of such Disposition or would result therefrom, (ii) such Disposition is for Fair Market Value, (iii) the Borrower shall be in compliance with the Financial Covenants (if applicable) at the time of such Disposition on a Pro Forma Basis for the then most recently

ended Test Period and (iv) at least 75% of the proceeds of such Disposition (except to Loan Parties) consist of cash or Permitted Investments; provided, that the provisions of this clause (iv) shall not apply to any individual transaction or series of related transactions involving assets with a Fair Market Value of less than \$25,000,000; provided, further, that for purposes of this clause (iv), each of the following shall be deemed to be cash: (a) the amount of any liabilities (as shown on the Borrower's or such Subsidiary's most recent balance sheet or in the notes thereto) that are assumed by the transferee of any such assets or are otherwise cancelled in connection with such transaction, (b) any notes or other obligations or other securities or assets received by the Borrower or such Subsidiary from the transferee that are converted by the Borrower or such Subsidiary into cash within 180 days after receipt thereof (to the extent of the cash received) and (c) any Designated Non-Cash Consideration received by the Borrower or any of its Subsidiaries in such Disposition or any series of related Dispositions, having an aggregate Fair Market Value not to exceed, in the aggregate, 2.0% of Consolidated Total Assets when received (with the Fair Market Value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

Section 6.06 Restricted Payments. (i) Declare or pay any dividend or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of its Equity Interests (other than dividends and distributions on Equity Interests payable solely by the issuance of Qualified Equity Interests of the person declaring, paying or making such dividends or distributions), (ii) directly or indirectly redeem, purchase, retire or otherwise acquire for value (or permit any Subsidiary to purchase or acquire) any of the Borrower's Equity Interests or set aside any amount for any such purpose (other than through the issuance of Qualified Equity Interests) or (iii) make any Junior Debt Restricted Payment, (all of the foregoing, "Restricted Payments"); provided, however, that:

(a) Restricted Payments may be made to the Borrower or any Subsidiary (provided, that Restricted Payments made by a non-Wholly-Owned Subsidiary must be made on a pro rata basis (or more favorable basis from the perspective of the Borrower or such Subsidiary) to the Borrower or any Subsidiary that is a direct or indirect parent of such Subsidiary based on its ownership interests in such non-Wholly-Owned Subsidiary);

(b) Restricted Payments may be made by the Borrower to purchase or redeem the Equity Interests of the Borrower (including related stock appreciation rights or similar securities) held by then present or former directors, consultants, officers or employees of the Borrower or any of the Subsidiaries or by any Plan or any shareholders' agreement then in effect upon such person's death, disability, retirement or termination of employment or under the terms of any such Plan or any other agreement under which such shares of stock or related rights were issued; provided, that the aggregate amount of such purchases or redemptions under this clause (b) shall not exceed in any fiscal year \$50,000,000 (plus (x) the amount of net proceeds contributed to the Borrower that were received by the Borrower during such calendar year from sales of Qualified Equity Interests of the Borrower to directors, consultants, officers or employees of the Borrower or any Subsidiary in connection with permitted employee compensation and incentive arrangements and (y) the amount of net proceeds of any key-man life insurance policies received during such calendar year, which, if not used in any year, may be carried forward to any subsequent calendar year); and provided, further, that cancellation of Indebtedness owing to the Borrower or any Subsidiary from members of management of the Borrower or its Subsidiaries in connection with a repurchase of Equity Interests of the Borrower will not be deemed to constitute a Restricted Payment for purposes of this Section 6.06;

(c) any person may make non-cash repurchases of Equity Interests deemed to occur upon exercise or settlement of stock options or other Equity Interests to the extent such Equity

Interests represent a portion of the exercise price of or withholding obligation with respect to such options or other Equity Interests;

(d) [Reserved];

(e) Restricted Payments may be made in connection with the consummation of the Transactions to the extent contemplated by the Merger Agreement, including the payment of the appraised value of any Dissenting Shares (as defined in the Merger Agreement) in accordance with the Merger Agreement;

(f) Restricted Payments may be made to make payments, in cash, in lieu of the issuance of fractional shares, upon the exercise of warrants or upon the conversion or exchange of Equity Interests of any such person;

(g) so long as no Default or Event of Default shall have occurred and is continuing, other Restricted Payments may be made in an aggregate amount not to exceed \$2,500,000,000; and

(h) additional Restricted Payments, so long as, at the time any such Restricted Payment is made and immediately after giving effect thereto, (i) no Default or Event of Default shall have occurred and is continuing and (ii) the Total Leverage Ratio on a Pro Forma Basis is not greater than (A) solely for the benefit of the Term A Facility, the Term A-1 Facility and the Revolving Facility, 4.50 to 1.00 (the "Pro Rata Only Restricted Payment Restriction") or (B) 4.75 to 1.00.

Notwithstanding anything herein to the contrary, the foregoing provisions of Section 6.06 will not prohibit the payment of any Restricted Payment constituting a Limited Condition Transaction if such transaction would have complied with the provisions of this Section 6.06 on the date of the declaration of the dividend by the Board of Directors of the Borrower or the applicable Subsidiary or the date of giving of the applicable notice of prepayment or redemption, in each case, constituting a Limited Condition Transaction (it being understood that such Restricted Payment shall be deemed to have been made on the date of declaration or notice for purposes of such provision).

Section 6.07 Transactions with Affiliates.

(a) Sell or transfer any property or assets to, or purchase or acquire any property or assets from, or otherwise engage in any other transaction with, any of its Affiliates (other than the Borrower, and the Subsidiaries or any person that becomes a Subsidiary as a result of such transaction) in a transaction (or series of related transactions) involving aggregate consideration in excess of \$100,000,000 unless such transaction is (i) otherwise permitted (or required) under this Agreement; or (ii) upon terms that are substantially no less favorable to the Borrower or such Subsidiary, as applicable, than would be obtained in a comparable arm's-length transaction with a person that is not an Affiliate, as determined by the Board of Directors of the Borrower or such Subsidiary in good faith.

(b) The foregoing clause (a) shall not prohibit, to the extent otherwise permitted under this Agreement,

(i) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, equity purchase agreements, stock options and stock ownership plans approved by the Board of Directors of the Borrower,

(ii) [Reserved],

(iii) transactions among the Borrower or any Subsidiary or any entity that becomes a Subsidiary as a result of such transaction (including via merger, consolidation or amalgamation in which the Borrower or a Subsidiary is the surviving entity),

(iv) the payment of fees, reasonable out-of-pocket costs and indemnities to directors, officers, consultants and employees of the Borrower and the Subsidiaries in the ordinary course of business,

(v) the Transactions (including the payment of all fees, expenses, bonuses and awards relating thereto) and any transactions pursuant to the Transaction Documents and permitted transactions, agreements and arrangements in existence on the Closing Date and, to the extent involving aggregate consideration in excess of \$25,000,000, set forth on Schedule 6.07 of the Effective Date Certificate or any amendment thereto or replacement thereof or similar arrangement to the extent such amendment, replacement or arrangement is not adverse to the Lenders when taken as a whole in any material respect (as determined by the Borrower in good faith),

(vi) any employment agreements entered into by the Borrower or any of the Subsidiaries in the ordinary course of business, (B) any subscription agreement or similar agreement pertaining to the repurchase of Equity Interests pursuant to put/call rights or similar rights with employees, officers or directors, and (C) any employee compensation, benefit plan or arrangement, any health, disability or similar insurance plan which covers employees, and any reasonable employment contract and transactions pursuant thereto,

(vii) Restricted Payments permitted under Section 6.06 and Investments permitted under Section 6.04,

(viii) transactions for the purchase or sale of goods, equipment, products, parts and services entered into in the ordinary course of business,

(ix) any transaction in respect of which the Borrower delivers to the Administrative Agent a letter addressed to the Board of Directors of the Borrower from an accounting, appraisal or investment banking firm, in each case of nationally recognized standing that is in the good faith determination of the Borrower qualified to render such letter, which letter states that (i) such transaction is on terms that are substantially no less favorable to the Borrower or such Subsidiary, as applicable, than would be obtained in a comparable arm's-length transaction with a person that is not an Affiliate or (ii) such transaction is fair to the Borrower or such Subsidiary, as applicable, from a financial point of view,

(x) transactions with joint ventures for the purchase or sale of goods, equipment, products, parts and services entered into in the ordinary course of business,

(xi) [Reserved],

(xii) transactions between the Borrower or any of the Subsidiaries and any person, a director of which is also a director of the Borrower; provided, however, that (A) such director abstains from voting as a director of the Borrower on any matter involving such other person and (B) such person is not an Affiliate of the Borrower for any reason other than such director's acting in such capacity,

(xiii) transactions permitted by, and complying with, the provisions of Section 6.05 (other than Section 6.05(m)),

(xiv) intercompany transactions undertaken in good faith (as certified by a Responsible Officer of the Borrower) for the purpose of improving the consolidated Tax efficiency of the Borrower and the Subsidiaries and not for the purpose of circumventing any covenant set forth herein,

(xv) payments, loans (or cancellation of loans) or advances to employees or consultants that are (i) approved by a majority of the Disinterested Directors of the Borrower in good faith, (ii) made in compliance with applicable law and (iii) otherwise permitted under this Agreement, and

(xvi) transactions with customers, clients or suppliers, or purchasers or sellers of goods or services, in each case in the ordinary course of business that are fair to the Borrower or the Subsidiaries.

Section 6.08 Business of the Borrower and the Subsidiaries; Etc. Permit (i) a material portion of the assets, taken as a whole that are owned by the Guarantors and their respective Subsidiaries on the Closing Date to be transferred to the Borrower or any Subsidiaries of the Borrower that are neither Guarantors nor Subsidiaries of Guarantors (it being understood that, without prejudice to the determination of whether any other amount is "a material portion of the assets, taken as a whole that are owned by the Guarantors and their respective Subsidiaries on the Closing Date" transfers of (A) cash, (B) Permitted Investments, (C) Equity Interests of Guarantors and (D) other assets, in the case of this subclause (D) that, in the aggregate measured as of the time of transfer, (x) have a value equal to or less than 3.5% of Consolidated Total Assets as of the most recently ended Test Period prior to the date of such transfer, (y) account for operating revenue which is equal to or less than 3.5% of the consolidated operating revenues of the Borrower and its Subsidiaries for the most recently ended Test Period prior to the date of such transfer, and account for (z) EBITDA for the most recently ended Test Period prior to the date of transfer that is less than or equal to 3.5% of the EBITDA of the Borrower and its Subsidiaries for the most recently ended Test Period as of the date of such transfer, shall, in each case, not be deemed to be "a material portion of the assets, taken as a whole that are owned by the Guarantors and their respective Subsidiaries on the Closing Date"), (ii) any Permitted Business Acquisition to be consummated by the Borrower unless (A) payment therefor is made solely with Equity Interests of the Borrower or (B) immediately after giving effect thereto, substantially all of the assets of the person or business acquired in connection with such Investment are owned by a Guarantor or a Subsidiary of a Guarantor or are promptly contributed or otherwise transferred to a Guarantor or a Subsidiary of a Guarantor, (iii) the Borrower to engage in any material activities or own any material assets other than (A) the direct ownership of its Subsidiaries on the Closing Date and other Subsidiaries that are Guarantors (and the indirect ownership of other Subsidiaries and Investments permitted hereunder through such Subsidiaries), and any substantially similar in amount and kind to those assets owned by it on the Closing Date (as determined in good faith by the Borrower), and in each case any permitted Disposition thereof and the granting of any permitted Liens thereon, (B) the issuance or Guarantee of any Indebtedness that the Borrower is permitted to incur hereunder, (C) the issuance and/or redemption of its Equity Interests and the making of permitted Restricted Payments with respect thereto, or (D) activities of the type substantially similar to those conducted by it on the Closing Date and other activities reasonably incidental to maintaining its existence, complying with its obligations with respect to Requirements of Law and rules of any stock exchange and the ownership of its Subsidiaries (including participating in shared overhead, management and administrative activities, and participating in tax, accounting and other administrative matters together with its Subsidiaries), or (iv) the aggregate principal amount of any Indebtedness (other than (I) Indebtedness of Guarantors that is expressly subordinated in

right of payment to the Loan Obligations on terms reasonably satisfactory to the Administrative Agent and (II) any such Indebtedness incurred or outstanding pursuant to ordinary course cash management or cash pooling arrangements) of (x) all Subsidiaries that are Guarantors or Subsidiaries of Guarantors to

(y) the Borrower or any Subsidiary of the Borrower that is not a Guarantor or a Subsidiary of a Guarantor to exceed \$250,000,000 at any time outstanding; provided, that nothing in this Section 6.08 shall restrict any transfer of assets or the making or repayment of any intercompany loans or Investments solely among the Guarantors and their respective Subsidiaries; or

Engage at any time to any material respect in any business or business activity substantially different from any business or business activity conducted by any of them on the Closing Date or any Similar Business.

Section 6.09 Restrictions on Subsidiary Distributions and Negative Pledge Clauses. Permit the Borrower or any Subsidiary to enter into any agreement or instrument that by its terms restricts (A) the payment of dividends or other distributions or the making of cash advances to the Borrower or any Subsidiary that is a direct or indirect parent of such Subsidiary or (B) the granting of Liens by the Borrower or any Subsidiary to secure the Obligations, in each case other than those arising under any Loan Document, except, in each case, restrictions existing by reason of:

(a) restrictions imposed by applicable law;

(b) (i) contractual encumbrances or restrictions existing on the Closing Date, (ii) any agreements related to any Indebtedness that does not materially expand the scope of any such encumbrance or restriction (as determined in good faith by the Borrower) beyond those restrictions applicable on the Closing Date, or (iii) with respect to any Subsidiary, any restriction that is not materially more restrictive (as determined by the Borrower in good faith) than the most restrictive restrictions applicable to such Subsidiary existing on the Closing Date;

(c) any restriction on a Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of the Equity Interests or assets of a Subsidiary pending the closing of such sale or disposition;

(d) customary provisions in joint venture agreements and other similar agreements applicable to joint ventures entered into in the ordinary course of business;

(e) any restrictions imposed by any agreement relating to secured Indebtedness permitted by this Agreement to the extent that such restrictions apply only to the specific property or assets securing such Indebtedness;

(f) any restrictions imposed by any agreement relating to Indebtedness incurred pursuant to Section 6.01 or Permitted Refinancing Indebtedness in respect thereof, to the extent such restrictions are not materially more restrictive, taken as a whole, than the restrictions contained in this Agreement (in each case, as determined in good faith by the Borrower);

(g) customary provisions contained in leases or licenses of Intellectual Property and other similar agreements entered into in the ordinary course of business;

(h) customary provisions restricting subletting or assignment of any lease governing a leasehold interest;

- (i) customary provisions restricting assignment, mortgaging or hypothecation of any agreement entered into in the ordinary course of business;
- (j) customary restrictions and conditions contained in any agreement relating to the sale, transfer, lease or other disposition of any asset permitted under Section 6.05 pending the consummation of such sale, transfer, lease or other disposition;
- (k) Permitted Liens and customary restrictions and conditions contained in the document relating thereto, so long as (1) such restrictions or conditions relate only to the specific asset subject to such Lien, and (2) such restrictions and conditions are not created for the purpose of avoiding the restrictions imposed by this Section 6.09;
- (l) customary net worth provisions contained in Real Property leases entered into by Subsidiaries, so long as the Borrower has determined in good faith that such net worth provisions would not reasonably be expected to impair the ability of the Borrower and its Subsidiaries to meet their ongoing obligations;
- (m) any agreement in effect at the time a person becomes a Subsidiary, so long as such agreement was not entered into in contemplation of such person becoming a Subsidiary;
- (n) customary restrictions contained in leases, subleases, licenses or Equity Interests or asset sale agreements otherwise permitted hereby as long as such restrictions relate to the Equity Interests and assets subject thereto;
- (o) restrictions on cash or other deposits imposed by customers under contracts entered into in the ordinary course of business;
- (p) restrictions in agreements (other than agreements governing Indebtedness of Subsidiaries) that (as determined in good faith by the Borrower) will not prevent the Borrower from satisfying its payment obligations in respect of the Facilities; and
- (q) any encumbrances or restrictions imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of or similar arrangements to the contracts, instruments or obligations referred to in clauses (a) through (p) above; provided, that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements, refinancings or similar arrangements are, in the good faith judgment of the Borrower, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions as contemplated by such provisions prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement, refinancing or similar arrangement.

Section 6.10 Reserved.

Section 6.11 Fiscal Quarter and/or Fiscal Year. In the case of the Borrower, permit any change to its fiscal quarter and/or fiscal year; provided, that the Borrower and its Subsidiaries may change their fiscal quarter and/or fiscal year end one or more times, subject to such adjustments to this Agreement as the Borrower and Administrative Agent shall reasonably agree are necessary or appropriate in connection with such change (and the parties hereto hereby authorize the Borrower and the Administrative Agent to make any such amendments to this Agreement as they jointly deem necessary to give effect to the foregoing).

Section 6.12 Financial Covenants.

(a) For so long as any Term A Loans, Term A-1 Loans or Revolving Facility Commitments remain outstanding, with respect to the Term A Loans, Term A-1 Loans and the Revolving Facility only, permit the Total Leverage Ratio as of the last day of any fiscal quarter (beginning with the end of the first full fiscal quarter after the Closing Date) to exceed the ratio set forth opposite such period below:

<u>Fiscal Quarter Ended</u>	<u>Maximum Total Leverage Ratio</u>
On or before the second anniversary of the Closing Date	5.0 to 1.00
After the second anniversary of the Closing Date	4.75 to 1.00

(b) For so long as any Term A Loans, Term A-1 Loans or Revolving Facility Commitments remain outstanding, with respect to the Term A Loans, Term A-1 Loans and the Revolving Facility only, permit the Consolidated Interest Coverage Ratio as of the last day of any fiscal quarter (beginning with the end of the first full fiscal quarter after the Closing Date) to be less than 2.00 to 1.00.

ARTICLE VI-A

Escrow Sub Covenant

Section 6.01-A. Activities of the Borrower Prior to the Closing Date. The Borrower covenants and agrees with each Lender that from the Effective Date until the Closing Date, (i) the Escrow Sub's primary activities will involve entering into the Loan Documents and borrowing and repaying the Initial Term B Loans, performing its obligations under the Loan Documents and any escrow arrangements in connection therewith, consummating the Transactions and the Escrow Merger, and conducting such other activities as are necessary or appropriate to carry out the activities described above and (ii) the Escrow Sub will not engage in any business activity or enter into any transaction or agreement, except as contemplated by clause (i) above or the documents referred to therein, or as necessary to effectuate the Transactions.

ARTICLE VII

Events of Default

Section 7.01 Events of Default. In case of the happening of any of the following events (each, an "Event of Default"):

(a) any representation or warranty made or deemed made by the Borrower or any Guarantor herein or in any other Loan Document or any certificate or document delivered pursuant hereto or thereto shall prove to have been false or misleading in any material respect when so made or deemed made;

(b) default shall be made in (i) the payment of any principal of any Loan of LC Borrowing when and as the same shall become due and payable or (ii) the failure to deposit Cash Collateral when due, whether at the due date thereof or at a date fixed for prepayment thereof or by acceleration thereof or otherwise;

(c) default shall be made in the payment of any interest on any Loan or in the payment of any Fee or any other amount (other than an amount referred to in clause (b) above) due under any Loan Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five (5) Business Days;

(d) default shall be made in the due observance or performance by the Borrower of any covenant, condition or agreement contained in, Section 5.01(a) (solely with respect to the Borrower), 5.05(a) or 5.08 or in Article VI; provided, that the failure to observe or perform the Financial Covenant shall not in and of itself constitute an Event of Default with respect to any Term Facility (other than Term A Facility or Term A-1 Facility) unless the Required Pro Rata Lenders have accelerated any Term A Loans and Revolving Facility Loans then outstanding as a result of such breach and such declaration has not been rescinded on or before the date on which the Term Lenders (other than the Lenders under the Term A Facility and the Term A-1 Facility) declare an Event of Default in connection therewith;

(e) default shall be made in the due observance or performance by the Borrower or any of the Guarantors of any covenant, condition or agreement contained in any Loan Document (other than those specified in clauses (b), (c) and (d) above) and such default shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower;

(f) any event or condition occurs that (A) results in any Material Indebtedness becoming due prior to its scheduled maturity or failing to be paid at its scheduled maturity or (B) other than with respect to any Hedging Agreement, enables or permits (with all applicable grace periods having expired) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any such Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity, in each case without such Material Indebtedness having been discharged, or any such event of or condition having been cured promptly; provided, that this clause (f) shall not apply to any secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness if (x) such sale or transfer is permitted hereunder and under the documents providing for such Indebtedness and (y) repayments are made as required by the terms of the respective Indebtedness;

(g) there shall have occurred a Change of Control;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of the Borrower or any of the Significant Subsidiaries, or of a substantial part of the property or assets of the Borrower or any Significant Subsidiary, under the Bankruptcy Code, or any other federal, state or foreign bankruptcy, insolvency, receivership or any other Debtor Relief Law, (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator, examiner, liquidator or similar official for the Borrower or any of the Significant Subsidiaries or for a substantial part of the property or assets of the Borrower or any of the Significant Subsidiaries or (iii) the winding-up, liquidation, reorganization, dissolution, compromise, arrangement or other relief of the Borrower or any Significant Subsidiary (except in a transaction permitted hereunder); and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) the Borrower or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking relief under the Bankruptcy Code, as now constituted or

hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or any other Debtor Relief Law, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in clause (h) above, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator, examiner, liquidator or similar official for the Borrower or any of the Significant Subsidiaries or for a substantial part of the property or assets of the Borrower or any Significant Subsidiary, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) become unable or fail generally to pay its debts as they become due;

(j) the failure by the Borrower or any Significant Subsidiary to pay one or more final judgments aggregating in excess of \$200,000,000, which judgments are not discharged or effectively waived or stayed for a period of 45 consecutive days, or any action shall be legally taken by a judgment creditor to attach or levy upon assets or properties of the Borrower or any Significant Subsidiary to enforce any such judgment;

(k) (i) an ERISA Event shall have occurred, (ii) the PBGC shall institute proceedings (including giving notice of intent thereof) to terminate any Plan or Plans, (iii) the Borrower or any Subsidiary or any ERISA Affiliate shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA; and in each case in clauses (i) through (iii) above, such event or condition, together with all other such events or conditions, if any, would reasonably be expected to have a Material Adverse Effect; or

(l) (i) any Loan Document shall for any reason be asserted in writing by the Borrower or any Guarantor not to be a legal, valid and binding obligation of any party thereto, (ii) any security interest purported to be created by any Security Document and to extend to assets that constitute a material portion of the Collateral shall cease to be, or shall be asserted in writing by the Borrower or any other Loan Party not to be, a valid and perfected security interest (perfected as or having the priority required by this Agreement or the relevant Security Document and subject to such limitations and restrictions as are set forth herein and therein) in the securities, assets or properties covered thereby, except to the extent that any such loss of perfection or priority results from the limitations of foreign laws, rules and regulations as they apply to pledges of Equity Interests in Foreign Subsidiaries or the application thereof, or from failure of the Collateral Agent to maintain possession of certificates actually delivered to it representing securities pledged under the Collateral Agreement or to file Uniform Commercial Code continuation statements (so long as such failure does not result from the breach or non-compliance with the Loan Documents by any Loan Party), or (iii) a material portion of the Guarantees pursuant to the Loan Documents by the Guarantors guaranteeing the Obligations, shall cease to be in full force and effect (other than in accordance with the terms thereof), or shall be asserted in writing by the Borrower or any Guarantor not to be in effect or not to be legal, valid and binding obligations (other than in accordance with the terms thereof).

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) above), and at any time thereafter during the continuance of such event, the Administrative Agent, at the request of the Required Lenders (or in the case of a termination of the Revolving Facility Commitments pursuant to clause (i) below, the Required Revolving Facility Lenders or, in the case of a failure to observe or perform the Financial Covenant, unless the Required Pro Rata Lenders have accelerated any Term A Loans, Term A-1 Loans and Revolving Facility Loans then outstanding as a result of such breach and such declaration has not been rescinded on or before the date on which the Term Lenders (other than the Lenders under the Term A Facility and Term A-1 Facility) declare an

Event of Default in connection therewith, the Required Pro Rata Lenders (with respect to the Revolving Facilities, Term A Loans and Term A-1 Loans only)), shall, by notice to the Borrower, take any or all of the following actions, at the same or different times: (i) terminate forthwith the Commitments, (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part (in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding and (iii) demand Cash Collateral pursuant to Section 2.05(k); and in any event with respect to the Borrower described in clause (h) or (i) above, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued Fees and all other liabilities of the Borrower accrued hereunder and under any other Loan Document, shall automatically become due and payable and the Administrative Agent shall be deemed to have made a demand for Cash Collateral to the full extent permitted under Section 2.05(k), without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by the Borrower, anything contained herein or in any other Loan Document to the contrary notwithstanding; provided, that notwithstanding anything to the contrary in this Agreement (including whether any condition to the occurrence of the Effective Date may subsequently be determined not to have been satisfied or that any representation or warranty made or to be made as a condition to the Effective Date, the Closing Date or otherwise was inaccurate or will be inaccurate when made, or whether the Borrower would fail to comply with the covenants in Articles V or VI upon the release of the Escrowed Property to the Borrower on the Closing Date or the funding of each Loan on the Closing Date, in each case, except as otherwise specified in Section 4.02), prior to release of the Escrowed Property to the Borrower on the Closing Date, the funding of the Initial Term A Loans, Initial Term A-1 Loans and any Revolving Facility Loans on the Closing Date and the use of proceeds thereof to consummate the Mergers, (x) no Commitment may be terminated and no Lender may refuse to participate in the making of any Loan on the Closing Date, (y) no Secured Party may exercise any right of set-off or counterclaim in connection herewith, and (z) no Loan may be declared due and payable, in each case, to the extent to do so would prevent, limit or delay the release of the Escrowed Property to the Borrower on the Closing Date, the funding of the Loans on the Closing Date and the use of the proceeds thereof to consummate the Mergers (it being understood that the funding of the Loans on the Closing Date and the release of the Escrowed Property to the Borrower are subject solely to the satisfaction or waiver of the conditions set forth in Section 4.02)).

Section 7.02 Clean-Up Period.

(a) Notwithstanding anything in Section 7.01 or elsewhere in this Agreement to the contrary, during the period from the Effective Date until the date that is 30 days after the Closing Date (the "Clean-Up Period"), any representation or warranty (other than any Specified Representation or Merger Agreement LVL Representation) that would have been breached or inaccurate by reason of any matter or circumstance relating to LVL and its subsidiaries (were it not for this Section 7.02), will be deemed not to constitute a breach of representation or warranty for all purposes hereunder if, and for so long as the circumstances giving rise thereto:

(i) are capable of being remedied within the Clean-Up Period and the Loan Parties are taking appropriate steps to remedy such breach or inaccuracy (it being understood that audited annual or quarterly unaudited financial statements cannot be cured by amending, supplementing or restating such financial statements);

- (ii) do not have and are not reasonably likely to have a Material Adverse Effect; and
- (iii) were not procured by the Borrower or any of its subsidiaries immediately prior to the Closing Date;

provided that promptly after a Responsible Officer of the Borrower has obtained knowledge thereof, the Borrower shall notify the Administrative Agent of any such breach.

(b) For the avoidance of doubt, if any breach of representation shall be deemed to not exist due to Section 7.02(a), then such breach of representation shall be deemed not to exist for purposes of Section 4.03 for so long as (but in no event later than the end of the Clean-Up Period) such breach of representation shall be deemed not to exist due to the provisions of Section 7.02(a).

Section 7.03 Application of Funds. Any proceeds of Collateral received by the Administrative Agent (whether as a result of any realization on the Collateral, any setoff rights, any distribution in connection with any proceedings or other action of any Loan Party in respect of Debtor Relief Laws or otherwise and whether received in cash or otherwise) (i) not constituting (A) a specific payment of principal, interest, fees or other sum payable under the Loan Documents (which shall be applied on a pro rata basis among the relevant Lenders under the Class of Loans being prepaid as specified by the Borrower) or (B) a mandatory prepayment (which shall be applied in accordance with Section 2.11) or (ii) after an Event of Default has occurred and is continuing and the Administrative Agent so elects or the Required Lenders so direct, shall be applied, subject to the provisions of any applicable Intercreditor Agreement, ratably first, to pay any fees, indemnities, or expense reimbursements hereunder including amounts then due to the Administrative Agent, the Collateral Agent and any Issuing Bank from the Borrower, second, to pay any fees or expense reimbursements then due hereunder to the Secured Parties (all in their respective capacities as such) from the Borrower, third, to pay interest (including post-petition interest, whether or not an allowed claim in any claim or proceeding under any Debtor Relief Laws) then due and payable on the Loans and on obligations arising under each Secured Cash Management Agreement and Secured Hedge Agreement ratably, fourth, to repay principal on the Loans and unreimbursed disbursements under any Letter of Credit, to Cash Collateralize all outstanding Letters of Credit, and to pay any other amounts owing with respect to Secured Cash Management Agreements (including providing cash collateral in an amount equal to the face amount of outstanding letters of credit issued under any Outside LC Facility) and Secured Hedge Agreements ratably; provided, that amounts which are applied to Cash Collateralize (or cash collateralized letters of credit issued under any Outside LC Facility) outstanding Letters of Credit (or such letters of credit) that remain available after expiry of the applicable Letter of Credit (or letter of credit) shall be applied in the manner set forth herein and fifth, to the payment of any other Obligation due to any Secured Party by the Borrower.

Notwithstanding the foregoing, Obligations arising under Secured Cash Management Agreements and Secured Hedge Agreements shall be excluded from the application described above if the Administrative Agent has not received written notice thereof, together with such supporting documentation as the Administrative Agent may reasonably request, from the applicable Cash Management Bank or Hedge Bank, as the case may be. Each Cash Management Bank or Hedge Bank not a party to this Agreement that has given the notice contemplated by the preceding sentence shall, by such notice, be deemed to have acknowledged and accepted the appointment of the Administrative Agent as its agent pursuant to the terms of Article VIII hereof for itself and its Affiliates as if it were a "Lender" party hereto.

ARTICLE VIII

The Agents

Section 8.01 Appointment.

(a) Each Lender (in its capacities as a Lender and the Swingline Lender (if applicable) and on behalf of itself and its Affiliates as potential counterparties to Secured Cash Management Agreements and Secured Hedge Agreements) and each Issuing Bank (in such capacities and on behalf of itself and its Affiliates as potential counterparties to Secured Cash Management Agreements and Secured Hedge Agreements) hereby irrevocably designates and appoints the Administrative Agent as the agent of such Lender under this Agreement and the other Loan Documents, including as the Collateral Agent for such Lender and the other Secured Parties under the Security Documents, 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 Documents 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 Documents, 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 Document or otherwise exist against the Administrative Agent. The provisions of this Article (other than the final paragraph of Section 8.12 hereof) are solely for the benefit of the Administrative Agent, the Lenders and the Issuing Banks, and neither the Borrower nor any other Loan Party shall have any rights as a third-party beneficiary of any such provisions.

(b) In furtherance of the foregoing, each Lender (in its capacities as a Lender and the Swingline Lender (if applicable) and on behalf of itself and its Affiliates as potential counterparties to Secured Cash Management Agreements or Secured Hedge Agreements) and each Issuing Bank (in such capacities and on behalf of itself and its Affiliates as potential counterparties to Secured Cash Management Agreements and Secured Hedge Agreements) hereby appoints and authorizes the Collateral Agent to act as the agent of such Lender for purposes of acquiring, holding and enforcing any and all Liens on Collateral granted by any of the Loan Parties to secure any of the Obligations, together with such powers and discretion as are reasonably incidental thereto. In this connection, the Collateral Agent (and any Subagents appointed by the Collateral Agent pursuant to Section 8.02 for purposes of holding or enforcing any Lien on the Collateral (or any portion thereof) granted under the Security Documents, or for exercising any rights or remedies thereunder at the direction of the Collateral Agent) shall be entitled to the benefits of this Article VIII (including, without limitation, Section 8.07) as though the Collateral Agent (and any such Subagents) were an “Agent” under the Loan Documents, as if set forth in full herein with respect thereto.

(c) Each Lender as of the Effective Date represents and warrants as of the Effective Date to the Administrative Agent and each Arranger and their respective Affiliates, and not, for the avoidance of doubt, for the benefit of the Borrower or any other Loan Party, that such Lender is not and will not be (1) an employee benefit plan subject to Title I of ERISA, (2) a plan or account subject to Section 4975 of the Code; (3) an entity deemed to hold “plan assets” of any such plans or accounts for purposes of ERISA or the Code; or (4) a “governmental plan” within the meaning of ERISA.

Section 8.02 Delegation of Duties. The Administrative Agent and the Collateral Agent may execute any of their respective duties under this Agreement and the other Loan Documents (including for purposes of holding or enforcing any Lien on the Collateral (or any portion thereof)) by or through

agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. No Agent shall be responsible for the negligence or misconduct of any such agents, employees or attorneys-in-fact selected by it with reasonable care. Each Agent may also from time to time, when it deems it to be necessary or desirable, appoint one or more trustees, co-trustees, collateral co-agents, collateral subagents or attorneys-in-fact (each, a “Subagent”) with respect to all or any part of the Collateral; provided, that no such Subagent shall be authorized to take any action with respect to any Collateral unless and except to the extent expressly authorized in writing by the Administrative Agent or the Collateral Agent. Should any instrument in writing from the Borrower or any other Loan Party be required by any Subagent so appointed by an Agent to more fully or certainly vest in and confirm to such Subagent such rights, powers, privileges and duties, the Borrower shall, or shall cause such Loan Party to, execute, acknowledge and deliver any and all such instruments promptly upon request by such Agent. If any Subagent, or successor thereto, shall become incapable of acting, resign or be removed, all rights, powers, privileges and duties of such Subagent, to the extent permitted by law, shall automatically vest in and be exercised by the Administrative Agent or the Collateral Agent until the appointment of a new Subagent. No Agent shall be responsible for the negligence or misconduct of any agent, attorney-in-fact or Subagent that it selects with reasonable care.

Section 8.03 Exculpatory Provisions. None of the Agents, or their respective Affiliates or any of their 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 Document (except to the extent that any of the foregoing are found by a final and non-appealable 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 Loan Party or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by any Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of any Loan Party a party thereto to perform its obligations hereunder or thereunder. No Agent shall 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 Document, or to inspect the properties, books or records of any Loan Party. No Agent shall have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, (a) no Agent shall be subject to any fiduciary or other implied duties, regardless of whether a Default or Event of Default has occurred and is continuing, (b) no Agent shall have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the respective Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents); provided, that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law, including for the avoidance of doubt any action that may be in violation of the automatic stay under any Debtor Relief Laws or that may affect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any Debtor Relief Laws and (c) no Agent shall, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries or any of their respective Affiliates that is communicated to or obtained by such Agent or any of its Affiliates in any capacity. The Agents shall be deemed not to have knowledge of any Default or Event of Default unless and until written notice describing such Default or Event of Default is given to the Administrative Agent in accordance with Section 8.05. No Agent shall be responsible for or have any duty to ascertain or

inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document, or the creation, perfection or priority of any Lien purported to be created by the Security Documents, (v) the value or the sufficiency of any Collateral, or (vi) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent. The Administrative Agent shall not be responsible or have any liability for, or have any duty to ascertain, inquire into, monitor or enforce, compliance with the provisions hereof relating to Disqualified Lenders. Without limiting the generality of the foregoing, the Administrative Agent shall not be obligated to ascertain, monitor or inquire as to whether any Lender or Participant or prospective Lender or Participant is a Disqualified Lender or (y) have any liability with respect to or arising out of any assignment or participation of Loans and/or Commitments, or disclosure of confidential information, to any Disqualified Lender.

Section 8.04 Reliance by Agents. Each Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) or conversation believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper person. Each Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to any Credit Event, that by its terms must be fulfilled to the satisfaction of a Lender or any Issuing Bank, each Agent may presume that such condition is satisfactory to such Lender or Issuing Bank unless such Agent shall have received notice to the contrary from such Lender or Issuing Bank prior to such Credit Event. Each Agent may consult with legal counsel (including counsel to the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts. Each Agent may deem and treat the Lender specified in the Register with respect to any amount owing hereunder as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with such Agent in accordance with Section 9.04. Each Agent shall be fully justified in failing or refusing to take any action under this Agreement or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders (or, if so specified by this Agreement, all or other 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. Each Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement and the other Loan Documents in accordance with a request of the Required Lenders (or, if so specified by this Agreement, all or other 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.

Section 8.05 Notice of Default. Neither Agent shall be deemed to have knowledge or notice of the occurrence of any Default or Event of Default unless such Agent has received written 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 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 Required Lenders (or, if so specified by this Agreement, all or other 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.

Section 8.06 Non-Reliance on Agents and Other Lenders. Each Lender and Issuing Bank expressly acknowledges that neither the Agents nor any of their respective Related Parties have made any representations or warranties to it and that no act by any Agent hereafter taken, including any review of the affairs of a Loan Party or any affiliate of a Loan Party, shall be deemed to constitute any representation or warranty by any Agent to any Lender. Each Lender and Issuing Bank represents to the Agents that it has, independently and without reliance upon any Agent or any other Lender or any of their respective Related Parties, 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 Loan Parties 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 any Agent or any other Lender or any of their respective Related Parties, 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 Documents, 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 Loan Parties 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 Loan Party or any affiliate of a Loan Party that may come into the possession of the Administrative Agent or any of its Related Parties.

Section 8.07 Indemnification. The Lenders agree to indemnify each Agent and the Revolving Facility Lenders agree to indemnify each Issuing Bank and Swingline Lender, in each case in its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), in the amount of its *pro rata* share (based on its aggregate Revolving Facility Credit Exposure and, in the case of the indemnification of each Agent, outstanding Term Loans and unused Commitments hereunder; provided, that the aggregate principal amount of Swingline Loans owing to the Swingline Lender and of any disbursement under any Letter of Credit owing to any Issuing Bank shall be considered to be owed to the Revolving Facility Lenders ratably in accordance with their respective Revolving Facility Credit Exposure) (determined at the time such indemnity is sought or, if the respective Obligations have been repaid in full, as determined immediately prior to such repayment in full), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever that may at any time (whether before or after the payment of the Loans) be imposed on, incurred by or asserted against such Agent or such Issuing Bank or Swingline Lender in any way relating to or arising out of the Commitments, this Agreement, any of the other Loan Documents 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, Issuing Bank or Swingline Lender 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, penalties, actions, judgments, suits, costs, expenses or disbursements that are found by a final and non-appealable decision of a court of competent jurisdiction to have resulted from such Agent's, Issuing Bank's or Swingline Lender's gross negligence or willful misconduct. The failure of any Lender to reimburse any Agent, Issuing Bank or Swingline Lender, as the case may be, promptly upon demand for its ratable share of any amount required to be paid by the Lenders to such Agent, Issuing Bank or Swingline Lender, as the case may be, as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse such Agent or such Issuing Bank, as the case may be, for its ratable share of such amount, but no Lender shall be responsible for the failure of any other Lender to reimburse such Agent, Issuing Bank or

Swingline Lender, as the case may be, for such other Lender's ratable share of such amount. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under Section 9.05 to be paid by it to the Administrative Agent (or any sub-agent thereof), any Issuing Bank, the Swingline Lender or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent (or any such sub-agent), such Issuing Bank, the Swingline Lender or such Related Party, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) based on each Lender's share of the aggregate principal amount of Term Loans and Revolving Facility Commitments in effect at such time (or, if the Revolving Facility Commitments have terminated, Revolving Facility Credit Exposure at such time) of such unpaid amount (including any such unpaid amount in respect of a claim asserted by such Lender), such payment to be made severally among them based on such Lenders' Pro Rata Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought), provided, further that, the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent (or any such sub-agent), such Issuing Bank or the Swingline Lender in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent (or any such sub-agent), the Issuing Bank or the Swingline Lender in connection with such capacity.

The agreements in this Section shall survive the payment of the Loans and all other amounts payable hereunder.

Section 8.08 Agent in Its Individual Capacity. Each Agent and its affiliates may make loans to, accept deposits from, and generally engage in any kind of business with any Loan Party as though such Agent were not an Agent. With respect to its Loans made or renewed by it and with respect to any Letter of Credit issued, or Letter of Credit or Swingline Loan participated in, by it, each Agent shall have the same rights and powers under this Agreement and the other Loan Documents as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include each Agent in its individual capacity.

Section 8.09 Successor Administrative Agent. The Administrative Agent may resign as Administrative Agent and Collateral Agent under this Agreement and the other Loan Documents upon 30 days' notice to the Lenders and the Borrower. Any such resignation by the Administrative Agent hereunder shall also constitute its resignation as an Issuing Bank and the Swingline Lender, as applicable, in which case the resigning Administrative Agent (x) shall not be required to issue any further Letters of Credit or make any additional Swingline Loans hereunder and (y) shall maintain all of its rights as Issuing Bank or Swingline Lender, as the case may be, with respect to any Letters of Credit issued by it, or Swingline Loans made by it, prior to the date of such resignation. Upon any such resignation, then the Required Lenders shall have the right, subject to the reasonable consent of the Borrower (so long as no Event of Default under Section 7.01(b), (c), (h) or (i) shall have occurred and be continuing), to appoint a successor which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent and Collateral 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 30 days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective (except in the case of the Collateral Agent holding collateral security on behalf of such Secured Parties, the retiring Collateral Agent shall continue to hold such collateral security as nominee until such time as a successor Collateral Agent is appointed), and the Lenders shall assume and perform all of the

duties of the Administrative Agent and Collateral Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Article VIII and Section 9.05 shall inure to its benefit as to any actions taken or omitted to be taken by it, its Subagents and their respective Related Parties while it was Administrative Agent under this Agreement and the other Loan Documents.

Section 8.10 Arrangers, Etc. Notwithstanding any other provision of this Agreement or any provision of any other Loan Document, each of the persons named on the cover page hereof as Joint Bookrunner, Joint Lead Arranger, Arranger, syndication agent or documentation agent is named as such for recognition purposes only, and in its capacity as such shall have no rights, duties, responsibilities or liabilities with respect to this Agreement or any other Loan Document, except that each such person and its Affiliates shall be entitled to the rights expressly stated to be applicable to them in Sections 4.01(a), 9.05 and 9.17 (subject to the applicable obligations and limitations as set forth therein).

Section 8.11 Security Documents and Collateral Agent. The Lenders and the other Secured Parties authorize the Collateral Agent to release any Collateral or Guarantors in accordance with Section 9.18 or if approved, authorized or ratified in accordance with Section 9.08.

The Lenders and the other Secured Parties hereby irrevocably authorize and instruct the Collateral Agent to, without any further consent of any Lender or any other Secured Party, and in the case of the following clause (1) upon the request of the Borrower the Collateral Agent shall, enter into (or acknowledge and consent to) or amend, renew, extend, supplement, restate, replace, waive or otherwise modify the any Permitted First Lien Intercreditor Agreement, any Permitted Junior Intercreditor Agreement, and any other intercreditor or subordination agreement (in form satisfactory to the Collateral Agent and deemed appropriate by it) with the collateral agent or other representative of holders of Indebtedness secured (and permitted to be secured) by a Lien on assets constituting a portion of the Collateral under (1) any of Sections 6.02(c), (i), (j), (v), (z) and/or (gg) (and in accordance with the relevant requirements thereof) and (2) any other provision of Section 6.02 (it being acknowledged and agreed that the Collateral Agent shall be under no obligation to execute any Intercreditor Agreement pursuant to this clause (2), and may elect to do so, or not do so, in its sole and absolute discretion) (any of the foregoing, an "Intercreditor Agreement"). The Lenders and the other Secured Parties irrevocably agree that (x) the Collateral Agent may rely exclusively on a certificate of a Responsible Officer of the Borrower as to whether any such other Liens are permitted hereunder and as to the respective assets constituting Collateral that secure (and are permitted to secure) such Indebtedness hereunder and (y) any Intercreditor Agreement entered into by the Collateral Agent shall be binding on the Secured Parties, and each Lender and the other Secured Parties hereby agrees that it will take no actions contrary to the provisions of, if entered into and if applicable, any Intercreditor Agreement. Furthermore, the Lenders and the other Secured Parties hereby authorize the Administrative Agent and the Collateral Agent to release any Lien on any property granted to or held by the Administrative Agent or the Collateral Agent under any Loan Document (i) to the holder of any Lien on such property that is permitted by clauses (c), (i), (j), (v) or (z) of Section 6.02 in each case to the extent the contract or agreement pursuant to which such Lien is granted prohibits any other Liens on such property or (ii) that is or becomes Excluded Property; and the Administrative Agent and the Collateral Agent shall do so upon request of the Borrower; provided, that prior to any such request, the Borrower shall have in each case delivered to the Administrative Agent a certificate of a Responsible Officer of the Borrower certifying (x) that such Lien is permitted under this Agreement, (y) in the case of a request pursuant to clause (i) of this sentence, that the contract or agreement pursuant to which such Lien is granted prohibits any other Lien on such property and (z) in the case of a request pursuant to clause (ii) of this sentence, that (A) such property is or has become Excluded Property and (B) if such property has become Excluded Property as a result of a contractual restriction, such restriction does not violate Section 6.09.

Section 8.12 Right to Realize on Collateral, Enforce Guarantees, and Credit Bidding. In case of the pendency of any proceeding under any Debtor Relief Laws or other judicial proceeding relative to any Loan Party, (i) the Administrative Agent (irrespective of whether the principal of any Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise (A) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of any or all of the Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, the Issuing Banks and the Administrative Agent and any Subagents allowed in such judicial proceeding, and (B) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same, and (ii) any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and Issuing Bank to make such payments to the Administrative Agent and, if the Administrative Agent shall consent to the making of such payments directly to the Lenders and the Issuing Banks, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under the Loan Documents. Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender or Issuing Bank any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or Issuing Bank or to authorize the Administrative Agent to vote in respect of the claim of any Lender or Issuing Bank in any such proceeding.

Anything contained in any of the Loan Documents to the contrary notwithstanding, the Borrower, the Administrative Agent, the Collateral Agent and each Secured Party hereby agree that (a) no Secured Party shall have any right individually to realize upon any of the Collateral or to enforce any Guarantee set forth in any Loan Document, it being understood and agreed that all powers, rights and remedies hereunder may be exercised solely by the Administrative Agent, on behalf of the Secured Parties in accordance with the terms hereof and all powers, rights and remedies under the Security Documents may be exercised solely by the Collateral Agent; provided that, notwithstanding the foregoing, the Lenders may exercise the set-off rights contained in Section 9.06 in the manner set forth therein, and (b) in the event of a foreclosure by the Collateral Agent on any of the Collateral pursuant to a public or private sale or other disposition, the Collateral Agent or any Lender may be the purchaser or licensor of any or all of such Collateral at any such sale or other disposition and the Collateral Agent, as agent for and representative of the Secured Parties (but not any Lender or Lenders in its or their respective individual capacities unless the Required Lenders shall otherwise agree in writing) shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Obligations as a credit on account of the purchase price for any collateral payable by the Collateral Agent at such sale or other Disposition.

The Secured Parties hereby irrevocably authorize the Administrative Agent, at the direction of the Required Lenders, to credit bid all or any portion of the Obligations (including accepting some or all of the Collateral in satisfaction of some or all of the Secured Obligations pursuant to a deed in lieu of foreclosure or otherwise) and in such manner purchase (either directly or through one or more acquisition vehicles) all or any portion of the Collateral (a) at any sale thereof conducted under the provisions of the Bankruptcy Code of the United States, including under Sections 363, 1123 or 1129 of the Bankruptcy Code of the United States, or any similar laws in any other jurisdictions to which a Loan Party is subject or (b) at any other sale or foreclosure or acceptance of Collateral in lieu of debt conducted by (or with the consent or at the direction of) the Administrative Agent (whether by judicial action or otherwise) in accordance with any applicable Law. In connection with any such credit bid and purchase, the Obligations owed to the Secured Parties shall be entitled to be, and shall be, credit bid on a ratable basis

(with Obligations with respect to contingent or unliquidated claims receiving contingent interests in the acquired assets on a ratable basis that would vest upon the liquidation of such claims in an amount proportional to the liquidated portion of the contingent claim amount used in allocating the contingent interests) in the asset or assets so purchased (or in the Equity Interests or debt instruments of the acquisition vehicle or vehicles that are used to consummate such purchase). In connection with any such bid (i) the Administrative Agent shall be authorized (x) to form one or more acquisition vehicles to make a bid, (y) to adopt documents providing for the governance of the acquisition vehicle or vehicles (provided that any actions by the Administrative Agent with respect to such acquisition vehicle or vehicles, including any disposition of the assets or Equity Interests thereof shall be governed, directly or indirectly, by the vote of the Required Lenders, irrespective of the termination of this Agreement and without giving effect to the limitations on actions by the Required Lenders contained in clauses (i) through (vii) of Section 9.08(b) of this Agreement, and (z) the Administrative Agent shall be authorized to assign the relevant Obligations to any such acquisition vehicle pro rata by the Lenders, as a result of which each of the Lenders shall be deemed to have received a pro rata portion of any Equity Interests and/or debt instruments issued by such an acquisition vehicle on account of the assignment of the Obligations to be credit bid, all without the need for any Secured Party or acquisition vehicle to take any further action, and (ii) to the extent that Obligations that are assigned to an acquisition vehicle are not used to acquire Collateral for any reason (as a result of another bid being higher or better, because the amount of Obligations assigned to the acquisition vehicle exceeds the amount of debt credit bid by the acquisition vehicle or otherwise), such Obligations shall automatically be reassigned to the Lenders pro rata and the Equity Interests and/or debt instruments issued by any acquisition vehicle on account of the Obligations that had been assigned to the acquisition vehicle shall automatically be cancelled, without the need for any Secured Party or any acquisition vehicle to take any further action.

Section 8.13 Withholding Tax. To the extent required by any applicable Requirement of 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 authority of the United States or other jurisdiction asserts a claim that the Administrative Agent did not properly withhold Tax from amounts paid to or for the account of any Lender for any reason (including because the appropriate form was not delivered, was not properly executed, or because such Lender failed to notify the Administrative Agent of a change in circumstances that rendered the exemption from, or reduction of, withholding Tax ineffective), such Lender shall indemnify the Administrative Agent (to the extent that the Administrative Agent has not already been reimbursed by any applicable Loan Party and without limiting the obligation of any applicable Loan Party to do so) fully for all amounts paid, directly or indirectly, by the Administrative Agent as Tax or otherwise, including penalties, fines, additions to Tax and interest, together with all expenses incurred, including legal expenses, allocated staff costs and any out of pocket expenses. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under this Agreement or any other Loan Document against any amount due to the Administrative Agent under this Section 8.13.

Section 8.14 Secured Cash Management Agreements and Secured Hedge Agreements. No Cash Management Bank or Hedge Bank that obtains the benefits of Section 7.03, any Guarantee or any Collateral by virtue of the provisions hereof or of the Subsidiary Guarantee Agreement or any Security Document shall have any right to notice of any action or to consent to, direct or object to any action hereunder or under any other Loan Document or otherwise in respect of the Collateral (including the release or impairment of any Collateral) other than in its capacity as a Lender and, in such case, only to the extent expressly provided in the Loan Documents. Notwithstanding any other provision of this Article VIII to the contrary, the Administrative Agent shall not be required to verify the payment of, or that other satisfactory arrangements have been made with respect to, Secured Obligations arising under Secured Cash Management Agreements and Secured Hedge Agreements unless the Administrative Agent has received written notice of such Secured Obligations, together with such supporting documentation as

the Administrative Agent may reasonably request, from the applicable Cash Management Bank or Hedge Bank, as the case may be.

ARTICLE IX

Miscellaneous

Section 9.01 Notices; Communications.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 9.01(b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier or other electronic means as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to any Loan Party or the Administrative Agent, any Issuing Bank as of the Closing Date or the Swingline Lender to the address, telecopier number, electronic mail address or telephone number specified for such person on Schedule 9.01; and

(ii) if to any other Lender or Issuing Bank, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders and the Issuing Bank hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent; provided, that the foregoing shall not apply to notices to any Lender or Issuing Bank pursuant to Article II if such Lender or Issuing Bank, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent or the Borrower may, in their discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by them, provided, that approval of such procedures may be limited to particular notices or communications.

(c) Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received. Notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in Section 9.01(b) above shall be effective as provided in such Section 9.01(b).

(d) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto.

(e) Documents required to be delivered pursuant to Section 5.04 (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically (including as set forth in Section 9.17) and if so delivered, shall be deemed to have been delivered on the date (i) on which CenturyLink posts such documents, or provides a link thereto on CenturyLink's website on the Internet at the website address listed on Schedule 9.01, or (ii) on which such documents are posted on CenturyLink's behalf on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third-party website or whether sponsored by the Administrative Agent); provided, that (A) the Borrower shall deliver paper copies of such documents

to the Administrative Agent or any Lender that requests the Borrower to deliver such paper copies until a written request to cease delivering paper copies is given by the Administrative Agent or such Lender, and (B) the Borrower shall notify the Administrative Agent (by telecopier or electronic mail) of the posting of any such documents and provide to the Administrative Agent by electronic mail electronic versions (i.e., soft copies) of such documents. Except for such certificates required by Section 5.04(c), the Administrative Agent shall have no obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Borrower with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

Section 9.02 Survival of Agreement. All covenants, agreements, representations and warranties made by the Loan Parties herein, in the other Loan Documents and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the making by the Lenders of the Loans and the execution and delivery of the Loan Documents and the issuance of the Letters of Credit, regardless of any investigation made by such persons or on their behalf, and shall continue in full force and effect until the Termination Date. Without prejudice to the survival of any other agreements contained herein, the provisions of Sections 2.15, 2.16, 2.17, 9.05 and 9.22 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the occurrence of the Termination Date or the termination of this Agreement or any other Loan Document or any provision hereof or thereof.

Section 9.03 Binding Effect. This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have received copies hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent, each Issuing Bank, each Swingline Lender, and each Lender and their respective permitted successors and assigns.

Section 9.04 Successors and Assigns.

(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 (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its respective 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 9.04. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in clause (c) of this Section 9.04), and, to the extent expressly contemplated hereby, the Related Parties of each of the Agents, the Issuing Bank and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement or the other Loan Documents.

(b) (i) Subject to the conditions set forth in subclause (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 its Commitments and the Loans at the time owing to it) with the prior written consent of:

(A) the Borrower (such consent not to be unreasonably withheld, delayed or conditioned), which consent, with respect to the assignment of a Term Loan, will be deemed to

have been given if the Borrower has not responded within ten (10) Business Days after the delivery of any request for such consent; provided, that no consent of the Borrower shall be required (x) for an assignment of a Term Loan to a Lender, an Affiliate of a Lender, an Approved Fund (as defined below), or for an assignment of a Revolving Facility Commitment or Revolving Facility Loan to a Revolving Facility Lender, an Affiliate of a Revolving Facility Lender or Approved Fund with respect to a Revolving Facility Lender or (y) if an Event of Default under Section 7.01(b), (c), (h) or (i) has occurred and is continuing, for an assignment to any person;

(B) the Administrative Agent (such consent not to be unreasonably withheld or delayed); provided, that no consent of the Administrative Agent shall be required for an assignment of all or any portion of a Term Loan to (x) a Lender, an Affiliate of a Lender, or an Approved Fund, or (y) the Borrower or an Affiliate of the Borrower made in accordance with Section 2.25; and

(C) the Issuing Bank and the Swingline Lender (such consent, in each case, not to be unreasonably withheld or delayed); provided, that no consent of the Issuing Bank and the Swingline Lender shall be required for an assignment of all or any portion of a Term Loan.

(ii) Assignments (other than pursuant to Section 2.25) 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 Commitments or Loans under any Facility, the amount of the applicable Commitments or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Acceptance with respect to such assignment is delivered to the Administrative Agent) shall not be less than (x) \$1,000,000 or an integral multiple of \$1,000,000 in excess thereof in the case of Term Loans and (y) \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof in the case of Revolving Facility Loans or Revolving Facility Commitments, unless each of the Borrower and the Administrative Agent otherwise consent; provided, that no such consent of the Borrower shall be required if an Event of Default under Section 7.01(b), (c), (h) or (i) has occurred and is continuing; provided, further, that such amounts shall be aggregated in respect of each Lender and its Affiliates or Approved Funds (with simultaneous assignments to or by two or more Related Funds being treated as one assignment), if any;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement; provided, that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall (1) execute and deliver to the Administrative Agent an Assignment and Acceptance and any form required to be delivered pursuant to Section 2.17 via an electronic settlement system acceptable to the Administrative Agent or (2) if previously agreed with the Administrative Agent, manually execute and deliver to the Administrative Agent an Assignment and Acceptance, in each case together with a processing and recordation fee of \$3,500 (which fee may be waived or reduced in the sole discretion of the Administrative Agent);

(D) the Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire in which the assignee designates one or more credit contacts to whom all syndicate-level information (which may contain material non-public

information about the Borrower and its Affiliates and their Related Parties or their respective securities) will be made available and who may receive such information in accordance with the assignee's compliance procedures and applicable laws, including Federal and state securities laws; and

(E) the Assignee shall not be (i) the Borrower or any of the Borrower's Affiliates or Subsidiaries except with respect to assignments to the Borrower in accordance with Section 2.25, (ii) any Disqualified Lender subject to Section 9.04(i)), (iii) a natural person or (iv) a Defaulting Lender.

For the purposes of this Section 9.04, "Approved Fund" means any person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

Notwithstanding the foregoing or anything to the contrary herein, no Lender shall be permitted to assign or transfer any portion of its rights and obligations under this Agreement (I)(A) with respect to the Initial Term B Loan Commitments and Initial Term B Loans, prior to the funding of the Initial Term B Loans on the Effective Date, (B) with respect to the Initial Term A Loan Commitments, Initial Term A-1 Loan Commitments, Initial Term A-1 Loans and Initial Term A Loans, prior to the funding of the Initial Term A Loans and the Initial Term A-1 Loans on the Closing Date and (C) with respect to the Revolving Facility Commitments, prior to the funding of all Revolving Facility Loans requested by the Borrower on the Closing Date, in each case, to any person, unless consented to by the Borrower. Any assigning Lender shall, in connection with any potential assignment, provide to the Borrower a copy of its request (including the name of the prospective assignee) concurrently with its delivery of the same request to the Administrative Agent irrespective of whether or not a Default or an Event of Default has occurred and is continuing.

(iii) Subject to acceptance and recording thereof pursuant to subclause (v) below, from and after the effective date specified in each Assignment and Acceptance the Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, 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 Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance 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 2.15, 2.16, 2.17 and 9.05 (subject to the limitations and requirements of those Sections, including, without limitation, the requirements of Sections 2.17(d) and 2.17(f))). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 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 clause (c) of this Section 9.04 (except to the extent such participation is not permitted by such clause (c) of this Section 9.04, in which case such assignment or transfer shall be null and void).

(iv) The Administrative Agent, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal and interest amounts of the Loans and Revolving L/C Exposure owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive absent manifest error, and the Borrower, the Administrative Agent, the Issuing Bank, the Swingline Lender and the Lenders shall 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. The Register shall be available for inspection by the Borrower, the Issuing Bank, the Swingline Lender and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Acceptance 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 clause (b)(ii)(C) of this Section 9.04, if applicable, and any written consent to such assignment required by clause (b) of this Section 9.04, the Administrative Agent shall accept such Assignment and Acceptance and promptly record the information contained therein in the Register; provided, that if either the assigning Lender or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b), 2.18(d) or 8.07, the Administrative Agent shall have no obligation to accept such Assignment and Acceptance and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment, whether or not evidenced by a promissory note, shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this subclause (v).

(c) Any Lender may, without the consent of the Borrower or the Administrative Agent, the Issuing Bank or the Swingline Lender, sell participations in Loans and Commitments to one or more banks or other entities other than any person that, at the time of such participation, is (I) a natural person, (II) the Borrower or any of its Subsidiaries or any of their respective Affiliates or (III) a Disqualified Lender subject to Section 9.04(i) (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitments and 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, the Issuing Bank 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 the other Loan Documents and to approve any amendment, modification or waiver of any provision of this Agreement and the other Loan Documents; provided, that (x) such agreement may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver that both (1) requires the consent of each Lender directly affected thereby pursuant to the first proviso to Section 9.08(b) and (2) directly affects such Participant (but, for the avoidance of doubt, not any waiver of any Default or Event of Default) and (y) no other agreement with respect to amendment, modification or waiver may exist between such Lender and such Participant. Subject to clause (c)(iii) of this Section 9.04, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 (subject to the limitations and requirements of those Sections and Section 2.19, including, without limitation, the requirements of Sections 2.17(d) and 2.17(f) (it being understood that the documentation required under Section 2.17(d) and 2.17(f) shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to clause (b) of this Section 9.04. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.06 as though it were a Lender; provided, that such Participant shall be subject to Section 2.18(c) as though it were a Lender.

(ii) Each Lender that sells a participation shall, acting solely for this purpose as a non-fiduciary agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts and interest amounts of each Participant's interest in the Loans or other obligations under the Loan Documents (the "Participant Register"). 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. Without limitation of the requirements of this Section 9.04(c), no Lender shall have any obligation to disclose all or any portion of a Participant Register to any person (including the identity of any Participant or any information relating to a Participant's interest in any Commitments, Loans or other Loan Obligations under any Loan Document), except to the extent that such disclosure is necessary to establish that such Commitment, Loan or other Loan Obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(iii) A Participant shall not be entitled to receive any greater payment under Section 2.15, 2.16 or 2.17 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 (not to be unreasonably withheld or delayed), which consent shall state that it is being given pursuant to this Section 9.04(c)(iii); provided, that each potential Participant shall provide such information as is reasonably requested by the Borrower in order for the Borrower to determine whether to provide its consent.

(d) 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 in the case of any Lender that is an Approved Fund, any pledge or assignment to any holders of obligations owed, or securities issued, by such Lender, including to any trustee for, or any other representative of, such holders, and this Section 9.04 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.

(e) 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 clause (d) above.

(f) Notwithstanding the foregoing, any Conduit Lender may assign any or all of the Loans it may have funded hereunder to its designating Lender without the consent of any Borrower or the Administrative Agent. Each of the Borrower, each Lender and the Administrative Agent hereby confirms that it will not institute against a Conduit Lender or join any other person in instituting against a Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding under any state bankruptcy or similar law, for one year and one day after the payment in full of the latest maturing commercial paper note issued by such Conduit Lender; provided, however, that each Lender designating any Conduit Lender hereby agrees to indemnify, save and hold harmless each other party hereto and each Loan Party for any loss, cost, damage or expense arising out of its inability to institute such a proceeding against such Conduit Lender during such period of forbearance.

(g) Each purchase of Term Loans pursuant to Section 2.25 shall, for purposes of this Agreement, be deemed to be an automatic and immediate cancellation and extinguishment of such Term Loans and the Borrower shall, upon consummation of any such purchase, notify the Administrative Agent that the Register should be updated to record such event as if it were a prepayment of such Loans.

(h) In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Administrative Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other

compensating actions, including funding, with the consent of the Borrower and the Administrative Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Administrative Agent, each Issuing Bank, each Swingline Lender or any other Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit and Swingline Loans in accordance with its Revolving Facility Percentage; provided, that notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

(i) The Administrative Agent shall have the right, and the Borrower hereby expressly authorizes the Administrative Agent, to (A) post the list of Disqualified Lenders provided by the Borrower and any updates thereto from time to time (collectively, the “DQ List”) on the Platform, including that portion of the Platform that is designated for “public side” Lenders or (B) provide the DQ List to each Lender requesting the same. The Administrative Agent shall not be responsible or have any liability for, or have any duty to ascertain, inquire into, monitor or enforce, compliance with the provisions hereof relating to Disqualified Lenders; provided, further, without limiting the generality of the foregoing clause, the Administrative Agent shall not (x) be obligated to ascertain, monitor or inquire as to whether any Lender or Participant or prospective Lender or Participant is a Disqualified Lender or (y) have any liability with respect to or arising out of any assignment or participation of Loans, or disclosure of confidential information, to any Disqualified Lender. With respect to any Lender or Participant that becomes a Disqualified Lender after the applicable assignment or participation, (x) such Assignee shall not retroactively be disqualified from becoming a Lender or Participant and (y) the execution by the Borrower of an Assignment and Acceptance with respect to such assignee will not by itself result in such Assignee no longer being considered a Disqualified Lender. Any assignment in violation of this clause (i) shall not be void, but the Borrower shall have the right to (A) in the case of any outstanding Revolving Facility Commitments, terminate any Revolving Facility Commitment of such Disqualified Lender and repay all obligations of the Borrower owing to such Disqualified Lender in connection with such Revolving Facility Commitment, (B) in the case of outstanding Term Loans held by Disqualified Lenders, prepay such Term Loan by paying the lesser of (x) the principal amount thereof and (y) the amount that such Disqualified Lender paid to acquire such Term Loans, in each case plus accrued interest, accrued fees and all other amounts (other than principal amounts) payable to it hereunder and under the other Loan Documents and/or (C) require such Disqualified Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in this Section 9.04), all of its interest, rights and obligations under this Agreement and related Loan Documents to an Assignee in accordance with this Section 9.04 that shall assume such obligations at the lesser of (x) the principal amount thereof and (y) the amount that such Disqualified Lender paid to acquire such interests, rights and obligations, in each case plus accrued interest, accrued fees and all other amounts (other than principal amounts) payable to it hereunder and the other Loan Documents; provided that (i) the Borrower shall have paid to the Administrative Agent the assignment fee (if any) specified in Section 9.04(b)(ii), (ii) such assignment does not conflict with applicable laws and (iii) in the case of clause (B), the Borrower shall not use the proceeds from any Loans to prepay Term Loans held by Disqualified Lenders.

(j) Voting Participants. Notwithstanding anything in this Section 9.04 to the contrary, any Farm Credit Lender that (i) has purchased a participation from any Lender that is a Farm Credit Lender in the minimum amount of \$5,000,000 on or after the Closing Date, (ii) is, by written notice to the Borrower and the Administrative Agent (a “Voting Participant Notification”), designated by the selling Lender as being entitled to be accorded the rights of a voting participant hereunder (any Farm Credit

Lender so designated being called a “Voting Participant”) and (iii) receives the prior written consent of the Borrower and the Administrative Agent to become a Voting Participant, shall be entitled to vote (and the voting rights of the selling Lender shall be correspondingly reduced), on a dollar for dollar basis, as if such Voting 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, in each case, in lieu of the vote of the selling Lender; provided, however, that if such Voting Participant has at any time failed to fund any portion of its participation when required to do so and notice of such failure has been delivered by the selling Lender to the Administrative Agent, then until such time as all amounts of its participation required to have been funded have been funded and notice of such funding has been delivered by the selling Lender to the Administrative Agent, such Voting Participant shall not be entitled to exercise its voting rights pursuant to the terms of this clause (j), and the voting rights of the selling Lender shall not be correspondingly reduced by the amount of such Voting Participant’s participation. Notwithstanding the foregoing, each Farm Credit Lender designated as a Voting Participant on Schedule 9.04(j) hereto on the Closing Date shall be a Voting Participant without delivery of a Voting Participant Notification and without the prior written consent of the Borrowers and the Administrative Agent. To be effective, each Voting Participant Notification shall, with respect to any Voting Participant, (A) state the full name of such Voting Participant, as well as all contact information required of an assignee as set forth in Exhibit A, (B) state the dollar amount of the participation purchased and (C) include such other information as may be required by the Administrative Agent. The selling Lender and the Voting Participant shall notify the Administrative Agent and the Borrower within three Business Days of any termination of, or reduction or increase in the amount of, such participation and shall promptly upon request of the Administrative Agent update or confirm there has been no change in the information set forth in Schedule 9.04(j) hereto on the Closing Date or delivered in connection with any Voting Participant Notification. The Borrowers and the Administrative Agent shall be entitled to conclusively rely on information provided by a Lender identifying itself or its participant as a Farm Credit Bank without verification thereof and may also conclusively rely on the information set forth in Schedule 9.04(j) hereto on the Closing Date, delivered in connection with any Voting Participant Notification or otherwise furnished pursuant to this clause (j) and, unless and until notified thereof in writing by the selling Lender, may assume that there have been no changes in the identity of Voting Participants, the dollar amount of participations, the contact information of the participants or any other information furnished to the Borrowers or the Administrative Agent pursuant to this clause (j). The voting rights hereunder are solely for the benefit of the Voting Participants and shall not inure to any assignee or participant of a Voting Participant.

Section 9.05 Expenses; Indemnity.

(a) The Borrower hereby agrees to pay (i) all reasonable and documented out-of-pocket expenses (including, subject to Section 9.05(c), Other Taxes) incurred by the Administrative Agent or the Collateral Agent, the Arrangers and their respective Affiliates in connection with the syndication and distribution (including, without limitation, via the internet or through a service such as Intralinks) of the credit facilities provided for herein, the preparation and administration of this Agreement and the other Loan Documents, or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), including the reasonable fees, charges and disbursements of one primary counsel for the Administrative Agent, the Collateral Agent and the Arrangers, and, if necessary, the reasonable fees, charges and disbursements of one local counsel per jurisdiction, (ii) all reasonable and documented out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses (including Other Taxes) incurred by the Agents, any Issuing Bank or any Lender in connection with the enforcement of their rights in connection with this Agreement and any other Loan Document, in connection with the Loans made or the Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred

during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit and including the fees, charges and disbursements of a single counsel for all such persons, taken as a whole, and, if necessary, a single local counsel in each appropriate jurisdiction and (if appropriate) a single regulatory counsel for all such persons, taken as a whole (and, in the case of an actual or perceived conflict of interest where such person affected by such conflict informs the Borrower of such conflict and thereafter retains its own counsel, of another firm of such for such affected person).

(b) The Borrower agrees to indemnify the Administrative Agent, the Collateral Agent, the Arrangers, each Issuing Bank, each Lender, each of their respective Affiliates, successors and assignors, and each of their respective Related Parties, (each such person being called an “Indemnitee”) against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including reasonable counsel fees, charges and disbursements (excluding the allocated costs of in house counsel and limited to not more than one counsel for all such Indemnities, taken as a whole, and, if necessary, a single local counsel in each appropriate jurisdiction and (if appropriate) a single regulatory counsel for all such Indemnities, taken as a whole (and, in the case of an actual or perceived conflict of interest where the Indemnitee affected by such conflict informs the Borrower of such conflict and thereafter retains its own counsel, of another firm of counsel for such affected Indemnitee)), incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution or delivery of this Agreement or any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto and thereto of their respective obligations thereunder or the consummation of the Transactions and the other transactions contemplated hereby, (ii) the use of the proceeds of the Loans or the use of any Letter of Credit (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any violation of or liability under Environmental Laws by the Borrower or any Subsidiary, (iv) any actual or alleged presence, Release or threatened Release of or exposure to Hazardous Materials at, under, on, from or to any property owned, leased or operated by the Borrower or any Subsidiary or (v) any claim, litigation, investigation or proceeding relating to any of the foregoing, whether or not any Indemnitee is a party thereto and regardless of whether such matter is initiated by a third party or by the Borrower or any of their subsidiaries or Affiliates; provided, that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a final, non-appealable judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnitee or any of its Related Parties or (y) arose from any claim, actions, suits, inquiries, litigation, investigation or proceeding that does not involve an act or omission of the Borrower or any of its Affiliates and is brought by an Indemnitee against another Indemnitee (other than any claim, actions, suits, inquiries, litigation, investigation or proceeding against any Agent or an Arranger in its capacity as such). None of the Indemnities (or any of their respective affiliates) shall be responsible or liable to the Borrower or any of their respective subsidiaries, Affiliates or stockholders or any other person or entity for any special, indirect, consequential or punitive damages, which may be alleged as a result of the Facilities or the Transactions. The provisions of this Section 9.05 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Obligations, the occurrence of the Termination Date, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of the Administrative Agent, any Issuing Bank or any Lender. All amounts due under this Section 9.05 shall be payable within 15 days after written demand therefor accompanied by reasonable documentation with respect to any reimbursement, indemnification or other amount requested.

(c) Except as expressly provided in Section 9.05(a) with respect to Other Taxes, which shall not be duplicative with any amounts paid pursuant to Section 2.17, this Section 9.05 shall not apply to any Taxes (other than Taxes that represent losses, claims, damages, liabilities and related expenses

resulting from a non-Tax claim), which shall be governed exclusively by Section 2.17 and, to the extent set forth therein, Section 2.15.

(d) To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnatee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnatee shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems (including the internet) in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) The agreements in this Section 9.05 shall survive the resignation of the Administrative Agent, the Collateral Agent or any Issuing Bank, the replacement of any Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all the other Obligations, the occurrence of the Termination Date and the termination of this Agreement, any other Loan Document or any provision hereof or thereof.

Section 9.06 Right of Set-off. If an Event of Default shall have occurred and be continuing, each Lender, each Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final and in whatever currency denominated) at any time held and other obligations at any time owing by such Lender or such Issuing Bank to or for the credit or the account of the Borrower or any Subsidiary against any of and all the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document held by such Lender or such Issuing Bank, irrespective of whether or not such Lender or such Issuing Bank shall have made any demand under this Agreement or such other Loan Document and although the obligations may be unmatured; provided, that any recovery by any Lender or any Affiliate pursuant to its setoff rights under this Section 9.06 is subject to the provisions of Section 2.18(c); provided, further, that in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Administrative Agent for further application in accordance with the provisions of Section 2.24 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Administrative Agent and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Administrative Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender and each Issuing Bank under this Section 9.06 are in addition to other rights and remedies (including other rights of set-off) that such Lender or such Issuing Bank may have.

Section 9.07 Applicable Law. **THIS AGREEMENT AND ANY CLAIMS, CONTROVERSY, DISPUTE OR CAUSES OF ACTION (WHETHER IN CONTRACT OR TORT OR OTHERWISE) BASED UPON, ARISING OUT OF OR RELATING TO THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK;** provided, however, that (a) the interpretation of the definition of LVLT Material Adverse Effect and whether there shall have occurred an LVLT Material Adverse Effect on LVLT, (b) the determination of whether the condition in Section 4.01(h) has been satisfied and (c) the determination of whether the Merger Agreement LVLT Representations are accurate and whether as a result of any inaccuracy of any such representations the Borrower or either Wildcat Merger Sub has the right to terminate the obligations of the Borrower or either Wildcat Merger Sub or has the right to decline to consummate the Merger under the Merger Agreement, shall be governed by and construed in accordance with, the laws of the State of Delaware, without giving effect to any choice or conflict of law

provision or rule (whether of the State of Delaware or any other jurisdiction) that would cause the applicable of the laws of any jurisdiction other than the State of Delaware.

Section 9.08 Waivers; Amendment.

(a) No failure or delay of the Administrative Agent, the Collateral Agent, any Issuing Bank or any Lender in exercising any right or power hereunder or under any Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Collateral Agent, each Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by the Borrower or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by clause (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on the Borrower or any other Loan Party in any case shall entitle such person to any other or further notice or demand in similar or other circumstances. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default or Event of Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except (x) as provided in Section 2.21, 2.22 or 2.23, (y) in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Borrower and the Required Lenders (except that any waiver, amendment or modification of the Pro Rata Only Covenants or of any defined term (or component defined term) but only to the extent as used therein (or any Default or Event of Default or exercise of remedies by the Required Pro Rata Lenders in respect or as a result thereof) shall require the Required Pro Rata Lenders voting as a single Class rather than the Required Lenders) and (z) in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by each Loan Party party thereto and the Administrative Agent and consented to by the Required Lenders; provided, however, that no such agreement shall:

(i) decrease or forgive the principal amount of, or extend the final maturity of, or decrease the rate of interest on, any Loan or any reimbursement obligation with respect to any disbursement under any Letter of Credit, or extend the stated expiration of any Letter of Credit beyond the applicable Revolving Facility Maturity Date, without the prior written consent of each Lender directly adversely affected thereby (which, notwithstanding the foregoing, such consent of such Lender directly adversely affected thereby shall be the only consent required hereunder to make such modification); provided, that (x) any amendment to the financial definitions in this Agreement shall not constitute a reduction in the rate of interest for purposes of this clause (i) even if the effect of such amendment would be to reduce the rate of interest on any Loan or any reimbursement obligation with respect to any disbursement under any Letter of Credit or to reduce any fee payable hereunder and (y) only the consent of the Required Lenders shall be necessary to reduce or waive any obligation of the Borrower to pay interest or Fees at the applicable default rate set forth in Section 2.13(c);

(ii) increase or extend the Commitment of any Lender, or decrease the Commitment Fees, L/C Participation Fees or any other Fees of any Lender without the prior written consent of such Lender (which, notwithstanding the foregoing, with respect to any such extension or decrease, such consent of such Lender shall be the only consent required hereunder to make such

modification); provided, that waivers or modifications of conditions precedent, covenants, Defaults or Events of Default or mandatory prepayments shall not constitute an increase or extension of the Commitments of any Lender for purposes of this clause (ii);

(iii) extend or waive any Term Loan Installment Date or reduce the amount due on any Term Loan Installment Date, extend or waive any Revolving Facility Maturity Date or reduce the amount due on any Revolving Facility Maturity Date or extend any date on which payment of interest (other than interest payable at the applicable default rate of interest set forth in Section 2.13(c)) on any Loan or any disbursement under any Letter of Credit or any Fees is due, without the prior written consent of each Lender directly adversely affected thereby;

(iv) amend the provisions of Section 2.18(c) or Section 7.03 in a manner that would by its terms alter the pro rata sharing of payments required thereby, without the prior written consent of each Lender adversely affected thereby;

(v) amend or modify the provisions of this Section 9.08 or the definition of the terms "Required Lenders," "Majority Lenders," "Required Revolving Facility Lenders," "Required Pro Rata Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the prior written consent of each Lender adversely affected thereby (it being understood that, with the consent of the Required Lenders, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Lenders on substantially the same basis as the Loans and Commitments are included on the Closing Date);

(vi) except as provided in Section 9.18 release all or substantially all of the Collateral or all or substantially all of the Guarantors from their respective Guarantees without the prior written consent of each Lender;

(vii) effect any waiver, amendment or modification that by its terms adversely affects the rights in respect of payments or collateral of Lenders participating in any Facility differently from those of Lenders participating in another Facility, without the consent of the Majority Lenders participating in the adversely affected Facility (it being agreed that the Required Lenders may waive, in whole or in part, any prepayment or Commitment reduction required by Section 2.11 so long as the application of any prepayment or Commitment reduction still required to be made is not changed);

(viii) amend the provisions of this Agreement expressly relating to any Outside LC Facility in a manner that would adversely affect the rights of the applicable Outside LC Facility Issuers in a manner that is different and adverse to such Outside LC Facility Issuer as compared to the manner such amendment would affect Lenders generally without the consent of each adversely affected Outside LC Facility Issuer;

(ix) amend the provisions of Section 9.04 to reduce the number or percentage of Lenders required to permit the Borrower to assign or otherwise transfer its rights or obligations under this Agreement without the prior written consent of each Lender; or

(x) amend the provisions of Section 9.04 in a manner that would further restrict assignments of any Loans under this Agreement without the prior written consent of each Lender directly adversely affected thereby;

provided, further, that (a) no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent, the Collateral Agent, the Swingline Lenders or the Issuing Banks hereunder without the prior written consent of the Administrative Agent, the Collateral Agent, each Swingline Lender or each Issuing Bank affected thereby, as applicable and (b) Schedule 3.08(a), Schedule 3.08(b), Schedule 3.20 and Schedule 5.13 to the Effective Date Certificate and Schedule 3.21 may, in each case, be updated with the consent of the Borrower and the Administrative Agent (not to be unreasonably withheld) following the Effective Date and prior to the Closing Date to reflect circumstances existing on the Closing Date. Each Lender shall be bound by any waiver, amendment or modification authorized by this Section 9.08 and any consent by any Lender pursuant to this Section 9.08 shall bind any Assignee of such Lender.

Notwithstanding anything to the contrary herein, no Defaulting Lender shall have the right to approve or disapprove any amendment, waiver or consent hereunder (and any amendment, waiver or consent which by its terms requires the consent of all Lenders or each affected Lender may be affected with the consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Commitment of any Defaulting Lender may not be increased or extended without the consent of such Lender and (y) any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender disproportionately adversely relative to other affected Lenders shall require the consent of such Defaulting Lender.

(c) Without the consent of any Lender or Issuing Bank, the Loan Parties and the Administrative Agent and the Collateral Agent may (in their respective sole discretion, or shall, to the extent required or contemplated by any Loan Document) enter into any amendment, modification, supplement or waiver of any Loan Document, or enter into any new agreement or instrument, to effect the granting, perfection, protection, expansion or enhancement of any security interest in any Collateral or additional property to become Collateral for the benefit of the Secured Parties, to include holders of Other First Liens or (to the extent necessary or advisable under applicable local law) Junior Liens in the benefit of the Security Documents in connection with the incurrence of any Other First Lien Debt or Indebtedness permitted to be secured by Junior Liens and to give effect to any Intercreditor Agreement associated therewith, or as required by local law to give effect to, or protect, any security interest for the benefit of the Secured Parties in any property or so that the security interests therein comply with applicable law or this Agreement or in each case to otherwise enhance the rights or benefits of any Lender under any Loan Document.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) with the written consent of the Required Lenders, the Administrative Agent, the Borrower (i) to permit additional extensions of credit to be outstanding hereunder from time to time and the accrued interest and fees and other obligations in respect thereof to share ratably in the benefits of this Agreement and the other Loan Documents with the Term Loans and the Revolving Facility Loans and the accrued interest and fees and other obligations in respect thereof and (ii) to include appropriately the holders of such extensions of credit in any determination of the requisite lenders required hereunder, including Required Lenders and the Required Revolving Facility Lenders, and for purposes of the relevant provisions of Section 2.18(b). In addition, notwithstanding the foregoing, this Agreement may be amended (or amended and restated) with the written consent of the Borrower and the Administrative Agent (but without the consent of any Lender or Issuing Bank) to include any additional financial maintenance covenant (or any financial maintenance covenant that is already included in this Agreement but with covenant levels and component definitions that are more restrictive to the Borrower) for the benefit of the Lenders of all of the Facilities (but not fewer than all of the Facilities) then existing.

(e) Notwithstanding the foregoing, technical and conforming modifications to the Loan Documents may be made with the consent of the Borrower and the Administrative Agent (but without the

consent of any Lender) to the extent necessary (A) to integrate any Other Term Loan Commitments, Other Revolving Facility Commitments, Other Term Loans and Other Revolving Loans in a manner consistent with Sections 2.21, 2.22 and 2.23 as may be necessary to establish such Other Term Loan Commitments, Other Revolving Facility Commitment, Other Term Loans or Other Revolving Loans as a separate Class or tranche from the existing Term Facility Commitments, Revolving Facility Commitments, Term Loans or Revolving Facility Loans, as applicable, and, in the case of Extended Term Loans, to reduce the amortization schedule of the related existing Class of Term Loans proportionately, (B) to integrate any Other First Lien Debt or (C) to cure any ambiguity, omission, error, defect or inconsistency.

(f) Each of the parties hereto hereby agrees that the Administrative Agent may take any and all action as may be necessary to ensure that all Term Loans established pursuant to Section 2.21 after the Closing Date that will be included in an existing Class of Term Loans outstanding on such date (an "Applicable Date"), when originally made, are included in each Borrowing of outstanding Term Loans of such Class (the "Existing Class Loans"), on a pro rata basis, and/or to ensure that, immediately after giving effect to such new Term Loans (the "New Class Loans" and, together with the Existing Class Loans, the "Class Loans"), each Lender holding Class Loans will be deemed to hold its Pro Rata Share of each Class Loan on the Applicable Date (but without changing the amount of any such Lender's Term Loans), and each such Lender shall be deemed to have effectuated such assignments as shall be required to ensure the foregoing. The "Pro Rata Share" of any Lender on the Applicable Date is the ratio of (1) the sum of such Lender's Existing Class Loans immediately prior to the Applicable Date plus the amount of New Class Loans made by such Lender on the Applicable Date over (2) the aggregate principal amount of all Class Loans on the Applicable Date.

Section 9.09 Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the applicable interest rate, together with all fees and charges that are treated as interest under applicable law (collectively, the "Charges"), as provided for herein or in any other document executed in connection herewith, or otherwise contracted for, charged, received, taken or reserved by any Lender or any Issuing Bank, shall exceed the maximum lawful rate (the "Maximum Rate") that may be contracted for, charged, taken, received or reserved by such Lender or Issuing Bank in accordance with applicable law, the rate of interest payable hereunder, together with all Charges payable to such Lender or such Issuing Bank, shall be limited to the Maximum Rate; provided, that such excess amount shall be paid to such Lender or such Issuing Bank on subsequent payment dates to the extent not exceeding the legal limitation. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such person may, to the extent permitted by applicable law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

Section 9.10 Entire Agreement. This Agreement, the other Loan Documents and the agreements regarding certain Fees referred to herein constitute the entire contract between the parties relative to the subject matter hereof. Any previous agreement among or representations from the parties or their Affiliates with respect to the subject matter hereof is superseded by this Agreement and the other Loan Documents. Notwithstanding the foregoing, the Fee Letter shall survive the execution and delivery of this Agreement and remain in full force and effect. Nothing in this Agreement or in the other Loan Documents, expressed or implied, is intended to confer upon any party other than the parties hereto and thereto (and the Indemnitees, the Cash Management Banks under any Secured Cash Management Agreement and the Hedge Banks under any Secured Hedge Agreement) rights, remedies, obligations or liabilities under or by reason of this Agreement or the other Loan Documents.

Section 9.11 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, AS APPLICABLE, BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.11.

Section 9.12 Severability. In the event any one or more of the provisions contained in this Agreement or in any other Loan Document should be held invalid, illegal or unenforceable in any respect in any jurisdiction, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby as to such jurisdiction, and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 9.13 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which, when taken together, shall constitute but one contract, and shall become effective as provided in Section 9.03. Delivery of an executed counterpart to this Agreement by facsimile transmission (or other electronic transmission pursuant to procedures approved by the Administrative Agent) shall be as effective as delivery of a manually signed original.

Section 9.14 Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and are not to affect the construction of, or to be taken into consideration in interpreting, this Agreement.

Section 9.15 Jurisdiction; Consent to Service of Process.

(a) The Borrower and each other Loan Party irrevocably and unconditionally agrees that it will not commence any action, litigation or proceeding of any kind or description, whether in law or equity, whether in contract or in tort or otherwise, against the Administrative Agent, the Collateral Agent, any Lender, any Arranger or any Affiliate of the foregoing in any way relating to this Agreement or any other Loan Document or the transactions relating hereto or thereto, in any forum other than the courts of the State of New York sitting in New York County, Borough of Manhattan, and of the United States District Court of the Southern District of New York, sitting in New York County, Borough of Manhattan, and any appellate court from any thereof, and each of the parties hereto irrevocably and unconditionally submits to the jurisdiction of such courts and agrees that all claims in respect of any such action, litigation or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action, litigation or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or in any other Loan Document shall affect any right that the Administrative Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Borrower or any other Loan Party or its properties in the courts of any jurisdiction.

(b) Each of the parties hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the other Loan Documents in any court referred to in paragraph (a) of this Section 9.15. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement will affect the right of any party to this Agreement or any other Loan Document to serve process in any other manner permitted by law.

Section 9.16 Confidentiality. Each of the Lenders, each Issuing Bank and each of the Agents agrees that it shall maintain in confidence any information relating to the Borrower and any Subsidiary or their respective businesses furnished to it by or on behalf of the Borrower or any Subsidiary (other than information that (a) has become generally available to the public other than as a result of a disclosure by such party in breach of this Section 9.16, (b) has been independently developed by such Lender, such Issuing Bank or such Agent without violating this Section 9.16 or (c) was available to such Lender, such Issuing Bank or such Agent from a third party having, to such person's knowledge, no obligations of confidentiality to the Borrower or any other Loan Party) and shall not reveal the same other than to its Related Parties and any numbering, administration or settlement service providers or to any person that approves or administers the Loans on behalf of such Lender (so long as each such person shall have been instructed to keep the same confidential in accordance with this Section 9.16), except: (A) to the extent necessary to comply with applicable laws or any legal process or the requirements of any Governmental Authority purporting to have jurisdiction over such person or its Related Parties, the National Association of Insurance Commissioners or of any securities exchange on which securities of the disclosing party or any Affiliate of the disclosing party are listed or traded, (B) as part of reporting or review procedures to, or examinations by, Governmental Authorities or self-regulatory authorities, including the National Association of Insurance Commissioners or the Financial Industry Regulatory Authority, Inc., (C) to its parent companies, Affiliates and their Related Parties including auditors, accountants, legal counsel and other advisors (so long as each such person shall have been instructed to keep the same confidential in accordance with this Section 9.16), (D) in connection with the exercise of any remedies under this Agreement or any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (E) to any pledgee under Section 9.04(d) or any other prospective assignee of, or prospective Participant in, any of its rights under this Agreement (so long as such person shall have been instructed to keep the same confidential in accordance with this Section 9.16), (F) to any direct or indirect contractual counterparty (or its Related Parties) in Hedging Agreements or such contractual counterparty's professional advisor (so long as such contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provisions of this Section 9.16), (G) on a confidential basis to (i) any rating agency in connection with rating the Borrower or its Subsidiaries or the facilities evidenced by this Agreement or (ii) the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to the facilities evidenced by this Agreement, (H) with the prior written consent of the Borrower and (I) to any other party to this Agreement.

Section 9.17 Platform; Borrower Materials. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE". THE ADMINISTRATIVE AGENT, ITS RELATED PARTIES AND THE ARRANGERS DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE,

NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY THE ADMINISTRATIVE AGENT, ANY OR ITS RELATED PARTIES OR ANY ARRANGER IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM.

Section 9.18 Release of Liens and Guarantees.

(a) The Lenders, the Issuing Banks, the Swingline Lenders, and the other Secured Parties hereby irrevocably agree that the Liens granted to the Collateral Agent by the Loan Parties on any Collateral shall (1) be automatically released: (i) in full upon the occurrence of the Termination Date as set forth in Section 9.18(d) below; (ii) upon the Disposition (other than any lease or license) of such Collateral by any Loan Party to a person that is not (and is not required to become) a Loan Party in a transaction permitted by this Agreement (and the Collateral Agent may rely conclusively on a certificate to that effect provided to it by any Loan Party upon its reasonable request without further inquiry), (iii) to the extent that such Collateral comprises property leased to a Loan Party, upon termination or expiration of such lease (and the Collateral Agent may rely conclusively on a certificate to that effect provided to it by any Loan Party upon its reasonable request without further inquiry), (iv) if the release of such Lien is approved, authorized or ratified in writing by the Required Lenders (or such other percentage of the Lenders whose consent may be required in accordance with Section 9.08), (v) to the extent that the property constituting such Collateral is owned by any Guarantor, upon the release of such Guarantor from its obligations under the Guarantee in accordance with the Subsidiary Guarantee Agreement or clause (b) below (and the Collateral Agent may rely conclusively on a certificate to that effect provided to it by any Loan Party upon its reasonable request without further inquiry), or (vi) as required by the Collateral Agent to effect any Disposition of Collateral in connection with any exercise of remedies of the Collateral Agent pursuant to the Security Documents and (2) be released in the circumstances, and subject to the terms and conditions, provided in Section 8.11 (and the Collateral Agent may rely conclusively on a certificate to that effect provided to it by any Loan Party upon its reasonable request without any further inquiry). Any such release shall not in any manner discharge, affect, or impair the Obligations or any Liens (other than those being released) upon (or obligations (other than those being released) of the Loan Parties in respect of) all interests retained by the Loan Parties, including the proceeds of any Disposition, all of which shall continue to constitute part of the Collateral except to the extent otherwise released in accordance with the provisions of the Loan Documents.

(b) In addition, the Lenders, the Issuing Banks and the other Secured Parties hereby irrevocably agree that the respective Guarantor shall be released from its respective Guarantee (i) upon consummation of any transaction permitted hereunder (x) resulting in such Subsidiary ceasing to constitute a Subsidiary (including because such Subsidiary is designated an "Unrestricted Subsidiary") or (y) in the case of any Guarantor which would not be required to be a Guarantor because it is or has become an Excluded Subsidiary as a result of a transaction following which it has become (or remains) a Subsidiary of a Guarantor, in each case following a written request by the Borrower to the Administrative Agent requesting that such person no longer constitute a Guarantor and certifying its entitlement to the requested release (and the Collateral Agent may rely conclusively on a certificate to the foregoing effect without further inquiry); provided, that any such release pursuant to preceding clause (y) shall only be effective if (A) no Default or Event of Default has occurred and is continuing or would result therefrom, (B) at the time of such release (and after giving effect thereto), all outstanding Indebtedness of such Subsidiary would then be permitted to be made in accordance with the relevant provisions of Sections 6.01 and 6.04 (for this purpose, with the Borrower being required to reclassify any such items made in reliance upon the respective Subsidiary being a Guarantor on another basis as would be permitted by such applicable Section), and any previous Dispositions thereto pursuant to Section 6.05 shall be re-characterized and would then be permitted as if same were made to a Subsidiary that was not a Guarantor (and all items described above in this clause (B) shall thereafter be deemed recharacterized as

provided above in this clause (B)) and (C) such Subsidiary shall not be (or shall be simultaneously be released as) a guarantor (if applicable) with respect to any Permitted Unsecured Debt, Refinancing Notes, Incremental Equivalent Debt or any Permitted Refinancing Indebtedness with respect to the foregoing or

(ii) if the release of such Guarantor is approved, authorized or ratified by the Required Lenders (or such other percentage of Lenders whose consent is required in accordance with Section 9.08).

(c) The Lenders, the Issuing Banks and the other Secured Parties hereby authorize the Administrative Agent and the Collateral Agent, as applicable, to execute and deliver any instruments, documents, and agreements necessary or desirable to evidence and confirm the release of any Guarantor or Collateral pursuant to the foregoing provisions of this Section 9.18, all without the further consent or joinder of any Lender or any other Secured Party. Upon the effectiveness of any such release, any representation, warranty or covenant contained in any Loan Document relating to any such Collateral or Guarantor shall no longer be deemed to be made. In connection with any release hereunder, the Administrative Agent and the Collateral Agent shall promptly (and the Secured Parties hereby authorize the Administrative Agent and the Collateral Agent to) take such action and execute any such documents as may be reasonably requested by the Borrower and at the Borrower's expense in connection with the release of any Liens created by any Loan Document in respect of such Subsidiary, property or asset; provided, that (i) the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower containing such certifications as the Administrative Agent shall reasonably request, (ii) the Administrative Agent or the Collateral Agent shall not be required to execute any such document on terms which, in the applicable Agent's reasonable opinion, would expose such Agent to liability or create any obligation or entail any consequence other than the release of such Liens without recourse or warranty, and (iii) such release shall not in any manner discharge, affect or impair the Obligations or any Liens upon (or obligations of the Borrower or any Subsidiary in respect of) all interests retained by the Borrower or any Subsidiary, including (without limitation) the proceeds of the sale, all of which shall continue to constitute part of the Collateral. Any execution and delivery of documents pursuant to this Section 9.18(c) shall be without recourse to or warranty by the Administrative Agent or Collateral Agent.

(d) Notwithstanding anything to the contrary contained herein or any other Loan Document, on the Termination Date, upon request of the Borrower, the Administrative Agent and/or the Collateral Agent, as applicable, shall (without notice to, or vote or consent of, any Secured Party) take such actions as shall be required to release its security interest in all Collateral, and to release all obligations under any Loan Document, whether or not on the date of such release there may be any (i) obligations in respect of any Secured Hedge Agreements or any Secured Cash Management Agreements and (ii) any contingent indemnification obligations or expense reimbursement claims not then due; provided, that the Administrative Agent shall have received a certificate of a Responsible Officer of the Borrower containing such certifications as the Administrative Agent shall reasonably request. Any such release of obligations shall be deemed subject to the provision that such obligations shall be reinstated if after such release any portion of any payment in respect of the obligations guaranteed thereby shall be rescinded, avoided or must otherwise be restored or returned upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or any Guarantor or any substantial part of its property, or otherwise, all as though such payment had not been made. The Borrower agrees to pay all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent or the Collateral Agent (and their respective representatives) in connection with taking such actions to release security interests in all Collateral and all obligations under the Loan Documents as contemplated by this Section 9.18(d).

(e) Obligations of the Borrower or any of its Subsidiaries under any Secured Cash Management Agreement or Secured Hedge Agreement (after giving effect to all netting arrangements relating to such Secured Hedge Agreements) shall be secured and guaranteed pursuant to the Security

Documents only to the extent that, and for so long as, the other Obligations are so secured and guaranteed. No person shall have any voting rights under any Loan Document solely as a result of the existence of obligations owed to it under any such Secured Hedge Agreement or Secured Cash Management Agreement. For the avoidance of doubt, no release of Collateral or Guarantors affected in the manner permitted by this Agreement shall require the consent of any holder of obligations under Secured Hedge Agreements or any Secured Cash Management Agreements.

Section 9.19 USA PATRIOT Act Notice. Each Lender that is subject to the USA PATRIOT Act and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies each Loan Party that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify and record information that identifies such Loan Party, which information includes the name and address of such Loan Party and other information that will allow such Lender or the Administrative Agent, as applicable, to identify each Loan Party in accordance with the USA PATRIOT Act. Each Loan Party shall use commercially reasonable efforts to, promptly following a request by the Administrative Agent or any Lender, provide all documentation and other information that the Administrative Agent or such Lender requests in order to comply with its ongoing obligations under applicable "know your customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act.

Section 9.20 Agency of the Borrower for the Loan Parties. Each of the other Loan Parties hereby appoints the Borrower as its agent for all purposes relevant to this Agreement and the other Loan Documents, including the giving and receipt of notices and the execution and delivery of all documents, instruments and certificates contemplated herein and therein and all modifications hereto and thereto.

Section 9.21 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document), the Borrower acknowledges and agrees that: (i) (A) the arranging and other services regarding this Agreement provided by the Administrative Agent, the Arrangers and the Lenders are arm's-length commercial transactions between the Borrower and its Affiliates, on the one hand, and the Administrative Agent, the Arrangers and the Lenders, on the other hand, (B) the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) the Borrower is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents; (ii) (A) each of the Administrative Agent, the Arrangers and the Lenders is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for the Borrower, any of its Affiliates or any other person and (B) neither the Administrative Agent, the any Arranger nor any Lender has any obligation to the Borrower or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; and (iii) the Administrative Agent, the Arrangers, the Lenders, and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Administrative Agent, any Arranger nor any Lender has any obligation to disclose any of such interests to the Borrower or its Affiliates. To the fullest extent permitted by law, the Borrower hereby waives and releases any claims that it may have against the Administrative Agent, the Arrangers and the Lenders with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby.

Section 9.22 Payments Set Aside. (a) To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, any Issuing Bank or any Lender, or the Administrative Agent, any Issuing Bank or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, such

Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each Issuing Bank severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the Issuing Banks under clause (b) of the preceding sentence shall survive the payment in full of the Loan Obligations and the termination of this Agreement.

Section 9.23 Acknowledgement and Consent to Bail-In of EEA Financial Institutions.

Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any Lender or Issuing Bank that is an EEA Financial Institution arising under any Loan Document, to the extent such liability is unsecured, may be subject to the Write-Down and Conversion Powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

- (a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and
- (b) the effects of any Bail-In Action on any such liability, including, if applicable:
 - (i) a reduction in full or in part or cancellation of any such liability;
 - (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or
 - (iii) the variation of the terms of such liability in connection with the exercise of the Write-Down and Conversion Powers of any EEA Resolution Authority.

Section 9.24 Electronic Execution of Assignments and Certain Other Documents. The words "execution," "execute," "signed," "signature," and words of like import in or related to any document to be signed in connection with this Agreement and the transactions contemplated hereby (including, without limitation, Assignment and Acceptances, amendments or other Borrowing Requests, Swingline Borrowing Requests, Letter of Credit Requests, Interest Election Requests, waivers and consents) shall be deemed to include electronic signatures, the electronic matching of assignment terms and contract formations on electronic platforms approved by the Administrative Agent, or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act; provided that notwithstanding anything contained herein to the contrary the Administrative Agent is under no obligation to agree to accept electronic signatures in any form or in any format unless expressly agreed to by the Administrative Agent pursuant to procedures approved by it.

[Signature Pages Intentionally Omitted]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first written above.

CENTURYLINK ESCROW, LLC, as Borrower

By:

Name:

Title:

[Signature page to Credit Agreement]]

BANK OF AMERICA, N.A., as Administrative Agent and Collateral Agent

By:

Name:

Title:

BANK OF AMERICA, N.A., as Swingline Lender, an Issuing Bank and a Lender

By:

Name:

Title:

[Signature page to Credit Agreement]

[], as a Lender [and an Issuing Bank]

By:

Name:

Title:

By:

Name:

Title:

[Signature page to Credit Agreement]]

Section 3: EX-12 (EXHIBIT 12)

Exhibit 12

CENTURYLINK, INC.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

	Years Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Income before income taxes and cumulative effect of change in accounting principle	\$ 540	1,020	1,316	1,110	224
Less: income from equity investee	(27)	(27)	(25)	(22)	(24)
Add: estimated fixed charges	1,738	1,529	1,516	1,502	1,486
Add: estimated amortization of capitalized interest	23	21	19	17	16
Add: distributed income of equity investee	25	26	19	22	14
Less: interest capitalized	(78)	(54)	(52)	(47)	(41)
Total earnings available for fixed charges	\$ 2,221	2,515	2,793	2,582	1,675
Estimate of interest factor on rentals	\$ 179	157	152	144	147
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,481	1,318	1,312	1,311	1,298
Interest capitalized	78	54	52	47	41
Total fixed charges	\$ 1,738	1,529	1,516	1,502	1,486
Ratio of earnings to fixed charges	1.28	1.64	1.84	1.72	1.13

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Section 4: EX-21 (EXHIBIT 21)

Exhibit 21

CENTURYLINK, INC. SUBSIDIARIES OF THE REGISTRANT AS OF DECEMBER 31, 2017

Subsidiary	State of incorporation or formation
Actel, LLC	Delaware
Bloomington Telephone Company, Inc. (20%)	Michigan
Century Cellunet International, Inc.	Louisiana
Cellunet of India Limited	Mauritius
Century Telephone of West Virginia, Inc.	West Virginia
CenturyLink – Clarke M. Williams Foundation	Colorado
CenturyLink Communications, LLC	Delaware
Cognilytics, Inc.	California
Cognilytics Software and Consulting Private Limited	India
ElasticBox, Inc.	Delaware

netAura, LLC	Delaware
Qwest International Services Corporation	Delaware
CenturyLink do Brasil Participações Ltda.	Brazil
CenturyLink Comunicações Ltda.	Brazil
SAVVIS do Brasil Ltda.	Brazil
Savvis Telecomunicações Ltda.	Brazil
Qwest N Limited Partnership (98.5%)	Delaware
Qwest Transoceanic, Inc.	Delaware
Qwest Communications International Ltd.	United Kingdom
CenturyLink Limited	United Kingdom
CenturyLink Austria GmbH	Austria
Qwest Holdings, BV	Netherlands
CenturyLink Belgium Sprl	Belgium
Qwest France SAS	France
Qwest Germany GmbH	Germany
Qwest Netherlands BV	Netherlands
Qwest Peru S.R.L.	Peru
Qwest Telecommunications Asia, Limited	Hong Kong
Qwest Australia Pty Limited	Australia
Qwest Communications Japan Corporation	Japan
Qwest Communications Korea, Limited	Korea
Qwest Hong Kong Telecommunications, Limited	Hong Kong
Qwest Singapore Pte Ltd.	Singapore
Qwest Taiwan Telecommunications, Limited	Taiwan
SEAL Consulting, Inc.	New Jersey
AppFog, Inc.	Delaware
CenturyLink Europe B.V.	Netherlands
CenturyLink Europe B.V., The Netherlands, filial Sweden	Sweden
CenturyLink Europe B.V., Sucursal en España	Spain
CenturyLink France S.A.S.	France

<u>Subsidiary</u>	State of incorporation or formation
CenturyLink Italia S.r.l.	Italy
CenturyLink New Zealand Limited	New Zealand
CenturyLink Philippines, Inc.	Philippines
CenturyLink Poland Sp Zo.o.	Poland
CenturyLink Switzerland A.G.	Switzerland
CenturyLink Taiwan Limited	Taiwan
CenturyLink Technology Hong Kong Limited	Hong Kong
CenturyLink IT Consulting (Shanghai) Co., Ltd.	China
Digital Savvis HK JV Limited (50%)	British VI
Digital Savvis HK Holding 1 Limited	British VI
Digital Savvis Investment Management HK Limited	Hong Kong
Digital Savvis Management Subsidiary Limited	Hong Kong
CenturyLink Technology Malaysia Sdn. Bhd.	Malaysia
CenturyLink (Thailand) Limited	Thailand
DataGardens, Inc.	Canada
SAVVIS Argentina S.A.	Argentina
SAVVIS Communications Chile, S.A.	Chile
SAVVIS Federal Systems, Inc.	Delaware
SAVVIS Communications International, Inc.	Delaware
CenturyLink Korea Limited	Korea
SAVVIS Communications Private Limited	India
SAVVIS Hungary Telecommunications KFT	Hungary
SAVVIS Mexico, S.A. de C.V.	Mexico
Tier 3, Inc.	Washington
Egnyte, Inc.[1]	Delaware
Wam!Net Japan K.K.[2]	Japan
CenturyLink of Louisiana, LLC	Louisiana
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel Broadband Services, LLC	Louisiana
CenturyTel TeleVideo, Inc.	Wisconsin
CenturyTel/Teleview of Wisconsin, Inc.	Wisconsin
Qwest Broadband Services, Inc.	Delaware
CenturyTel Broadband Wireless, LLC	Louisiana
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Chester, Inc.	Iowa
CenturyTel of Claiborne, Inc.	Tennessee
CenturyTel Holdings, Inc.	Louisiana
Century Marketing Solutions, LLC	Louisiana
CenturyTel Arkansas Holdings, Inc.	Arkansas
CenturyTel of Central Arkansas, LLC	Louisiana
CenturyTel of Northwest Arkansas, LLC	Louisiana
CenturyTel Holdings Alabama, Inc.	Alabama
CenturyTel of Alabama, LLC	Louisiana

<u>Subsidiary</u>	State of incorporation or formation
CenturyTel Holdings Missouri, Inc.	Missouri
CenturyTel of Missouri, LLC	Louisiana
CenturyTel Investments of Texas, Inc.	Delaware
CenturyTel of the Northwest, Inc.	Washington
Brown Equipment Corp.	Nevada
Carter Company, Inc.	Hawaii
Honomach PR, Inc.	Puerto Rico
Cascade Autovon Company	Washington
CenturyTel/Cable Layers, Inc.	Wisconsin
CenturyTel of Central Wisconsin, LLC	Delaware
CenturyTel of Colorado, Inc.	Colorado
CenturyTel of Eagle, Inc.	Colorado
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel Entertainment, Inc.	Washington
CenturyTel of Fairwater-Brandon-Alto, LLC	Delaware
CenturyTel of Forestville, LLC	Delaware
CenturyTel of the Gem State, Inc. (97%)	Idaho
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Larsen-Readfield, LLC	Delaware
CenturyTel of the Midwest-Kendall, LLC	Delaware
CenturyTel of the Midwest-Wisconsin, LLC	Delaware
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Monroe County, LLC	Delaware
CenturyTel of Montana, Inc. (99%)	Oregon
CenturyTel of Northern Wisconsin, LLC	Delaware
CenturyTel of Northwest Wisconsin, LLC	Delaware
CenturyTel of Oregon, Inc.	Oregon
CenturyTel of Paradise, Inc.	Washington
CenturyTel of Cowiche, Inc.	Washington
CenturyTel of Postville, Inc.	Iowa
CenturyTel of Southern Wisconsin, LLC	Delaware
CenturyTel of the Southwest, Inc.	New Mexico
CenturyTel Telecom Service, Inc.	Washington
CenturyTel Telephone Utilities, Inc.	Washington
CenturyTel of Upper Michigan, Inc.	Michigan
CenturyTel of Washington, Inc.	Washington
CenturyTel/WORLDVOX, Inc.	Oregon
CenturyTel of Wyoming, Inc.	Wyoming
Eagle Valley Communications Corporation	Colorado
International Communications Holdings, Inc.	Delaware
Pacific Telecom, Inc. (Shell)	Oregon
PTI Communications of Ketchikan, Inc.	Alaska
PTI Communications of Minnesota, Inc.	Minnesota
PTI Transponders, Inc.	Oregon

<u>Subsidiary</u>	State of incorporation or formation
Universal Manufacturing Corp.	Wisconsin
CenturyTel of Idaho, Inc.	Delaware
CenturyTel Internet Holdings, Inc.	Louisiana
centurytel.com, LLC	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel of Michigan, Inc.	Michigan
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel Mobile Communications, Inc.	Louisiana
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Mississippi, Inc.	Mississippi
CenturyTel of Northern Michigan, Inc.	Michigan
CenturyTel of Odon, Inc.	Indiana
CenturyTel of Ohio, Inc.	Ohio
CenturyTel of Ooltewah-Collegedale, Inc.	Tennessee
CenturyTel of Port Aransas, Inc.	Texas
CenturyTel of Redfield, Inc.	Arkansas
CenturyTel SM Telecorp, Inc.	Texas
CenturyTel Telecommunications, Inc.	Texas
CenturyTel of San Marcos, Inc.	Texas
CenturyTel San Marcos Investments, LLC	Delaware
CenturyTel Security Systems, Inc.	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel of South Arkansas, Inc.	Arkansas
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel/Tele-Max, Inc.	Texas
CenturyTel of Lake Dallas, Inc.	Texas
CenturyTel Web Solutions, LLC	Louisiana
CenturyTel of Wisconsin, LLC	Louisiana
Embarq Corporation	Delaware
Carolina Telephone and Telegraph Company LLC	North Carolina
NOCUTS, Inc.	Pennsylvania
SC One Company	Kansas
Centel Corporation	Kansas
Centel Capital Corporation	Delaware
Centel-Texas, Inc.	Texas
Central Telephone Company of Texas	Texas
EQ Central Texas Equipment LLC	Texas
Central Telephone Company	Delaware
Central Telephone Company of Virginia	Virginia
Embarq Florida, Inc.	Florida
The Winter Park Telephone Company	Florida
CenturyLink Intellectual Property LLC	Delaware
Embarq Directory Trademark Company, LLC	Delaware
CenturyLink Public Communications, Inc.	Florida

<u>Subsidiary</u>	State of incorporation or formation
CenturyLink Sales Solutions, Inc.	Delaware
Embarq, Inc.	Kansas
Embarq Capital Corporation	Delaware
SC Seven Company	Kansas
Embarq Interactive Holdings LLC	Delaware
Embarq Interactive Markets LLC	Delaware
Embarq Management Company	Delaware
EQ Management Equipment LP	Nevada
Embarq Mid-Atlantic Management Services Company	North Carolina
Embarq Minnesota, Inc.	Minnesota
Embarq Missouri, Inc.	Missouri
SC Eight Company	Kansas
Embarq Network Company LLC	Delaware
EQ Equipment Leasing, Inc.	Delaware
United Telephone Company of the Carolinas LLC	South Carolina
SC Two Company	Kansas
United Telephone Company of Eastern Kansas	Delaware
United Telephone Company of Florida	Florida
United Telephone Company of Indiana, Inc.	Indiana
SC Four Company	Kansas
United Telephone Company of Kansas	Kansas
Embarq Midwest Management Services Company	Kansas
United Teleservices, Inc.	Kansas
United Telephone Company of New Jersey, Inc.	New Jersey
United Telephone Company of the Northwest	Oregon
United Telephone Company of Ohio	Ohio
SC Five Company	Kansas
United Telephone Company of Pennsylvania LLC, The	Pennsylvania
SC Six Company	Kansas
Valley Network Partnership (40% aggregate)	Virginia
United Telephone Company of Southcentral Kansas	Arkansas
United Telephone Company of Texas, Inc.	Texas
EQ United Texas Equipment LLC	Texas
United Telephone Company of the West	Delaware
United Telephone Southeast LLC	Virginia
SC Three Company	Kansas
Hillsboro Telephone Company, Inc. (20%)	Wisconsin
Lafayette MSA Limited Partnership (49%)	Delaware
Madison River Communications Corp.	Delaware
Gallatin River Holdings L.L.C.	Delaware
Gallatin River Communications L.L.C.	Delaware
Madison River Finance Corp.	Delaware
Madison River Holdings LLC	Delaware
Madison River LTD Funding LLC	Delaware

<u>Subsidiary</u>	State of incorporation or formation
Coastal Utilities, Inc.	Georgia
Gulf Coast Services, LLC	Alabama
Gulf Telephone Company, LLC	Alabama
Madison River Management LLC	Delaware
Mebtel, Inc.	North Carolina
Pacific Telecom Cellular of Alaska RSA #1, Inc.	Alaska
Qwest Communications International, Inc.	Delaware
EUnet International Limited	United Kingdom
EUnet International B.V.	Netherlands
Qwest B.V.	Netherlands
Qwest Capital Funding, Inc.	Colorado
Qwest Europe LLC	Delaware
Qwest Services Corporation	Colorado
CenturyLink Investment Management Company	Colorado
Qwest Corporation	Colorado
RiskSense, Inc.[1]	Delaware
1200 Landmark Center Condominium Association, Inc.	Nebraska
Block 142 Parking Garage Association	Colorado
Qwest Database Services, Inc.	Colorado
Qwest India Holdings, LLC	Delaware
CenturyLink Technologies India Private Limited	India
Seal Infotech Private Limited	India
The El Paso County Telephone Company	Colorado
MoveARoo, LLC (33.3%)	Delaware
Qwest Dex Holdings, Inc.	Delaware
Qwest Government Services, Inc.	Colorado
Qwest Wireless, L.L.C.	Delaware
SkyComm Technologies Corporation (50.0%)	Delaware
Spectra Communications Group, LLC	Delaware
TelUSA Holdings, LLC (89%)	Delaware
Telephone USA of Wisconsin, LLC	Delaware
Western Re, Inc.	Louisiana
SIS Holdings LP[1]	Delaware
Wildcat Holdco LLC	Delaware
Level 3 Parent, LLC	Delaware
ACME Grating Ventures, L.L.C.	Delaware
AmSoft Information Services Limited	Mauritius
Broadwing Communications, LLC	Delaware
Broadwing, LLC	Delaware
BTE Equipment, LLC	Delaware
CCC Canada Holding, Inc.	Delaware
Continental Holdings Inc.	Wyoming
Continental Level 3, Inc.	Delaware
Continental Mineral Sales, Inc.	Delaware

<u>Subsidiary</u>	State of incorporation or formation
Corvis Canada Inc.	Federally Chartered
Corvis Gratings Company	Nova Scotia
Eldorado Acquisition Two, Inc.	Delaware
Fibernet UK Limited	United Kingdom
Front Range Insurance Company, Inc.	Hawaii
FTV Communications, LLC	Delaware
GC Impsat Holdings I Limited	United Kingdom
GC Impsat Holdings II Limited	United Kingdom
GC Pan European Crossing UK Limited	United Kingdom
GC SAC Argentina S.R.L. (Uruguay Branch)	Uruguay
Global Crossing Americas Solutions, LLC	Delaware
Global Crossing International Networks Ltd.	Bermuda
Global Crossing International, Ltd.	Bermuda
Global Crossing Local Services, Inc.	Michigan
Global Crossing North America, Inc.	New York
Global Crossing North American Holdings, Inc.	Delaware
Global Crossing Telecommunications, Inc.	Michigan
Global Crossing Telemanagement VA, LLC	Virginia
Impsat Fiber Networks, LLC	Delaware
IP Networks, Inc.	Delaware
KMI Continental Lignite, Inc.	Delaware
Legend Circle Holdings, Inc.	Delaware
Level 3 Argentina, S.A.	Argentina
Level 3 Asia, Inc.	Delaware
Level 3 CDN International, Inc.	Delaware
Level 3 Chile S.A.	Chile
Level 3 Colombia S.A.	Colombia
Level 3 Communications (Asia Pacific) Limited	Hong Kong
Level 3 Communications (IMPSAT) Nederland B.V.	Netherlands
Level 3 Communications (Ireland) Limited	Ireland
Level 3 Communications A.B.	Sweden
Level 3 Communications ApS	Denmark
Level 3 Communications Australia Pty Ltd	Australia
Level 3 Communications Austria GmbH	Austria
Level 3 Communications B.V.	Netherlands
Level 3 Communications B.V. (Greek Branch)	Greece
Level 3 Communications Canada Co.	Nova Scotia
Level 3 Communications EOOD	Bulgaria
Level 3 Communications España S.A.	Spain
Level 3 Communications Espana S.A. - Sucursal Em Portugal	Portugal
Level 3 Communications Estonia OÜ	Estonia
Level 3 Communications Europe Limited	United Kingdom
Level 3 Communications France SARL	France
Level 3 Communications GmbH	Germany

<u>Subsidiary</u>	State of incorporation or formation
Level 3 Communications Hong Kong Limited	Hong Kong
Level 3 Communications Iceland ehf.	Iceland
Level 3 Communications Italia S.R.L.	Italy
Level 3 Communications Japan KK	Japan
Level 3 Communications Kft	Hungary
Level 3 Communications Limited (Ireland)	Ireland
Level 3 Communications Limited (UK)	United Kingdom
Level 3 Communications of Virginia, Inc.	Virginia
Level 3 Communications Oy	Finland
Level 3 Communications PEC Ireland Limited	Ireland
Level 3 Communications PEC Luxembourg I S.á.r.l.	Luxembourg
Level 3 Communications PEC Luxembourg II S.á.r.l.	Luxembourg
Level 3 Communications PEC Services Europe Limited	Ireland
Level 3 Communications PEC Services Ireland Limited	Ireland
Level 3 Communications PEC Telekomünikasyon Hizmetleri Limited Şirketi	Turkey
Level 3 Communications PEC Ukraine LLC	Ukraine
Level 3 Communications RS d.o.o.	Serbia
Level 3 Communications S.A.	Belgium
Level 3 Communications S.R.L.	Romania
Level 3 Communications s.r.o.	Czech Republic
Level 3 Communications Singapore Pte. Ltd.	Singapore
Level 3 Communications South Africa (Pty) Limited	South Africa
Level 3 Communications Sp. z o.o.	Poland
Level 3 Communications spol. s.r.o.	Slovakia
Level 3 Communications St. Croix, Inc.	Virgin Islands (US)
Level 3 Communications Switzerland AG	Switzerland
Level 3 Communications UK Limited	United Kingdom
Level 3 Communications, Inc.	Delaware
Level 3 Communications, LLC	Delaware
Level 3 Comunicações do Brasil Ltda.	Brazil
Level 3 Ecuador LVL S.A.	Ecuador
Level 3 EMEA Holdings Limited	United Kingdom
Level 3 Enhanced Services, LLC	Delaware
Level 3 EON, LLC	Delaware
Level 3 Europe B.V.	Netherlands
Level 3 Financing, Inc.	Delaware
Level 3 GC Limited	Bermuda
Level 3 Holdings, B.V.	Netherlands
Level 3 Holdings, Inc.	Delaware
Level 3 International Services, Inc.	Delaware
Level 3 International, Inc.	Delaware
Level 3 Komunikacijske Usluge d.o.o.	Croatia
Level 3 Latin American Solutions, LLC	Delaware
Level 3 Mexico II, S. de R.L. de C.V.	Mexico

<u>Subsidiary</u>	State of incorporation or formation
Level 3 Mexico Landing S. de R.L.	Mexico
Level 3 Mexico Servicios, S. de R. L. de C. V.	Mexico
Level 3 Panama, Inc.	Panama
Level 3 Participacoes e Comercial Ltd.	Brazil
Level 3 PEC Norge AS	Norway
Level 3 Peru S.A.	Peru
Level 3 Telecom Data Services, LLC	Delaware
Level 3 Telecom Holdings II, LLC	Delaware
Level 3 Telecom Holdings, LLC	Delaware
Level 3 Telecom Management Co., LLC	Delaware
Level 3 Telecom of Alabama, LLC	Delaware
Level 3 Telecom of Arizona, LLC	Delaware
Level 3 Telecom of Arkansas, LLC	Delaware
Level 3 Telecom of California, LP	Delaware
Level 3 Telecom of Colorado, LLC	Delaware
Level 3 Telecom of D.C., LLC	Delaware
Level 3 Telecom of Florida, LP	Delaware
Level 3 Telecom of Georgia, LP	Delaware
Level 3 Telecom of Hawaii, LP	Delaware
Level 3 Telecom of Idaho, LLC	Delaware
Level 3 Telecom of Illinois, LLC	Delaware
Level 3 Telecom of Indiana, LP	Delaware
Level 3 Telecom of Iowa, LLC	Delaware
Level 3 Telecom of Kansas City, LLC	Delaware
Level 3 Telecom of Kentucky, LLC	Delaware
Level 3 Telecom of Louisiana, LLC	Delaware
Level 3 Telecom of Maryland, LLC	Delaware
Level 3 Telecom of Minnesota, LLC	Delaware
Level 3 Telecom of Mississippi, LLC	Delaware
Level 3 Telecom of Nevada, LLC	Delaware
Level 3 Telecom of New Jersey, LP	Delaware
Level 3 Telecom of New Mexico, LLC	Delaware
Level 3 Telecom of New York, LP	Delaware
Level 3 Telecom of North Carolina, LP	Delaware
Level 3 Telecom of Ohio, LLC	Delaware
Level 3 Telecom of Oklahoma, LLC	Delaware
Level 3 Telecom of Oregon, LLC	Delaware
Level 3 Telecom of South Carolina, LLC	Delaware
Level 3 Telecom of Tennessee, LLC	Delaware
Level 3 Telecom of Texas, LLC	Delaware
Level 3 Telecom of Utah, LLC	Delaware
Level 3 Telecom of Virginia, LLC	Virginia
Level 3 Telecom of Washington, LLC	Delaware
Level 3 Telecom of Wisconsin, LP	Delaware

<u>Subsidiary</u>	State of incorporation or formation
Level 3 Telecom, LLC	Delaware
Level 3 Telecom, LP	Delaware
Level 3 telekomunikacijske d.o.o.	Slovenia
Level 3 Venezuela S.A.	Venezuela
Level Three Communications Costa Rica, S.R.L.	Costa Rica
Level Three Communications Israel Ltd.	Israel
Level Three Communications Kenya Limited	Kenya
Level 3 Communications S.a.r.l.	Luxembourg
OOO "Level 3 Communications"	Russian Federation
SAC Brasil Comunicações Ltda.	Brazil
SAC Brasil Holding Ltda.	Brazil
SAC Peru S.R.L.	Peru
TelCove of Pennsylvania, LLC	Delaware
TelCove Operations, LLC	Delaware
The IRC Company, Inc.	Delaware
Vyvx, LLC	Delaware
Williams Comunicaciones Chile Limitada	Chile
WilTel Communications (Cayman) Limited	Cayman Islands
WilTel Communications Network, Inc.	New Brunswick
WilTel Communications Pty Limited	New South Wales
WilTel Communications, LLC	Delaware
WilTel International Telecom (Chile) Limited	Cayman Islands
XCOM Technologies of New York, Inc.	New York
Xspedius Management Co. International, LLC	Delaware

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Section 5: EX-23 (EXHIBIT 23)

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
CenturyLink, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-202411, No. 333-212575, and No. 333-187366) on Form S-3, the registration statements (No. 33-60061, No. 333-160391, No. 333-37148, No. 333-60806, No. 333-150157, No. 333-124854, No. 333-150188, No. 333-174571, and No. 333-221267) on Form S-8, and the registration statements (No. 33-48956, No. 333-17015, No. 333-167339, No. 333-174291, No. 333-155521, No. 333-206725 and No. 333-215121) on Form S-4 of CenturyLink, Inc. of our reports dated February 28, 2018, with respect to the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2017 and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2017, which reports appear in the December 31, 2017 annual report on Form 10-K of CenturyLink, Inc.

/s/ KPMG LLP

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Section 6: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K of CenturyLink, Inc.;
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 28, 2018

/s/ Glen F. Post, III

Glen F. Post, III
Chief Executive Officer

Section 7: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this Annual Report on Form 10-K of CenturyLink, Inc.;
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 28, 2018

/s/ Sunit S. Patel

Sunit S. Patel
Executive Vice President and Chief
Financial Officer

Section 8: EX-32 (EXHIBIT 32)

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

Each of the undersigned, acting in his capacity as the Chief Executive Officer or Chief Financial Officer of CenturyLink, Inc. ("CenturyLink"), certifies that, to his knowledge, the Annual Report on Form 10-K for the year ended December 31, 2017 of CenturyLink 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 CenturyLink as of the dates and for the periods covered by such report.

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

Date: February 28, 2018

/s/ Glen F. Post, III

/s/ Sunit S. Patel

Glen F. Post, III
Chief Executive Officer

Sunit S. Patel
Executive Vice President and Chief
Financial Officer

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NEWSRELEASE

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CenturyLink Reports Fourth Quarter and Full Year 2018 Results

Highlights

- Delivered solid results for the fourth quarter and full year 2018
- Reducing annual dividend to \$1.00 from \$2.16 per share, lowering leverage target to 2.75 to 3.25 times Net Debt to Adjusted EBITDA and accelerating the timeframe to be within the target range
- Achieved the originally projected annualized run-rate Adjusted EBITDA synergies of \$850 million related to the acquisition of Level 3 as of the end of 2018, two years earlier than anticipated
- Announced additional annualized run-rate savings of \$800 million to \$1.0 billion of synergies and transformation initiatives projected to be realized over the next three years
- Reported Net Loss of (\$1.733) billion for the full year 2018, which includes the effects of a non-cash goodwill impairment charge for the consumer business of \$2.726 billion in the Fourth Quarter 2018
- Generated Adjusted EBITDA of \$9.040 billion for the Full Year 2018, excluding integration-related expenses and special items of \$438 million
- Expanded Adjusted EBITDA margin, excluding integration-related expenses and special items, to 39.8% in Fourth Quarter 2018, from 36.8% in Pro Forma Fourth Quarter 2017
- Generated Net Cash Provided by Operating Activities of \$7.032 billion for the full year 2018
- Generated Free Cash Flow of \$4.215 billion for the full year 2018, excluding cash paid for integration-related expenses and special items of \$358 million

MONROE, La., February 13, 2019 — CenturyLink, Inc. (NYSE: CTL) today reported results for the fourth quarter and full year December 31, 2018.

“CenturyLink’s focus on disciplined execution in 2018 enabled us to make significant progress integrating Level 3, including achieving our originally announced synergy target more than two years earlier than expected,” said Jeff Storey, president and CEO of CenturyLink. “In 2019, we are shifting our focus from integration to transformation. We are focused on profitable revenue growth in our business markets and believe the scope and scale of our global assets, along with our innovative product portfolio, position us to succeed.”

“In addition to this focus on growth, we are shifting our capital allocation priorities and reducing the annual dividend to \$1.00 from the current \$2.16. Strong business fundamentals allow us to make the important decision to lower our leverage target to 2.75x to 3.25x Net Debt to Adjusted EBITDA and accelerate our timeframe to reach that target, while still returning significant cash to shareholders and continuing to invest in revenue and EBITDA growth initiatives.”

Total revenue was \$5.78 billion for the fourth quarter 2018, compared to \$6.01 billion for the fourth quarter 2017 on a pro forma basis.

Diluted loss per share was (\$2.26) for the fourth quarter 2018, compared to diluted earnings per share of \$1.06 for pro forma fourth quarter 2017. Diluted earnings per share for the fourth quarter 2018 was \$0.37 excluding the consumer goodwill impairment charge, after-tax integration-related expenses and other special items.

Financial Results

Metric (\$ in millions, except per share data)	Fourth Quarter 2018	Pro Forma⁽¹⁾ Fourth Quarter 2017	Full Year 2018	Pro Forma⁽¹⁾ Full Year 2017
Medium and Small Business Revenue	\$ 825	874	3,429	3,564
Enterprise Revenue	1,329	1,324	5,217	5,223
International and Global Accounts Revenue	925	941	3,657	3,661
Wholesale and Indirect Revenue	1,237	1,276	5,046	5,242
Consumer Revenue	1,285	1,401	5,371	5,704
Regulatory Revenue	177	189	723	734
Total Revenue	\$ 5,778	6,005	23,443	24,128
Cost of Services and Products	2,657	2,840	10,862	11,502
Selling, General and Administrative Expenses	974	1,227	4,165	4,716
Share-based Compensation Expenses	42	54	186	238
Adjusted EBITDA ⁽²⁾	2,189	1,992	8,602	8,248
Adjusted EBITDA, Excluding Integration-related Expenses and Special Items ^{(2), (3)}	2,301	2,210	9,040	8,686
Adjusted EBITDA Margin ⁽²⁾	37.9%	33.2%	36.7%	34.2%
Adjusted EBITDA Margin, Excluding Integration-related Expenses and Special Items ^{(2), (3)}	39.8%	36.8%	38.6%	36.0%
Net Cash Provided by Operating Activities	1,996	1,301	7,032	5,792
Capital Expenditures	915	844	3,175	4,225
Unlevered Cash Flow ⁽²⁾	1,643	989	5,984	3,400
Unlevered Cash Flow, Excluding Integration-related Expenses and Special Items ^{(2), (4)}	1,754	1,393	6,342	3,867
Free Cash Flow ⁽²⁾	1,081	457	3,857	1,567
Free Cash Flow, Excluding Integration-related Expenses and Special Items ^{(2), (4)}	1,192	861	4,215	2,034
Net (Loss) Income	(2,412)	1,129	(1,733)	1,508
Net (Loss) Income per Common Share - Diluted	(2.26)	1.06	(1.63)	1.42
Weighted Average Shares Outstanding (in millions) - Diluted	1,067.2	1,062.2	1,065.9	1,062.9

⁽¹⁾ References to "pro forma" figures throughout this release assume the Level 3 acquisition and the colocation and data center sale took place on January 1, 2017. For a description of adjustments made in connection with preparing these pro forma figures, see the attached schedule in the Non-GAAP metrics section of this release.

⁽²⁾ See the attached schedules for definitions of non-GAAP metrics and reconciliation to GAAP figures.

⁽³⁾ Excludes (i) \$112 million of integration-related expenses for the fourth quarter of 2018, (ii) \$218 million of transaction and integration-related expenses for the fourth quarter of 2017, and (iii) \$438 million of integration-related and special items for the full year 2018 and (iv) \$438 million of transaction and integration-related and special items for the pro forma full year 2017.

⁽⁴⁾ Excludes cash paid (i) for integration-related expenses and special items of \$111 million for the fourth quarter of 2018, (ii) for integration-related expense of \$404 million for the fourth quarter of 2017, (iii) for integration-related expenses and special items of \$358 million for the full year 2018 and (iv) for integration-related expenses of \$467 million for the pro forma full year 2017.

As of January 1, 2018, the company prospectively adopted the new revenue recognition standard (ASC 606). The adoption of this new standard negatively affected total revenue in the fourth quarter 2018 by approximately \$28 million, with a \$25 million negative effect on Consumer revenue and an overall \$3 million negative effect on Business revenue. Within Business, the revenue recognition standard had a negative effect of approximately \$8 million on the Medium and Small Business unit, less than \$1 million on the International and Global Accounts business unit and \$1 million on the Wholesale and Indirect business unit, and a positive effect of \$6 million on the Enterprise business unit.

Revenue (\$ in millions)	Fourth Quarter 2018 ⁽¹⁾	Pro Forma ⁽²⁾ Fourth Quarter 2017	Percent Change	Full Year 2018 ⁽¹⁾	Pro Forma ⁽²⁾ Full Year 2017	Percent Change
By Business Unit						
Medium and Small Business	\$ 825	874	(6)%	3,429	3,564	(4)%
Enterprise	1,329	1,324	—%	5,217	5,223	—%
International and Global Accounts	925	941	(2)%	3,657	3,661	—%
Wholesale and Indirect	1,237	1,276	(3)%	5,046	5,242	(4)%
Business segment	4,316	4,415	(2)%	17,349	17,690	(2)%
Consumer	1,285	1,401	(8)%	5,371	5,704	(6)%
Regulatory	177	189	(6)%	723	734	(1)%
Total Revenue	\$ 5,778	6,005	(4)%	23,443	24,128	(3)%
By Service Type ⁽³⁾						
IP and Data Services	\$ 1,818	1,831	(1)%	7,279	7,233	1%
Transport and Infrastructure	2,056	2,070	(1)%	8,248	8,340	(1)%
Voice and Collaboration	1,582	1,749	(10)%	6,572	7,193	(9)%
IT and Managed Services	145	166	(13)%	621	628	(1)%
Regulatory	177	189	(6)%	723	734	(1)%
Total Revenue	\$ 5,778	6,005	(4)%	23,443	24,128	(3)%

⁽¹⁾ Fourth quarter and full year December 31, 2018 revenue include the effects of Revenue Recognition Standard ASC 606.

⁽²⁾ References to "pro forma" figures throughout this release assume the Level 3 acquisition and the colocation and data center sale took place on January 1, 2017. For description of adjustments made in connection with preparing these pro forma figures, see the attached schedule in the Non-GAAP metrics section of this release.

⁽³⁾ The categorization of pro forma revenue by service type was reclassified to conform to the current period presentation.

Cash Flow

Free Cash Flow, excluding integration-related expenses and special items, was \$1.192 billion in the fourth quarter 2018, compared to \$861 million in the fourth quarter 2017 on a pro forma basis.

As of December 31, 2018, CenturyLink had cash and cash equivalents of \$488 million.

Dividend and Capital Allocation Update

After extensive review, the Board of Directors plans to reduce the company's annual dividend to \$1.00 from \$2.16, beginning with the Board's next dividend declaration. Under this revised capital allocation policy, the company plans to reduce the net leverage target to a range of 2.75x to 3.25x in a specified timeframe of approximately three years and continue to fund its growth and transformation initiatives.

The company expects to return more than \$1 billion annually to shareholders through the \$1.00 annual dividend.

Consumer Goodwill Impairment

Each year, the company is required under GAAP to prepare a goodwill impairment analysis of all of its business units. The analysis compares the fair value of the equity for each of the reporting units to the carrying value of equity for each reporting unit. The analysis takes into account the Weighted Average Cost of Capital and market multiples of the Market Participants, along with the company's forecasts. Based on this analysis, the company recorded a \$2.726 billion goodwill impairment for its Consumer business unit.

2019 Business Outlook

"Looking to 2019, we expect to continue to grow Adjusted EBITDA and expand Adjusted EBITDA margins," said Neel Dev, CenturyLink's executive vice president and chief financial officer. "From a starting point of \$8.94 billion, which excludes approximately \$100 million of Adjusted EBITDA associated with the new lease accounting standard, we expect Adjusted EBITDA to grow to \$9.0 to \$9.2 billion for the full year 2019."

"Beyond the \$850 million of acquisition-related synergies we have already captured, we expect to realize an additional \$800 million to \$1.0 billion of run-rate Adjusted EBITDA synergies and transformation savings over the next three years. We expect to incur \$450 to \$650 million in one-time costs to achieve these savings."

Metric ^{(1), (2)}	2019 Outlook
Adjusted EBITDA	\$9.00 to \$9.20 billion
Free Cash Flow	\$3.10 billion to \$3.40 billion
Dividends ⁽³⁾	\$1.075 billion
Free Cash Flow after Dividends	\$2.025 billion to \$2.325 billion
GAAP Interest Expense	\$2.100 billion
Cash Interest	\$2.05 to \$2.10 billion
Capital Expenditures	\$3.50 billion to \$3.80 billion
Depreciation and Amortization	\$4.90 to \$5.10 billion
Non-cash Compensation Expense	\$210 million
Cash Income Taxes	\$100 million
Full Year Effective Income Tax Rate	~25%

⁽¹⁾ See the attached schedules for definitions of non-GAAP metrics and reconciliation to GAAP figures.

⁽²⁾ Outlook measures in this release and the accompanying schedules (i) exclude integration and transformation expenses, (ii) exclude the effects of special items, future changes in our operating or capital allocation plans, unforeseen changes in regulation, laws or litigation, and other unforeseen events or circumstances impacting our financial performance and (iii) speak only as of Feb. 13, 2019. See "Forward Looking Statements" below.

⁽³⁾ Dividends is defined as dividends paid as disclosed in the Consolidated Statements of Cash Flows. Assumes payment of dividends at the amounts announced in this release, based on the number of shares outstanding on December 31, 2018. Payments of all dividends are at the discretion of the board of directors.

2019 Reporting Changes

As a result of organization changes made in January 2019, the company is making changes to revenue reporting categories in 2019 to align with how the business is being managed.

The indirect channel, which primarily targets small to medium-sized enterprises, will move from the Wholesale and Indirect Business unit to the Small and Medium Business unit. The company is also moving State and Local Government customers from the Small and Medium Business unit to the Enterprise Business unit to gain efficiencies by managing all government customers in a single organization.

In addition, the new reporting structure reflects changes made to customer assignments between all five customer-facing business units.

For the Business segment, pro forma for these business unit changes, fourth quarter 2018 revenue was:

Revenue <i>(\$ in millions)</i>	Fourth Quarter 2018
By Business Unit	
Small and Medium Business	\$ 773
Enterprise	1,543
International and Global Accounts	924
Wholesale	1,070
Business Segment	\$ 4,310

Additionally, the company is making changes to the Service Type reporting to make it easier for investors to evaluate changes to consumer product revenue.

The company will report Consumer revenue in the following categories: Broadband; Voice; Regulatory (includes CAF II and other support funds); and Other, which includes Retail Video and other miscellaneous services.

For the Business segment, the company will use the same structure used in 2018, with minor changes between the four service types.

Pro forma for these changes, fourth quarter 2018 services revenue was:

Consumer By Service Type <i>(\$ in millions)</i>	Fourth Quarter 2018	Business By Service Type <i>(\$ in millions)</i>	Fourth Quarter 2018
Broadband	\$ 706	IP and Data Services	\$ 1,758
Voice	505	Transport and Infrastructure	1,354
Regulatory	177	Voice and Collaboration	1,053
Other	80	IT and Managed Services	145
Total Revenue	\$ 1,468	Total Revenue	\$ 4,310

Investor Call

CenturyLink's management will host a conference call at 5:00 p.m. ET today, February 13, 2019. The conference call will be streamed live over CenturyLink's website at ir.centurylink.com. Additional information regarding fourth quarter 2018 results, including the presentation management will review during the conference call, will be available on the Investor Relations website prior to the call. If you are unable to join the call via the Web, the call can be accessed live at +1 877-283-5643 (U.S. Domestic) or +1 312-281-1201 (International).

A telephone replay of the call will be available beginning at 7:00 p.m. ET on February 13, 2019, and ending May 14, 2019, at 6:00 p.m. ET. The replay can be accessed by dialing +1 800-633-8284 (U.S. Domestic) or +1 402-977-9140 (International), reservation code 21913386. A webcast replay of the call will also be available on our website beginning at 7:00 p.m. ET on February 13, 2019 and ending May 8, 2019 at 6:00 p.m. ET.

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About CenturyLink

CenturyLink (NYSE: CTL) is the second largest U.S. communications provider to global enterprise customers. With customers in more than 60 countries and an intense focus on the customer experience, CenturyLink strives to be the world's best networking company by solving customers' increased demand for reliable and secure connections. The company also serves as its customers' trusted partner, helping them manage increased network and IT complexity and providing managed network and cyber security solutions that help protect their business.

Forward Looking Statements

Except for historical and factual information, the matters set forth in this release and other of our oral or written statements identified by words such as “estimates,” “expects,” “anticipates,” “believes,” “plans,” “intends,” and similar expressions are forward-looking statements as defined by the federal securities laws, and are subject to the “safe harbor” protections thereunder. These forward-looking statements are not guarantees of future results and are based on current expectations only, are inherently speculative, and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline service offerings and increased pricing pressures; the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete; our ability to attain our key operating imperatives, including simplifying and consolidating our network, simplifying and automating our service support systems, strengthening our relationships with customers and attaining projected cost savings; our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage or similar events impacting our network or the availability and quality of our services; the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, special access, universal service, broadband deployment, data protection and net neutrality; our ability to timely realize the anticipated benefits of our November 2017 combination with Level 3, including our ability to use Level 3’s net operating losses in the amounts projected; our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix; possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed data transmission services; our ability to successfully maintain the quality and profitability of our existing product and service offerings and to introduce profitable new offerings on a timely and cost-effective basis; our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise; our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the negative impact of increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations; adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise; our ability to meet the terms and conditions of our debt obligations, including our ability to make transfers of cash in compliance therewith; our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions; our ability to collect our receivables from financially troubled customers; any adverse developments in legal or regulatory proceedings involving us; changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels; the effects of changes in accounting policies, practices or assumptions, including changes that could potentially require future impairment charges; the effects of adverse weather, terrorism or other natural or man-made disasters; the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, in the views of financial analysts or in general market, labor, economic or geo-political conditions; and other risks referenced from time to time in our filings with the U.S. Securities and Exchange Commission (“SEC”). For all the reasons set forth above and in our SEC filings, you are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans without notice at any time and for any reason.

Reconciliation to GAAP

This release includes certain non-GAAP historical and forward-looking financial measures, including but not limited to Adjusted EBITDA, free cash flow, unlevered cash flow, pro forma financial data and adjustments to GAAP measures to exclude the effect of integration-related expenses and special items. In addition to providing key metrics for management to evaluate the company's performance, we believe these measurements assist investors in their understanding of period-to-period operating performance and in identifying historical and prospective trends.

Reconciliations of non-GAAP financial measures to the most comparable GAAP measures are included in the attached financial schedules. Reconciliation of additional non-GAAP historical financial measures that may be discussed during the call described above, along with further descriptions of non-GAAP financial measures, will be available in the Investor Relations portion of the company's website at www.centurylink.com and in the associated current report on form 8-K. Non-GAAP measures are not presented to be replacements or alternatives to the GAAP measures, and investors are urged to consider these non-GAAP measures in addition to, and not in substitution for, measures prepared in accordance with GAAP. CenturyLink may present or calculate its non-GAAP measures differently from other companies.

CenturyLink, Inc.

CONSOLIDATED STATEMENTS OF INCOME THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017 (UNAUDITED)

(\$ in millions, except per share amounts; shares in thousands)

	Three months ended December 31,		Increase / (decrease)	Twelve months ended December 31,		Increase / (decrease)
	2018	2017		2018	2017	
OPERATING REVENUE	\$ 5,778	5,323	9 %	\$ 23,443	17,656	33 %
OPERATING EXPENSES						
Cost of services and products	2,657	2,498	6 %	10,862	8,203	32 %
Selling, general and administrative	974	1,104	(12)%	4,165	3,508	19 %
Depreciation and amortization	1,262	1,197	5 %	5,120	3,936	30 %
Goodwill impairment	2,726	—	nm	2,726	—	nm
Total operating expenses	7,619	4,799	59 %	22,873	15,647	46 %
OPERATING (LOSS) INCOME	(1,841)	524	nm	570	2,009	(72)%
OTHER (EXPENSE) INCOME						
Interest expense	(539)	(481)	12 %	(2,177)	(1,481)	47 %
Other income (expense), net	15	11	36 %	44	12	nm
Income tax (expense) benefit	(47)	1,063	nm	(170)	849	nm
NET (LOSS) INCOME	\$ (2,412)	1,117	nm	(1,733)	1,389	nm
BASIC (LOSS) EARNINGS PER SHARE	\$ (2.26)	1.26	nm	\$ (1.63)	2.21	nm
DILUTED (LOSS) EARNINGS PER SHARE	\$ (2.26)	1.26	nm	\$ (1.63)	2.21	nm
WEIGHTED AVERAGE SHARES OUTSTANDING						
Basic	1,067,234	887,890	20 %	1,065,866	627,808	70 %
Diluted	1,067,234	889,135	20 %	1,065,866	628,693	70 %
DIVIDENDS PER COMMON SHARE ⁽¹⁾	\$ 0.54	0.54	— %	\$ 2.16	2.16	— %
Exclude: integration-related expenses and special items ⁽²⁾	2,806	(956)	nm	2,998	(789)	nm
NET INCOME EXCLUDING INTEGRATION-RELATED EXPENSES AND SPECIAL ITEMS	\$ 394	161	145 %	\$ 1,265	600	111 %
DILUTED EARNINGS PER SHARE EXCLUDING INTEGRATION-RELATED EXPENSES AND SPECIAL ITEMS	\$ 0.37	0.18		\$ 1.19	0.95	

⁽¹⁾ Dividends per common share based on actuals previously reported.

⁽²⁾ Excludes the integration and special items described under the heading *Non-GAAP Integration-Related Expenses and Special Items*, net of the income tax effect thereof.

nm - Percentages greater than 200% and comparisons between positive and negative values are considered not meaningful.

CenturyLink, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND DECEMBER 31, 2017
(UNAUDITED)
(\$ in millions)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 488	551
Restricted cash	4	5
Other current assets	3,328	3,638
Total current assets	<u>3,820</u>	<u>4,194</u>
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	53,078	51,204
Accumulated depreciation	(26,859)	(24,352)
Net property, plant and equipment	<u>26,219</u>	<u>26,852</u>
GOODWILL AND OTHER ASSETS		
Goodwill	28,059	30,475
Restricted cash	26	31
Other, net	12,118	14,059
Total goodwill and other assets	<u>40,203</u>	<u>44,565</u>
TOTAL ASSETS	<u>\$ 70,242</u>	<u>75,611</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 652	443
Other current liabilities	4,795	4,414
Total current liabilities	<u>5,447</u>	<u>4,857</u>
LONG-TERM DEBT	35,409	37,283
DEFERRED CREDITS AND OTHER LIABILITIES	9,558	9,980
STOCKHOLDERS' EQUITY	<u>19,828</u>	<u>23,491</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 70,242</u>	<u>75,611</u>

CenturyLink, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017 (UNAUDITED) (\$ in millions)

	Twelve months ended	
	December 31, 2018	December 31, 2017 *
OPERATING ACTIVITIES		
Net (Loss) Income	\$ (1,733)	1,389
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,120	3,936
Deferred income taxes	522	(931)
Loss on the sale of data centers and colocation business	—	82
Impairment of assets	2,746	—
Provision for uncollectible accounts	153	176
Net long-term debt issuance costs and premium amortization	13	9
Net loss on early retirement of debt	7	5
Share-based compensation	186	111
Changes in current assets and current liabilities, net	267	(652)
Retirement benefits	(667)	(202)
Changes in other noncurrent assets and liabilities, net	413	(174)
Other, net	5	129
Net cash provided by operating activities	7,032	3,878
INVESTING ACTIVITIES		
Capital expenditures	(3,175)	(3,106)
Cash paid for Level 3 acquisition, net of \$2.3 billion cash acquired	—	(7,289)
Proceeds from sale of property and intangible assets	158	1,529
Other investing, net	(61)	(5)
Net cash used in investing activities	(3,078)	(8,871)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	130	8,398
Proceeds from financing obligation	—	356
Payments of long-term debt	(1,936)	(1,963)
Net payments on revolving line of credit	145	35
Dividends paid	(2,312)	(1,453)
Other financing, net	(50)	(17)
Net cash (used in) provided by financing activities	(4,023)	5,356
Net (decrease) increase in cash, cash equivalents, restricted cash and securities	(69)	363
Cash, cash equivalents, restricted cash, and securities at beginning of period *	587	224
Cash, cash equivalents restricted cash, and securities at end of period *	\$ 518	587

* In the second quarter of 2017, CenturyLink adopted Accounting Standards Update ("ASU") 2016-18, "Restricted Cash (a consensus of the FASB Emerging Issues Task Force)" ("ASU 2016-18"), which requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents as compared to the prior presentation, which explained only the change in cash and cash equivalents. ASU 2016-18 became effective January 1, 2018. This change was applied on a retrospective basis to all previous periods to match the current period presentation with immaterial impact.

CenturyLink, Inc.

OPERATING METRICS

(UNAUDITED)

(In thousands)

	<u>December 31, 2018</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Operating Metrics			
Consumer broadband subscribers	4,812	4,843	5,044

Consumer broadband subscribers are customers that purchase broadband connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting our consumer broadband subscribers includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone consumer broadband subscribers. We count lines when we install the service.

Description of Non-GAAP Metrics

Pursuant to Regulation G, the company is hereby providing definitions of non-GAAP financial metrics and reconciliations to the most directly comparable GAAP measures.

The following describes and reconciles those financial measures as reported under accounting principles generally accepted in the United States (GAAP) with those financial measures as adjusted by the items detailed below and presented in the accompanying news release. These calculations are not prepared in accordance with GAAP and should not be viewed as alternatives to GAAP. In keeping with its historical financial reporting practices, the company believes that the supplemental presentation of these calculations provides meaningful non-GAAP financial measures to help investors understand and compare business trends among different reporting periods on a consistent basis.

We use the term *Special items* as a non-GAAP measure to describe items that impacted a period's statement of income for which investors may want to give special consideration due to their magnitude, nature or both. We do not use the term *non-recurring* because while some of these items are special because they are unusual and infrequent, others may recur in future periods.

Adjusted EBITDA (\$) is defined as net income (loss) from the Statements of Income before income tax (expense) benefit, total other income (expense), depreciation and amortization, share-based compensation expense and goodwill impairment.

Adjusted EBITDA Margin (%) is defined as Adjusted EBITDA divided by total revenue.

Management believes that Adjusted EBITDA and Adjusted EBITDA Margin are relevant and useful metrics to provide to investors, as they are an important part of CenturyLink's internal reporting and are key measures used by Management to evaluate profitability and operating performance of CenturyLink and to make resource allocation decisions. Management believes such measures are especially important in a capital-intensive industry such as telecommunications. Management also uses Adjusted EBITDA and Adjusted EBITDA Margin (and similarly uses these terms excluding acquisition-related expenses) to compare CenturyLink's performance to that of its competitors and to eliminate certain non-cash and non-operating items in order to consistently measure from period to period its ability to fund capital expenditures, fund growth, service debt and determine bonuses. Adjusted EBITDA excludes non-cash stock compensation expense because of the non-cash nature of this item. Adjusted EBITDA also excludes interest income, interest expense and income taxes, and in our view constitutes an accrual-based measure that has the effect of excluding period-to-period changes in working capital and shows profitability without regard to the effects of capital or tax structure. Adjusted EBITDA also excludes depreciation and amortization expense because these non-cash expenses primarily reflect the impact of historical capital investments, as opposed to the cash impacts of capital expenditures made in recent periods, which may be evaluated through cash flow measures. Adjusted EBITDA excludes the gain (or loss) on extinguishment and modification of debt and other, net because these items are not related to the primary operations of CenturyLink.

There are limitations to using Adjusted EBITDA as a financial measure, including the difficulty associated with comparing companies that use similar performance measures whose calculations may differ from CenturyLink's calculations. Additionally, this financial measure does not include certain significant items such as interest income, interest expense, income taxes, depreciation and amortization, non-cash stock compensation expense, the gain (or loss) on extinguishment and modification of debt and net other income (expense). Adjusted EBITDA and Adjusted EBITDA Margin (either with or without acquisition-related expense adjustments) should not be considered a substitute for other measures of financial performance reported in accordance with GAAP.

Unlevered Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures, plus cash interest paid and less interest income all as disclosed in the Statements of Cash Flows or the Statements of Income. Management believes that Unlevered Cash Flow is a relevant metric to provide to investors, as it is an indicator of the operational strength and performance of CenturyLink and, measured over time, provides management and investors with a sense of the underlying business' growth pattern and ability to generate cash. Unlevered Cash Flow excludes cash used for acquisitions and debt service and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Unlevered Cash Flow to measure CenturyLink's cash performance as it excludes certain material items such as payments on and repurchases of long-term debt, interest income, cash interest expense and cash used to fund acquisitions. Comparisons of CenturyLink's Unlevered Cash Flow to that of some of its competitors may be of limited usefulness since CenturyLink does not currently pay a significant amount of income taxes due to net operating loss carryforwards, and therefore, currently generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to accounts receivable and accounts payable and capital expenditures. Unlevered Cash Flow should not be used as a substitute for net change in cash and cash equivalents in the Consolidated Statements of Cash Flows.

Free Cash Flow is defined as net cash provided by (used in) operating activities less capital expenditures as disclosed in the Statements of Cash Flows. Management believes that Free Cash Flow is a relevant metric to provide to investors, as it is an indicator of the CenturyLink's ability to generate cash to service its debt. Free Cash Flow excludes cash used for acquisitions, principal repayments and the impact of exchange rate changes on cash and cash equivalents balances.

There are material limitations to using Free Cash Flow to measure CenturyLink's performance as it excludes certain material items such as principal payments on and repurchases of long-term debt and cash used to fund acquisitions. Comparisons of CenturyLink's Free Cash Flow to that of some of its competitors may be of limited usefulness since CenturyLink does not currently pay a significant amount of income taxes due to net operating loss carryforwards, and therefore, generates higher cash flow than a comparable business that does pay income taxes. Additionally, this financial measure is subject to variability quarter over quarter as a result of the timing of payments related to interest expense, accounts receivable and accounts payable and capital expenditures. Free Cash Flow should not be used as a substitute for net change in cash and cash equivalents on the Consolidated Statements of Cash Flows.

CenturyLink, Inc.
Non-GAAP Integration-Related Expenses and Special Items
(UNAUDITED)
(\$ in millions)

	Actual QTD		Pro Forma	Actual Full Year		Pro Forma Full Year
Integration-Related Expenses and Special Items Impacting Adjusted EBITDA	4Q18	4Q17	4Q17	2018	2017	2017
Loss on sale of data centers and colocation business	\$ —	—	—	—	82	82
OTT/Stream impairment of content commitment and hardware, software, and internal labor	—	—	—	60	—	—
Total special items impacting adjusted EBITDA	—	—	—	60	82	82
Plus: transaction-related expenses	—	151	156	2	220	192
Plus: integration-related expenses impacting adjusted EBITDA ⁽¹⁾	112	71	62	376	97	164
Total integration-related expenses and special items impacting adjusted EBITDA	\$ 112	222	218	438	399	438

	Actual QTD		Pro Forma	Actual Full Year		Pro Forma Full Year
Integration-Related Expenses and Special Items Impacting Net Income	4Q18	4Q17	4Q17	2018	2017	2017
Impairment of goodwill - consumer business	\$ 2,726	—	—	2,726	—	—
Loss on sale of data centers and colocation business	—	—	—	—	82	82
OTT/Stream impairment of content commitment and hardware, software, and internal labor	—	—	—	60	—	—
Additional depreciation expense for real estate assets not meeting the requirement of sale leaseback accounting	—	—	—	—	44	44
(Gain) loss on early debt retirement	(26)	—	—	7	—	—
Total special items impacting net income	2,700	—	—	2,793	126	126
Plus: transaction-related expenses	—	151	156	2	220	192
Plus: integration-related expenses impacting net income ⁽¹⁾	117	71	62	391	97	164
Total integration-related expenses and special items impacting net income	2,817	222	218	3,186	443	482
Income tax effect of integration-related expenses and special items ⁽²⁾	(20)	(46)	(83)	(111)	(100)	(184)
Tax benefit from carryback losses	—	—	—	(142)	—	—
Impact of tax reform	9	(1,132)	(1,132)	92	(1,132)	(1,132)
FIN 48 release due to statute expiration	—	—	—	(27)	—	—
Total integration-related expenses and special items impacting net income, net of tax	\$ 2,806	(956)	(997)	2,998	(789)	(834)

⁽¹⁾ Includes \$55 million of restructuring reserve impairment for Q2 2018.

⁽²⁾ Tax effect calculated using the annualized effective statutory tax rate, excluding any non-recurring discrete items, which was 38% for 2017 and 24.3% for the twelve months ended Q4 2018.

CenturyLink, Inc.
Pro Forma Consolidated Statements of Income⁽¹⁾
(UNAUDITED)
(\$ in millions)

Three Months Ended December 31, 2017

	Actual Consolidated CenturyLink	Add Level 3 October 2017	Adjustments	Pro Forma Combined Company
OPERATING REVENUE				
Operating revenue	\$ 5,323	701	(21) (a)	6,003
Colocation sold to Cyxtera and not retained	—	—	2	2
Total operating revenue	5,323	701	(19)	6,005
OPERATING EXPENSES				
Cost of services and products	2,498	363	(21) (a)	2,840
Selling, general and administrative	1,104	123	—	1,227
Depreciation and amortization	1,197	103	—	1,300
Total operating expenses	4,799	589	(21)	5,367
OPERATING INCOME	524	112	2	638
OTHER (EXPENSE) INCOME				
Interest expense	(481)	(41)	(23) (b)	(545)
Other income, net	11	1	9 (c)	21
Income tax benefit (expense)	1,063	(53)	5 (d)	1,015
NET INCOME	\$ 1,117	19	(7)	1,129
DILUTED EARNINGS PER COMMON SHARE				
				1.06
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
				1,062.2
<u>Pro Forma Reconciliation for Non-GAAP Adjusted EBITDA</u>				
Transaction-related expenses	\$ 165	7	(16) (e)	156
Integration-related expenses	57	5	—	62
Share-based compensation expense	47	12	(5) (f)	54

- (1) These pro forma figures have not been prepared in conformity with SEC rules governing the preparation of pro forma financial data under Regulation S-X.
- (a) Adjustment reflects the elimination of operating revenues and expenses for existing commercial transactions between CenturyLink and Level 3 and elimination of Level 3 deferred revenues.
- (b) Adjustments reflect the net increase in interest expense resulting from (i) interest on the new debt to finance the combination and the amortization of the related debt issuance costs; (ii) the elimination of Level 3's historical amortization of debt discount and amortization of debt issuance costs; and (iii) a reduction in interest expense from the accretion of the purchase accounting associated with reflecting Level 3's long-term debt based on its estimated fair value. The Q4 2017 adjustment also includes the reclassification of Level 3 interest income from Interest expense to Other income/(expense), net.
- (c) Adjustments reflect the removal of CenturyLink's interest income earned on funds held in escrow for the purpose of the acquisition of Level 3; the Q4 2017 adjustment includes the reclassification of Level 3 interest income from Interest expense to Other income/(expense), net.
- (d) Income tax effect of Pro Forma adjustments was based on the effective tax rate of 38%.
- (e) Pro Forma adjustments relate to integration related interest income and expense as such items would not have been incurred in 2017 under the Pro Forma perspective that assumes the Level 3 acquisition occurred on January 1, 2016.
- (f) Adjustment reflects the removal of share-based compensation expense that would not have been incurred in 2017 under the Pro Forma perspective that assumes the Level 3 acquisition occurred on January 1, 2016.

CenturyLink, Inc.
Pro Forma Consolidated Statements of Income⁽¹⁾
(UNAUDITED)
(\$ in millions)

Full Year 2017				
	Actual Consolidated CenturyLink	Predecessor Level 3	Adjustments	Pro Forma Combined Company
OPERATING REVENUE				
Operating revenue	\$ 17,656	6,870	(205) (a)	24,321
Colocation sold to Cyxtera and not retained	—	—	(193)	(193)
Total operating revenue	17,656	6,870	(398)	24,128
OPERATING EXPENSES				
Cost of services and products	8,203	3,494	(195) (a)	11,502
Selling, general and administrative	3,508	1,208	—	4,716
Depreciation and amortization	3,936	1,017	172 (b)	5,125
Less estimated net costs of colocation sold to Cyxtera and not retained	—	—	(100)	(100)
Total operating expenses	15,647	5,719	(123)	21,243
OPERATING INCOME	2,009	1,151	(275)	2,885
OTHER (EXPENSE) INCOME				
Interest expense	(1,481)	(430)	(214) (c)	(2,125)
Other income (expense), net	12	(28)	(6) (d)	(22)
Income tax benefit (expense)	849	(268)	189 (e)	770
NET INCOME	\$ 1,389	425	(306)	1,508
DILUTED EARNINGS PER COMMON SHARE				1.42
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				1,062.9
<u>Pro Forma Reconciliation for Non-GAAP Adjusted EBITDA</u>				
Transaction related expenses	\$ 220	18	(46) (f)	192
Integration-related expenses	97	67	—	164
Loss on sale of data centers and colocation business	82	—	—	82
Additional depreciation expense for real estate assets not meeting the requirement of sale leaseback accounting	44	—	—	44
Share-based compensation expense	111	132	(5) (g)	238

- (1) These pro forma figures have not been prepared in conformity with SEC rules governing the preparation of pro forma financial data under Regulation S-X.
- (a) Adjustment reflects the elimination of operating revenues and expenses for existing commercial transactions between CenturyLink and Level 3 and elimination of Level 3 deferred revenues.
- (b) Depreciation expense decreased on Level 3's property, plant and equipment resulting from decreased PP&E fair value. Increase in amortization expense resulting from increase intangible asset fair value.
- (c) Adjustments reflect the net increase in interest expense resulting from (i) interest on the new debt to finance the combination and the amortization of the related debt issuance costs; (ii) the elimination of Level 3's historical amortization of debt discount and amortization of debt issuance costs; and (iii) a reduction in interest expense from the accretion of the purchase accounting associated with reflecting Level 3's long-term debt based on its estimated fair value. The Q4 2017 adjustment also includes the reclassification of Level 3 interest income from Interest expense to Other income/(expense), net.
- (d) Adjustments reflect the removal of CenturyLink's interest income earned on funds held in escrow for the purpose of the acquisition of Level 3; the Q4 2017 adjustment includes the reclassification of Level 3 interest income from Interest expense to Other income/(expense), net.
- (e) Income tax effect of Pro Forma adjustments was based on the effective tax rate of 38%.
- (f) Pro Forma adjustments relate to integration related interest income and expense as such items would not have been incurred in 2017 under the Pro Forma perspective that assumes the Level 3 acquisition occurred on January 1, 2016.
- (g) Adjustment reflects the removal of share-based compensation expense that would not have been incurred in 2017 under the Pro Forma perspective that assumes the Level 3 acquisition occurred on January 1, 2016.

CenturyLink, Inc.
Pro Forma Condensed Consolidated Statements of Cash Flows⁽¹⁾
(UNAUDITED)
(\$ in millions)

Three Months Ended December 31, 2017				
	Actual Consolidated CenturyLink	Add Level 3 October 2017	Pro Forma Adjustment ⁽²⁾	Pro Forma Combined Company ⁽²⁾
OPERATING ACTIVITIES				
Net cash provided by operating activities	\$ 1,178	123	—	1,301
INVESTING ACTIVITIES				
Capital expenditures	(743)	(101)	—	(844)
Cash paid for acquisitions, less cash acquired of \$2.308 billion	(7,289)	—	—	(7,289)
Proceeds from sale of property, plant and equipment and other	11	—	—	11
Net cash used in investing activities	(8,021)	(101)	—	(8,122)
FINANCING ACTIVITIES				
Net proceeds from the issuance of long-term debt	1,790	—	—	1,790
Payments of long-term debt	(351)	—	—	(351)
Net proceeds on credit facility and revolving line of credit	405	—	—	405
Dividends paid	(572)	—	—	(572)
Payment of contingent consideration	(3)	—	—	(3)
Other financing, net	(3)	—	—	(3)
Net cash provided by financing activities	1,266	—	—	1,266
Net (decrease) increase in cash, cash equivalents, restricted cash and securities	(5,577)	22	—	(5,555)
Cash, cash equivalents, restricted cash and securities at beginning of period	6,164	2,286	—	8,450
Less: cash acquired in acquisition	—	—	(2,308)	(2,308)
Cash, cash equivalents, restricted cash and securities at end of period	\$ 587	2,308	(2,308)	587
Pro Forma Reconciliation for Non-GAAP Cash Flow:				
Cash interest paid	\$ 484	56	—	540
Interest income	(6)	(2)	—	(8)
Cash integration-related expenses ⁽³⁾	390	14	—	404
Integration-related capital expenditures	8	7	—	15

(1) These pro forma figures have not been prepared in conformity with SEC rules governing the preparation of pro forma financial data under Regulation S-X.

(2) The Pro Forma statement of cash flows was derived by summing the cash flows of legacy CenturyLink and legacy Level 3.

(3) Consolidated CenturyLink cash integration-related expenses in the three months ended December 31, 2017 includes the Citi transaction fee paid in cash related to the acquisition.

CenturyLink, Inc.
Pro Forma Condensed Consolidated Statements of Cash Flows⁽¹⁾
(UNAUDITED)
(\$ in millions)

	Full Year 2017			
	Actual Consolidated CenturyLink	Predecessor Level 3	Pro Forma Adjustment ⁽²⁾	Pro Forma Combined Company ⁽²⁾
OPERATING ACTIVITIES				
Net cash provided by operating activities	\$ 3,878	1,914	—	5,792
INVESTING ACTIVITIES				
Capital expenditures	(3,106)	(1,119)	—	(4,225)
Cash paid for acquisitions, less cash acquired of \$2.308 billion	(7,289)	—	—	(7,289)
Proceeds from the sale of data centers and colocation business, less cash sold	1,467	—	—	1,467
Proceeds from sale of property, plant and equipment and other	62	1	—	63
Purchase of marketable securities	—	(1,127)	—	(1,127)
Maturity of marketable securities	—	1,127	—	1,127
Other, net	(5)	—	—	(5)
Net cash used in investing activities	(8,871)	(1,118)	—	(9,989)
FINANCING ACTIVITIES				
Net proceeds from the issuance of long-term debt	8,398	4,569	—	12,967
Proceeds from financing obligation	356	—	—	356
Payments of long-term debt	(1,963)	(4,917)	—	(6,880)
Net proceeds on credit facility and revolving line of credit	35	—	—	35
Dividends paid	(1,453)	—	—	(1,453)
Proceeds from the issuance of stock	5	—	—	5
Other financing, net	(19)	3	—	(16)
Payment of contingent consideration	(3)	—	—	(3)
Net cash provided by (used in) financing activities	5,356	(345)	—	5,011
Net increase in cash, cash equivalents, restricted cash and securities	363	451	—	814
Cash, cash equivalents, restricted cash and securities at beginning of period	224	1,857	—	2,081
Less: cash acquired in acquisition	—	—	(2,308)	(2,308)
Cash, cash equivalents, restricted cash and securities at end of period	\$ 587	2,308	(2,308)	587
Pro Forma Reconciliation for Non-GAAP Cash Flow:				
Cash interest paid	\$ 1,401	468	—	1,869
Interest income	(23)	(13)	—	(36)
Cash integration-related expenses ⁽³⁾	438	29	—	467
Integration-related capital expenditures	13	17	—	30
Special item-related capital expenditures	14	—	—	14

- (1) These pro forma figures have not been prepared in conformity with SEC rules governing the preparation of pro forma financial data under Regulation S-X.
- (2) The Pro Forma statement of cash flows was derived by summing the cash flows of legacy CenturyLink and legacy Level 3.
- (3) Consolidated CenturyLink cash integration-related expenses in the year ended December 31, 2017 includes the Citi transaction fee paid in cash related to the acquisition.

CenturyLink, Inc.
Non-GAAP Cash Flow Reconciliation
(UNAUDITED)
(\$ in millions)

	Actual	Pro Forma	Full Year	Pro Forma
	4Q18	4Q17	2018	2017
Net cash provided by operating activities	\$ 1,996	1,301	7,032	5,792
Capital expenditures	(915)	(844)	(3,175)	(4,225)
Free cash flow	1,081	457	3,857	1,567
Cash interest paid	565	540	2,138	1,869
Interest income	(3)	(8)	(11)	(36)
Unlevered cash flow	\$ 1,643	989	5,984	3,400
Free cash flow	\$ 1,081	457	3,857	1,567
Add back: cash integration-related expenses	106	404	341	467
Add back: special items	5	—	17	—
Free cash flow excluding cash integration-related expenses and special items	\$ 1,192	861	4,215	2,034
Unlevered cash flow	\$ 1,643	989	5,984	3,400
Add back: cash integration-related expenses	106	404	341	467
Add back: special items	5	—	17	—
Unlevered cash flow excluding cash integration-related expenses and special items	\$ 1,754	1,393	6,342	3,867

CenturyLink, Inc.
Adjusted EBITDA Non-GAAP Reconciliation
(UNAUDITED)
(\$ in millions)

	Actual	Pro	Full Year	Pro
	4Q18	Forma	2018	Forma
		4Q17		Full Year
			2017	
Net (loss) income	\$ (2,412)	1,129	(1,733)	1,508
Income tax expense (benefit)	47	(1,015)	170	(770)
Total other expense	524	524	2,133	2,147
Depreciation and amortization expense	1,262	1,300	5,120	5,125
Share-based compensation expenses	42	54	186	238
Goodwill impairment	2,726	—	2,726	—
Adjusted EBITDA	\$ 2,189	1,992	8,602	8,248
Add back: transaction-related expenses	\$ —	156	2	192
Add back: integration-related expenses ⁽¹⁾	112	62	376	164
Add back: special items ⁽²⁾	—	—	60	82
Adjusted EBITDA excluding integration-related expenses and special items	\$ 2,301	2,210	9,040	8,686
Total revenue	\$ 5,778	6,005	23,443	24,128
Adjusted EBITDA margin	37.9%	33.2%	36.7%	34.2%
Adjusted EBITDA excluding integration-related expenses and special items margin	39.8%	36.8%	38.6%	36.0%

⁽¹⁾ In the fourth quarter of 2018, integration-related expenses include \$112 million of expenses that impact adjusted EBITDA and \$5 million of additional expenses that impact net income.

⁽²⁾ Refer to *Non-GAAP Special Items* table for details of the integration-related expenses and special items included above.

Outlook

To enhance the information in our outlook with respect to non-GAAP metrics, we are providing a range for certain GAAP measures that are components of the reconciliation of the non-GAAP metrics. The provision of these ranges is in no way meant to indicate that CenturyLink is explicitly or implicitly providing an outlook on those GAAP components of the reconciliation. In order to reconcile the non-GAAP financial metric to GAAP, CenturyLink has to use ranges for the GAAP components that arithmetically add up to the non-GAAP financial metric. While CenturyLink feels reasonably comfortable about the outlook for its non-GAAP financial metrics, it fully expects that the ranges used for the GAAP components will vary from actual results. We will consider our outlook of non-GAAP financial metrics to be accurate if the specific non-GAAP metric is met or exceeded, even if the GAAP components of the reconciliation are different from those provided in an earlier reconciliation.

CenturyLink, Inc.

2019 OUTLOOK ⁽¹⁾

(UNAUDITED)

(\$ in millions)

Adjusted EBITDA Outlook

Twelve Months Ended December 31, 2019

	Range	
	Low	High
Net income	\$ 850	1,390
Income tax expense	280	460
Total other expense	2,300	2,100
Depreciation and amortization expense	5,100	4,900
Non-cash compensation expense	220	200
Integration-related expenses	250	150
Adjusted EBITDA	\$ 9,000	9,200

Free Cash Flow Outlook

Twelve Months Ended December 31, 2019

	Range	
	Low	High
Net cash provided by operating activities	\$ 6,900	6,900
Capital expenditures	(3,800)	(3,500)
Free cash flow	\$ 3,100	3,400

⁽¹⁾ Footnotes (1) and (2) from the outlook table included at page 5 are incorporated herein by reference.