

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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**CENTURYLINK, INC**

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SIC: **4813** Telephone communications (no radiotelephone)

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2012

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)

**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:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
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   
(Do not check if a smaller reporting company) Smaller reporting company

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

On February 15, 2013, 625,822,780 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2012 was \$24.5 billion.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2013 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 report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, including SAVVIS, Inc. and its consolidated subsidiaries (referred to as "Savvis") for periods on or after July 15, 2011 and Qwest Communications International Inc. and its consolidated subsidiaries (referred to as "Qwest") for periods on or after April 1, 2011.*

## **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, network access, private line (including special access), public access, broadband, data, managed hosting (including cloud hosting), colocation, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers ("CLECs") and security monitoring. 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 13.7 million of total access lines at December 31, 2012, we were the third largest telecommunications company in the United States. We operate almost 75% of our total access lines in portions of Colorado, Washington, Arizona, 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, Pennsylvania, Montana, Alabama, Nebraska, Indiana, Arkansas, Tennessee, Wyoming, New Jersey, North Dakota, South Dakota, Kansas, Michigan, Louisiana, South Carolina, 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. We also operate 54 data centers throughout North America, Europe and Asia. We define a data center as any facility where we market, sell and deliver either colocation services or multi-tenant managed services, or both.

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, financial condition and results of operations, see "Risk Factors" in Item 1A of this 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 this report.

#### **Acquisitions**

##### ***Acquisition of Savvis***

On July 15, 2011, we acquired all of the outstanding common stock of Savvis, a provider of cloud hosting, managed hosting, colocation and network services in domestic and international markets. We believe this acquisition enhanced our ability to provide information technology services to our existing business customers and strengthened our ability to attract new business customers. Each share of Savvis common stock outstanding immediately prior to the acquisition converted into the right to receive \$30 per share in cash and 0.2479 shares of CenturyLink common stock. The aggregate consideration of \$2.382 billion was based on:

cash payments of \$1.732 billion;

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the 14.313 million shares of CenturyLink common stock issued to consummate the acquisition;

the closing stock price of CenturyLink common stock at July 14, 2011 of \$38.54; and

the estimated net value of the pre-combination portion of certain share-based compensation awards assumed by CenturyLink of \$98 million, of which \$33 million was paid in cash.

Upon completing the acquisition, we also paid \$547 million to retire certain pre-existing Savvis debt and accrued interest.

### ***Acquisition of Qwest***

On April 1, 2011, we acquired all of the outstanding common stock of Qwest, a provider of data, broadband, video and voice services nationwide and globally. We entered into this acquisition, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks. As of the acquisition date, Qwest served approximately 9.0 million access lines and approximately 3.0 million broadband subscribers across 14 states. Each share of Qwest common stock outstanding immediately prior to the acquisition converted into the right to receive 0.1664 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. The aggregate consideration of \$12.273 billion was based on:

the 294 million shares of CenturyLink common stock issued to consummate the acquisition;

the closing stock price of CenturyLink common stock at March 31, 2011 of \$41.55;

the estimated net value of the pre-combination portion of share-based compensation awards assumed by CenturyLink of \$52 million (excluding the value of restricted stock included in the number of issued shares specified above); and

cash paid in lieu of the issuance of fractional shares of \$5 million.

We assumed approximately \$12.7 billion of long-term debt in connection with our acquisition of Qwest.

### ***Effect of Recent Acquisitions***

Our acquisitions in 2011 resulted in several important changes to our operations, including:

providing services to an expanded number of densely-populated markets, which tend to afford consumers access to a greater range of competitive communications products than less dense markets;

reducing the percentage of our total revenue derived from governmental support programs, which typically focus on disbursing payments to companies operating in less densely-populated areas;

expanding and reconfiguring our operating regions to incorporate the Qwest service areas in order to provide day-to-day decision making at the regional level as opposed to the more centralized structures formerly used by Qwest; and

offering certain services, such as cloud hosting, that CenturyLink did not historically provide.

### ***Other Acquisitions***

On July 1, 2009, we acquired all of the outstanding common stock of Embarq Corporation ("Embarq"), a provider of data, Internet, video and voice services for stock valued at approximately \$6.1 billion on the acquisition date. As of the acquisition date, Embarq served approximately 5.4 million access lines and approximately 1.5 million broadband subscribers across 18 states. We assumed approximately \$4.9 billion of long-term debt in connection with our acquisition of Embarq.



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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.

### **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 Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used in comparison of our consolidated results for the years ended December 31, 2012 and 2011, mean the business we operated prior to the Qwest and Savvis acquisitions.

### **Financial and Operational Highlights**

The following table summarizes the results of our consolidated operations. Our operating results include the operations of Savvis for periods after July 15, 2011 and Qwest for periods after April 1, 2011.

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Operating revenues	\$ 18,376	15,351	7,042
Operating expenses	15,663	13,326	4,982
Operating income	\$ 2,713	2,025	2,060
Net income	\$ 777	573	948

	December 31,	
	2012	2011
	(Dollars in millions)	
Balance sheet data:		
Total assets	\$ 54,020	56,044
Total long-term debt <sup>(1)</sup>	20,605	21,836
Total stockholders' equity	19,289	20,827

- (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 total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of this report.

The following table summarizes certain of our operational metrics:

	As of December 31,		
	2012	2011	2010
	(in thousands)		
Operational metrics:			
Total broadband subscribers <sup>(1)</sup>	5,848	5,652	2,349
Total access lines <sup>(2)</sup>	13,748	14,584	6,489

- (1) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables.

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- (2) Access lines are telephone lines reaching from the customers' premises to a connection with the public switched telephone network, or PSTN.

During the second quarter of 2012, we updated our methodology for counting broadband subscribers to include residential, business and wholesale subscribers instead of only residential and small business subscribers. We have restated our previously reported amounts to reflect this change.

Substantially all of our long-lived assets are located in the United States and substantially all of our revenues are from customers located in the United States. We estimate that less than 2% of our consolidated revenue is derived from providing telecommunications and data hosting services outside the United States.

## **Operations**

### ***Segments***

Since acquiring Qwest and Savvis in 2011, we have reorganized our operations and associated reporting segments on three occasions, including in 2012 and early 2013.

During the second quarter of 2012, in order to more effectively deploy the strategic assets acquired from Qwest and Savvis and to better serve our business and government customers, we internally restructured our business into the following operating segments:

*Regional markets.* Consists primarily of providing strategic and legacy products and services to residential consumers, state and local governments, small to medium-sized businesses and enterprise customers that in each case are located mainly within one of our six regions. Our strategic products and services offered to these customers include our private line, broadband, MPLS, hosting, video services and wireless services. Our legacy services offered to these customers consist primarily of local and long-distance service;

*Wholesale markets.* Consists primarily of providing strategic and legacy products and services to other domestic and international communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include UNEs which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services;

*Enterprise markets–network.* Consists primarily of providing strategic and legacy network communications products and services to national and international enterprise and government customers. Our strategic products and services offered to these customers include our private line, broadband, MPLS and hosting services. Our legacy services offered to these customers consist primarily of local and long-distance services; and

*Enterprise markets–data hosting.* Consists primarily of providing colocation, managed hosting and cloud hosting services to national and international enterprise and government customers.

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The following table shows the composition of our revenues by segment for 2012 and 2011 under our segment categorization as of December 31, 2012.

	Years Ended December 31,		Change
	2012	2011	
Percentage of revenue:			
Regional markets	54%	57%	(3%)
Wholesale markets	20%	22%	(2%)
Enterprise markets–network	14%	13%	1%
Enterprise markets–data hosting	6%	3%	3%
Other operating revenues	6%	5%	1%
Total	100%	100%	

For additional information on our segment data, including our 2010 segment results and information on certain centrally-managed assets and expenses not reflected in our segment reports, see Note 13–Segment Information to the consolidated financial statements in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

On January 3, 2013, we announced a reorganization of our operating segments. Beginning with the first quarter of 2013, we will report the following four segments in our consolidated financial statements: consumer, business, wholesale and data hosting. For additional information on this change, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

### **Products and Services**

Our products and services include a variety of voice, broadband, data, information technology ("IT"), video and other communications services. In 2011, we expanded our IT services to include cloud hosting, managed hosting, colocation and network 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 13.7 million access lines and forms a portion of the public switched telephone network, or PSTN.

Described below are our key products and services.

#### **Strategic Services**

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

*Private line.* 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 offers a

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high-speed, secure solution for frequent transmission of large amounts of data between sites. We also provide private line transmission services to wireless service providers that use our fiber-optic cables connected to their towers, commonly referred to as fiber to the tower or wireless backhaul services, to support their next generation wireless networks;

*Broadband.* Our broadband services allow customers to connect to the Internet through their existing telephone lines and fiber-optic cables at high speeds. Substantially all of our broadband subscribers are located within our local service area;

*MPLS.* Multi-Protocol Label Switching is standards-approved data networking technology, compatible with existing asynchronous transfer mode, or ATM, and frame relay networks 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 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 facilities 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;

*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

*Wireless services.* Our wireless services are offered under an agency arrangement with Verizon Wireless that allows us to market, sell and bill for its services under its brand name, primarily to customers who buy these services as part of a bundle with one or more of our other products and services. This arrangement allows us to sell the full complement of Verizon Wireless services. Our current five-year arrangement with Verizon Wireless runs through 2015 and is terminable by either party thereafter.

### **Legacy Services**

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

*Local.* We offer local calling services for our regional markets customers within our local service area, 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, voicemail, 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, local calling services include primarily resale and 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 also

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include network transport, billing services and access to our network by other telecommunications providers and wireless carriers. 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.* 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;

*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.* 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 involves our sale of telecommunications equipment to customers for use on their premises and related professional services. These services include network management, installation and maintenance of telecommunication and data equipment and the building of proprietary fiber-optic networks for our governmental and other business customers.

### **Other Revenues**

We also generate other operating revenues from Universal Service Fund ("USF") revenues and 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 our local service area.

### **Additional Information**

During 2008, we paid an aggregate of approximately \$149 million for 69 licenses in the FCC's auction of 700 megahertz wireless spectrum. During the second quarter of 2012, we committed to a plan to sell our Advanced Wireless Services A Block and 700 MHz wireless spectrum in the A, B, and C Blocks, which in the aggregate had a basis of \$154 million. We sold \$58 million of our wireless spectrum assets during the fourth quarter of 2012, and we sold another \$43 million of our wireless spectrum assets in January 2013. In the aggregate, these transactions resulted in a gain of \$32 million. We expect to reach agreements with various other purchasers for the remaining spectrum, and the consummation of which will be subject to regulatory approval.

From time to time, we also make investments in other communications 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 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

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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.

### **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 communications services 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. Currently, certain data hosting, IT and other services furnished through our Savvis operations are marketed under the "SAVVIS" or "savvisdirect" brand names.

Our approach to our regional markets' 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 advertising, website promotions, public relations activities and sponsorship of community events and sports venues.

Our approach to our regional markets' business and government customers includes a commitment to deliver communications products and services that meet existing and future business needs through bundles of services and integrated service offerings. Our focus is to be a comprehensive communications solution for our small office, mid-sized and select enterprise business and government customers.

Our approach to our wholesale markets' customers includes a commitment to deliver communications solutions that meet existing and future needs of national network telecommunications providers through bandwidth growth and quality of services.

Our approach to our enterprise market–network customers includes a commitment to deliver network products and services that meet existing and future customer needs by offering private line, broadband, MPLS and hosting services and well as local and long-distance services.

Our enterprise market–data hosting operations utilize a solution-based selling approach. By working directly with potential and existing clients, we are able to understand our clients' IT infrastructure and long-term goals. We also market through indirect channels, including collaborations 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 and data switches, copper cables, fiber-optic cables and other equipment. Our local exchange carrier networks also include central offices and remote sites, all with advanced digital switches and operating with licensed software. Our fiber-optic cable is the primary transport technology between our central offices and interconnection points with other incumbent carriers. As of December 31, 2012, we maintained over 1.03 million miles of copper plant and approximately 157 thousand miles of fiber-optic plant in our local exchange networks. We also maintain separate networks in connection with providing fiber transport and CLEC services.

Most of our long distance service is provided through reselling arrangements with other long distance carriers, with the balance being provided directly through CenturyLink's own switches and

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network equipment. 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, either of which could adversely impact our results of operation and financial condition. For additional information, see "Risk Factors", generally, in Item 1A of this report, and, in particular, "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."

For more information, see Item 2 of this 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 in our local service area. These agencies issue rules to protect consumers and promote competition; they set the rates that telecommunication companies charge each other for exchanging traffic; and they have 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 the utility commissions of most of the states in our local service area. 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 mergers and acquisitions require approval by the FCC and some state commissions.

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

#### ***State Regulation***

In recent years, most states have substantially 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, as they continue to grant and revoke certifications authorizing companies to provide communications services. State commissions traditionally regulated pricing through "rate of return" regulation that focused on authorized levels of earnings by ILECs. Several states continue to regulate us in this manner. In most of our states, we 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



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few states, we have recently gained pricing freedom for the majority of retail services except for the most basic of services, such as stand-alone basic residential 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. State commissions periodically conduct proceedings to review the rates that we charge other telecommunications providers for using our network or for reselling our service pursuant to the Telecommunications Act of 1996.

We are currently responding to carrier complaints, legislation or generic investigations regarding our intrastate switched access rates in several of our states. In particular, certain long-distance providers have disputed existing intercarrier compensation rates payable to us and other ILECs with respect to VoIP traffic or refused to pay access charges, based on the contention that tariffed switched access charges should not apply to VoIP traffic. On October 27, 2011, the FCC adopted an order comprehensively reforming federal intercarrier compensation and universal service policies and rules, as discussed further below under the heading "Federal Regulation." Among other things, this order preempted state regulatory commissions' jurisdiction over all terminating access charges, including intrastate access charges that have historically been subject to exclusive state jurisdiction. Furthermore, the FCC decreed that, on a prospective basis, intercarrier compensation rates for VoIP traffic will be established at interstate access rates in the event intrastate switched access rates exceed interstate rates.

The FCC order requires all terminating access rates including intrastate, interstate and reciprocal compensation rates to be reduced and unified over time. Excluding the rate implications contemplated on a prospective basis by the recent FCC order, we will continue to vigorously defend and seek to collect our intrastate switched access revenue subject to outstanding disputes. These historical disputes are primarily over access charge compensation for VoIP traffic terminating on the public switched telephone network. 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.

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 competitively-bid situations, such as newly-constructed housing developments or multi-tenant dwellings, this may constitute a competitive disadvantage to us if competitors can choose to focus on low-risk profitable customers and withhold service from high-risk unprofitable customers. In addition, strict adherence to carrier of last resort requirements may force us to construct facilities with a low likelihood of positive economic return.

We operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. There can be no assurance that these states will continue to provide for cost recovery at current levels.

### ***Federal Regulation***

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

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Telecommunications Act of 1996, which amended the Communications Act of 1934 primarily to promote competition.

The FCC regulates interstate services provided by us, 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 voice and data transmissions. 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 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.

We, like other large and mid-sized ILECs, operate under price-cap regulation of interstate access rates. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs.

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. 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.

### **Universal Service Fund and Other Related Matters**

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. In connection therewith, the FCC solicited public comments on a variety of topics related to access charges and intercarrier compensation.

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") includes certain broadband initiatives that are intended to accelerate broadband deployment across the United States. The Recovery Act approved \$7.2 billion in funding for broadband stimulus projects across the United States to be administered by two governmental agencies. The programs provide grants and loans to applicants for construction of certain broadband infrastructure, provision of certain broadband services, and support of certain broadband adoption initiatives. This program has attracted a wide range of applicants including states, municipalities, start-up companies and consortiums. The participation of other parties in these programs has increased competition in selected areas, which may increase our marketing costs and decrease our revenues in those areas. This trend may intensify if program participation increases.

On October 27, 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order ("CAF order"), intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies, including VoIP, and gradually re-direct universal service funding to foster

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nationwide broadband coverage. This initial ruling provides for a multi-year transition over the next decade 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 gradually increased. We anticipate that these changes will substantially increase the pace of reductions in the amount of switched access revenues in our wholesale segment, while creating opportunities for increases in federal USF and retail revenue streams.

On December 29, 2011, the CAF order went into effect. At the same time, numerous parties filed a petition for reconsideration with the FCC seeking numerous revisions to the order. In January 2012, we joined more than two dozen parties in challenging certain aspects of the order by filing a separate appeal that is expected to be heard by the United States Tenth Circuit Court of Appeals in late 2013. Future judicial challenges to the CAF order are 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.

On January 31, 2012, the FCC adopted an order modernizing the program that provides assistance to qualifying low-income individuals for local voice service. These changes also affect state-specific programs that provide assistance to qualifying individuals. The impact of these changes on us and our low-income customers cannot be quantified at this time, but we may face increased administrative costs, additional audit requirements and potential customer disconnections as a result of this FCC order and its implementation.

We received approximately \$543 million, \$510 million and \$431 million of revenue from federal and state universal service programs for the years ended December 31, 2012, 2011 and 2010, respectively. Such amounts represented approximately 3.0%, 3.3% and 6.1% of our 2012, 2011 and 2010 total operating revenues, respectively.

### ***Other Regulations***

Certain of our telecommunications and data hosting services conducted in foreign countries are or may become subject to various foreign laws, including those regulating the protection and retention of data.

### **Competition**

#### ***General***

We 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, regulatory and legislative changes have increased opportunities for 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 telecommunications industry has experienced substantial consolidation over the past decade 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.

Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and

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encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

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 if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber-optics, local multipoint distribution services, WiFi, and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services. Moreover, the growing prevalence of electronic mail, text messaging, social networking and similar digital communications continues to reduce the demand for traditional landline voice services.

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 the ILECs' local services, through use of the ILECs' unbundled network elements or through their own facilities.

Technological developments have led to the development of new services 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 pursued this opportunity. Similarly, companies providing VoIP services provide voice communication services over the Internet which compete with our traditional telephone service and our own VoIP services.

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 our access lines and the pricing of our services.

As both consumers 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 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.

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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 the ILECs' 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 the ILECs' access lines. We anticipate that all these trends will continue and lead to decreased 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 this report and (ii) in the discussion immediately below, which contains more specific information on how these trends in competition have impacted our segments.

### ***Regional Markets***

#### **Strategic Services**

With respect to our strategic services, competition is based on price, bandwidth, service, promotions and bundled offerings. Wireless carriers' fourth generation, or 4G, services are allowing them to more directly compete with our strategic services. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. We also compete with interexchange carriers and other broadband service providers. Our Prism™ residential video service faces substantial competition from a variety of competitors, including well-established cable companies and 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 they are able to avoid significant regulatory costs and obligations

Our strategy is based on pricing, packaging of services and features, quality of service and meeting customer care needs and on maintaining our focus on increasing the subscribers of our broadband services. 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 product offerings including facilities-based video services and enhance our marketing 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 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 reduce 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

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resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention. In addition to our bundle discounts, we also offer limited time promotions on our broadband service for prospective customers who want our broadband service in their bundle, which further aids our ability to attract and retain customers and increase usage of our services.

### **Data Integration**

In providing data integration to our 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.

### **Wholesale Markets**

#### **Strategic Services**

In providing private line (including special access) services to our wholesale markets customers, we compete with large cable companies, as well as other regional and national carriers, other fiber providers and CLECs. Demand for our private line services continues to increase, despite our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors will continue to impact our wholesale markets segment, we believe the growth in fiber-based special access provided to 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.

#### **Legacy Services**

The provision of our legacy services to other communications providers is highly competitive, and has been and will continue to be adversely affected by product substitution, technological migration, industry consolidation and 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, which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce traffic on our network. In addition, our long-distance revenues continue to decline as a result of customer migration to more technologically advanced services, price compression, and declining demand for traditional voice services.

### **Enterprise Markets–Network**

#### **Strategic Services**

Our competitors for integrated data, Internet, voice services and other IT services 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 complex, secure and performance-driven services to our business customers through our global infrastructure. Our network services continue to see pricing pressures on virtual private network and bandwidth services offset by increases in network services that support our colocation and managed hosting service offerings. Our keys to growth include targeting the right clients, offering targeted business solutions to solve specific client needs and delivering compelling and comprehensive technical capabilities.

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### **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 access line losses and price competition.

### **Data Integration**

We expect data integration 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 federal government customers. In addition, changes to our compensation programs, which focus on higher margin strategic services, could negatively impact data integration revenues.

### ***Enterprise Markets–Data Hosting***

#### **Strategic Services**

Our competitors for hosting, colocation and other IT services include telecommunications 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. To compete, we focus on providing complex, secure and performance-driven services to our business customers through our global infrastructure on the same terms outlined under the heading "Business–Enterprise Markets–Network–Strategic Services" in Item I of this report.

For our colocation services, we continue to see pricing pressures with respect to these services as low-cost wholesale colocation providers continue to enter our market, and we expect this trend to continue. Our services can be purchased individually or as part of a total outsourcing arrangement.

### **Environmental Compliance**

Several decades ago one of our subsidiaries acquired entities that may have owned or operated seven former "manufactured gas" plant sites that may require environmental remediation. From time to time we may incur other environmental compliance and remediation expenses, mainly resulting from the ownership of other prior industrial sites or the operation of vehicle fleets or power supplies for our communications equipment. Although we cannot assess with certainty the impact of any future compliance and remediation obligations or provide you with any assurances regarding the ultimate impact thereof, we do not 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 lower Atlantic and Gulf of Mexico coastlines.

### **Employees**

At December 31, 2012, we had approximately 47,000 employees, of which approximately 18,000 are members of either the International Brotherhood of Electrical Workers ("IBEW") or the Communications Workers of America ("CWA"). Approximately 12,000 of these employees are subject



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to collective bargaining agreements that expired October 6, 2012. We are currently negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the unions have agreed to provide at least twenty-four hour advance notice before terminating those predecessor agreements. See the discussion of risks relating to our labor relations in "Risk Factors—Risks Affecting Our Business" in Item 1A of this report.

Over the past several years, we have reduced our workforce primarily due to (i) integration efforts from our recent acquisitions; (ii) increased competitive pressures; and (iii) the loss of access lines.

### **Website Access and Important Investor Information**

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

We have adopted written codes of conduct that serve as the code of ethics applicable to our directors, officers and employees, including our principal executive officer and senior financial officers, 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/](http://www.centurylink.com/Pages/AboutUs/Governance/) or in print to any shareholder who requests them by sending a written request to our Corporate Secretary at CenturyLink, Inc., 100 CenturyLink Drive, Monroe, Louisiana, 71203.

Investors may also read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. For information on the operation of the Public Reference Room, you are encouraged to call the SEC at 1-800-SEC-0330. For all of our electronic filings, the SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information 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 2012, 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 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 financial condition, operating results and business. These statements include, among others:

statements concerning the benefits that we expect will result from our business activities and certain transactions we have completed, such as increased revenue and decreased capital or operating expenditures;



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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, 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;

the effects of ongoing changes in the regulation of the communications industry, including the outcome or regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment and net neutrality;

our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;

our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by our recent acquisitions;

our ability to successfully integrate recently-acquired operations into our incumbent operations, including the possibility that the anticipated benefits from our recent acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated;

our ability to use net operating loss carryovers of Qwest in projected amounts;

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 demands for high-speed broadband service;

our ability to successfully introduce new product or service offerings on a timely and cost-effective basis;

our continued access to credit markets on favorable terms;

our ability to collect our receivables from financially troubled communications companies;

any adverse developments in legal or regulatory proceedings involving us;

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our ability to continue to pay common share dividends in accordance with past practices, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position;

unanticipated increases or other changes in our future cash requirements, whether caused by unanticipated increases in capital expenditures, increases in pension funding requirements or otherwise;

the effects of adverse weather;

other risks referenced in this report or other of our filings with the SEC; and

the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy.

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

These risk factors should be considered in connection with any written or oral forward-looking statements that we or persons acting on our behalf may issue. Anticipated events may not occur and our actual results or performance may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Additional 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. Further, the information about our intentions contained in this document is a statement of our intentions as of the date of this document and is based upon, among other things, the existing regulatory environment, industry conditions, market conditions and prices, the economy in general and our assumptions as of such date. We may change our intentions, 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 irrespective of the content of the statement or report. 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. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed below in Item 1A of this report.

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

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us.

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Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business operations.

### **Risks Affecting Our Business**

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

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

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

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

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

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

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

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also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

For additional information on the risks of increased expenditures, see "Risk Factors—Risks Affecting our Liquidity and Capital Resources—Our business requires us to incur substantial capital and operating expenses, which reduces our available free cash flow." ***Our legacy services continue to experience declining revenues, and our efforts to offset these declines may not be successful.***

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

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

an increased focus on selling a broader range of higher-growth strategic services, which are described in detail in Item 1 and 7 of 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 Savvis operations.

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

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

Over 38% of our employees are members of various bargaining units represented by the Communications Workers of America and the International Brotherhood of Electrical Workers. Approximately 12,000, or 26%, of our employees are subject to collective bargaining agreements that expired October 6, 2012. We are currently negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least twenty-four hour advance notice before terminating those predecessor agreements.

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.

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***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 marketing, technological, engineering 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.

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

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

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

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

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses, malware, or other forms of cyber attacks or similar events. These threats may derive from human error, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from accidental technological failure. Similar to other large telecommunications companies, we have been subject to a variety of security breaches and cyber attacks, although to date none of these have resulted in a material adverse effect on our

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operating results or financial condition. We cannot assure you, however, that future security breaches or disruptions would not be successful or damaging, especially in light of the growing frequency and sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures, and any resulting damages could be material.

Additional risks to our network and infrastructure include:

power losses or physical damage, whether caused by fire, adverse weather conditions, terrorism or otherwise;

capacity limitations;

software and hardware defects or malfunctions;

programming, processing and other human error; and

other disruptions that are beyond our control.

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

disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;

result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our customers' end-users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;

require significant management attention or financial resources to remedy the damages that result or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;

subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or

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

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

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

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

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As utilization rates and availability of these services continue to grow, our high-speed Internet customers may use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, reduced capacity or slower



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transmission speeds for our customers. Alternatively, we could choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our operating margins, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

***We cannot assure you that we will be able to continue paying dividends at the current rate.***

Decisions on whether, when and in which amounts to make 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. Based on current circumstances, we plan to continue our current dividend practices. However, you should be aware that these practices are reviewed periodically and are subject to change for reasons that may include any of the following factors:

we may not have enough cash to pay such dividends due to changes in our cash requirements, capital spending plans, stock purchase plans, cash flows or financial position;

the effects of regulatory reform, including any changes to intercarrier compensation, Universal Service Fund or special access rules;

our desire to maintain or improve the credit ratings on our debt;

the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and is limited by restricted payment and leverage covenants in our credit facilities and, potentially, the terms of any future indebtedness that we may incur; and

the amount of dividends that our subsidiaries may distribute to us is subject to restrictions imposed by state law, restrictions that have been or may be imposed by state regulators in connection with obtaining necessary approvals for our acquisitions, and restrictions imposed by the terms of credit facilities applicable to certain subsidiaries and, potentially, the terms of any future indebtedness that these subsidiaries may incur.

Our Board of Directors is free to change or suspend our dividend practices at any time. Our common shareholders should be aware that they have no contractual or other legal right to dividends.

***Our current dividend practices could limit our ability to pursue growth opportunities, repurchase stock or retire debt.***

The current practice of our Board of Directors to continue to pay common share dividends in accordance with past practices reflects an 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.

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### ***We rely on a limited number of key suppliers, vendors, landlords and other third parties to operate our business, as well as a limited number of financial institutions to fund our revolving credit requirements.***

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. Similarly, our data center operations are materially reliant on leasing significant amounts of space from landlords and substantial amounts of power from utility companies, and being able to renew these arrangements from time to time on favorable terms. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies, services, space or utilities on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

We rely on eighteen financial institutions to provide us with access to revolving credit 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.

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

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

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

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

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

### ***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. All of our subsidiaries are subject to state law restrictions that limit the amount of dividends they can pay to us. In addition, certain of our subsidiaries may be restricted under loan agreements or regulatory orders from transferring funds to us, including certain restrictions on the amount of dividends that may be

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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" in Item 7 of this report, for further discussion on these matters.

### **Risks Relating to our Recent Acquisitions**

#### ***We expect to incur substantial expenses related to the integration of Qwest and Savvis.***

We have incurred, and expect to continue to incur, substantial expenses in connection with the integration of Qwest's and Savvis' business, operations, networks, systems, technologies, policies and procedures with our own. There are a large number of systems that need to be integrated, including billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance. While we have assumed that a certain level of transaction and integration expenses will 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.

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

Our recent acquisitions involved the combination of companies which previously operated as independent public companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of Legacy CenturyLink, Qwest and Savvis. We may encounter difficulties in the integration process, including the following:

the inability to successfully combine our businesses in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisitions, either due to technological challenges, personnel shortages, strikes or otherwise, any of which would result in the anticipated benefits of the acquisitions not being realized partly or wholly in the time frame anticipated or at all;

lost sales as a result of customers deciding not to do business with the combined company;

the complexities associated with managing the combined businesses out of several different locations and integrating personnel from multiple companies, while at the same time attempting to provide consistent, high-quality products and services under a unified culture;

the additional complexities of combining companies with different histories, regulatory restrictions, sales forces, marketing strategies, product markets and customer bases;

the failure to retain key employees, some of whom could be critical to integrating or expanding the companies;

potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the 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 it is possible that the integration process could result in the distraction of our management, the disruption of our ongoing business or inconsistencies in our products, services, standards, controls, procedures and

policies, any of which could adversely affect our ability to maintain relationships with customers, vendors and employees or to achieve the

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anticipated benefits of our recent acquisitions, or could otherwise adversely affect our business and financial results.

***The Qwest and Embarq acquisitions changed the profile of our local exchange markets to include more large urban areas, with which we have limited operating experience.***

Prior to our acquisition of Embarq Corporation ("Embarq"), we provided local exchange telephone services to predominantly rural areas and small to mid-size cities. Embarq's local exchange markets included Las Vegas, Nevada and suburbs of Orlando and several other large U.S. cities, and we have operated these more dense markets only since mid-2009. Qwest's markets included Phoenix, Arizona, Denver, Colorado, Minneapolis–St. Paul, Minnesota, Seattle, Washington, Salt Lake City, Utah, and Portland, Oregon. Compared to our legacy markets, these urban markets, on average, are substantially denser and experienced greater access line losses prior to being acquired by us. While we believe our strategies and operating models developed serving rural and smaller markets can successfully be applied to larger markets, we cannot assure you of this. Our business, financial performance and prospects could be harmed if our current strategies or operating models cannot be successfully applied to larger markets, or are required to be changed or abandoned to adjust to differences in these larger markets.

***We cannot assure you whether, when or in what amounts we will be able to use Qwest's net operating losses.***

At December 31, 2012, we had approximately \$4.7 billion of federal net operating losses, or NOLs, which relate primarily to pre-acquisition losses of Qwest. These NOLs can be used to offset our future federal and certain taxable income.

The acquisition of Qwest caused an "ownership change" under federal tax laws relating to the use of NOLs. As a result, these laws could limit our ability to use their NOLs and certain other deferred tax attributes. Further limitations could apply if we are deemed to undergo an ownership change in the future. Despite this, we expect to use substantially all of these NOLs and certain other deferred tax attributes as an offset to our federal future taxable income by 2015, although the timing of that use will depend upon the consolidated group's future earnings and future tax circumstances.

***Our acquisitions have increased our exposure to the risks of fluctuations in energy costs, power outages and availability of electrical resources.***

Through the acquisitions of Qwest and Savvis, we have added a significant number of data center facilities, which are susceptible to regional costs and supply of power and electrical power outages. We attempt to limit exposure to system downtime by using backup generators and power supplies. However, we may not be able to limit our exposure entirely even with these protections in place. In addition, 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. As energy costs increase, we may not always be able to pass on the increased costs of energy to our clients, which could harm our business. Power and cooling requirements at our data centers are also increasing as a result of the increasing power demands of today's servers. Since we rely on third parties to provide our data centers with power sufficient to meet our clients' power needs, our data centers could have a limited or inadequate amount of electrical resources. Our clients' demand for power may also exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers. This could adversely affect our relationships with our clients and hinder our ability to run our data centers, which could harm our business.

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***Our inability to renew data center leases, or renew on favorable terms, could have a negative impact on our financial results.***

A significant majority of the data centers we acquired in the Qwest and Savvis acquisitions are leased and have lease terms that expire between 2013 and 2031. The majority of these leases provide us with the opportunity to renew the lease at our option for periods generally ranging from five to ten years. Many of these renewal options, however, 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. Also, it is possible that a landlord may insist on other financially unfavorable renewal terms or, where no further option to renew exists, elect not to renew altogether.

***Our acquisitions of Qwest and Savvis have increased our exposure to the risks of operating internationally.***

Prior to acquiring Qwest on April 1, 2011, substantially all of our operations were historically conducted within the continental United States. Although Qwest has historically conducted some operations overseas, the acquisition of Savvis on July 15, 2011, increased the importance of international operations to our future operations, growth and prospects.

As a result of our recent acquisitions, 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. 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 offer.

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

tax, licensing, currency, political or other business restrictions or requirements;

import and export restrictions;

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;

fluctuations in currency exchange rates;

the ability to secure and maintain the necessary physical and telecommunications infrastructure; and

challenges in staffing and managing foreign operations.

Any one or more of these factors could adversely affect our international operations.

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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. 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.

***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 opportunities. To the extent we acquire a business that is highly leveraged 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 any particular business or assets that we may acquire. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure or financial position, 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.

### **Risks Relating to Legal and Regulatory Matters**

***Any adverse outcome of the KPNQwest litigation, or other material litigation of Qwest, Savvis or CenturyLink 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.***

As described in Note 15—Commitments and Contingencies to the consolidated financial statements in Item 8 of this report, the KPNQwest matters present material and significant risks to us. In the aggregate, the plaintiffs in the KPNQwest matters seek billions of dollars in damages. We continue to defend against these matters vigorously and are currently unable to provide any estimate as to the timing of their resolution.

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

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



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

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

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

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

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

**Risks posed by costs of regulatory compliance.** Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to broadband deployment, bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts,

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enhancing privacy, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act (which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance), and laws governing local number portability and customer proprietary network information requirements. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

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

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

For over 15 years, Congress and the FCC have taken several steps that have resulted in increased competition among communications service providers. Many of the FCC's regulations remain subject to judicial review and additional rulemakings, thus making it difficult to determine the ultimate impact of these changes on us and our competitors.

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

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

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

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

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

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

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

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements

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generally apply to our fiber transport and CLEC operations, and to our facilities-based video services. These requirements could delay us in expanding our operations or increase the costs of providing these services.

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Regulation" in Item 1 of this 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, 2012, our consolidated debt was approximately \$20.6 billion. Approximately \$2.1 billion of our debt securities come due over the next thirty-six months. While we currently believe that we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future financial condition or the condition of the credit markets or the economy. We may incur unexpected expenses or liabilities, and we may have limited access to financing.

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

The effects of each of these factors could be intensified if we borrow more cash. We expect to periodically require financing to meet our debt obligations as they come due. Due to the unstable economy and credit market, we may not be able to refinance maturing debt at terms that are as favorable as those from which we previously benefited, at terms that are acceptable to us or at all. We may also need to obtain additional financing or investigate other methods to generate cash (such as further cost reductions or the sale of assets) under a variety of circumstances, including if revenues and cash provided by operations decline, if economic conditions weaken, if competitive pressures increase, if regulatory requirements change, if we are required to contribute a material amount of cash to our pension plans, if we are required to begin to pay other post-retirement benefits significantly earlier than anticipated, if our payments for federal taxes increase faster or in greater amounts than currently anticipated, if we become subject to significant judgments or settlements in one or more of the matters discussed in Note 15—Commitments and Contingencies to the consolidated financial statements in Item 8 of this report, if we engage in any acquisitions or if we undertake substantial capital projects or other initiatives that increase our cash requirements. We can give no assurance that this additional financing will be available on terms that are acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected, which could further raise our

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borrowing costs and further limit our future access to capital and our ability to satisfy our debt obligations.

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. Any such event could adversely affect our ability to conduct business or access the capital markets and could adversely impact our credit ratings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" in Item 7 of this report for additional information about our credit facility.

***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 immediately above. Incremental borrowings on terms that impose additional financial risks could exacerbate the other risks described in this report.

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

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

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

***Adverse changes in the value of assets or obligations associated with our qualified pension plans could negatively impact our liquidity.***

The funded status of our qualified pension plans is the difference between the value of plan assets and the benefit obligation. The accounting unfunded status of our qualified pension plans was \$2.5 billion as of December 31, 2012. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in our benefit obligation or a significant decrease in the value of plan assets. These adverse changes could require us to contribute a material amount of cash to our pension plans or could accelerate the timing of required cash payments. For information on the amount of cash we propose to contribute to our plans in the near term, please

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see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations" in Item 7 of this report. The actual amount of required contributions to our plans in 2014 and beyond will depend on a variety of factors, including earnings on plan investments, prevailing interest and discount rates, demographic experience, changes in plans benefits and changes in funding laws and regulations. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows.

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

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 the ongoing disruptions in the European sovereign debt markets, the failure of the United States to reduce its deficit in amounts deemed to be sufficient, possible further downgrades in the credit ratings of the U.S. debt, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad. Instability in the global financial markets has from time to time resulted in periodic volatility in the capital markets. This volatility could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce debt obligations.

### **Other Risks**

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

***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

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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. Any future hazard-related costs and work interruptions could adversely affect our operations and our financial condition.

***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.

Dividends received by certain investors may be subject to a new 3.8% Medicare tax on unearned income beginning on January 1, 2013, and certain tax reform plans under consideration by the U.S. Congress could increase the dividend tax rate. Any significant increase in the U.S. tax rate on dividends could reduce demand for our stock, which could potentially depress its trading price.

***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 July 1, 2009. This could deprive our shareholders of any related takeover premium.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

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**ITEM 2. PROPERTIES**

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Land	2%	2%
Fiber, conduit and other outside plant <sup>(1)</sup>	40%	41%
Central office and other network electronics <sup>(2)</sup>	36%	33%
Support assets <sup>(3)</sup>	19%	21%
Construction in progress <sup>(4)</sup>	3%	3%
Gross property, plant and equipment	<u>100%</u>	<u>100%</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, 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 certain facilities, plant, equipment and software under various capital 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 their expiration.

With the acquisitions of Qwest in April 2011 and Savvis in July 2011, we expanded our property to include data center assets, and the related facilities and communications equipment. The facilities that house Savvis' warehouses, network equipment and data centers are leased.

During 2012, we reclassified certain amounts reported in prior periods of inventory held for construction to conform to the current period presentation. This reclassification increased construction in progress at December 31, 2011 by \$55 million with an offsetting decrease to fiber, conduit and other outside plant and central office and other network electronics by \$8 million and \$47 million, respectively.

Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. Our net property, plant and equipment was \$19.0 billion and \$19.4 billion at December 31, 2012 and 2011, respectively.

Several putative class actions have been filed against us disputing our use of certain rights-of-way as described in "Legal Proceedings—Litigation Matters Relating to Qwest" in Item 3 of this 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 expect any material adverse impacts as a result of the loss of any of these rights.





### ITEM 3. LEGAL PROCEEDINGS

In this section, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. Until and unless a class has been certified by the court, it has not been established that the named plaintiffs represent the class of plaintiffs they purport to represent.

We have established accrued liabilities for the matters described below where losses are deemed probable and reasonably estimable.

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 settlement opportunities.

#### **Litigation Matters Relating to CenturyLink and Embarq**

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 presently approximate \$34 million. The lawsuits allege that Sprint Nextel has breached contracts, violated tariffs, and violated the Federal Communications Act by failing to pay these charges. One lawsuit, filed on behalf of all legacy Embarq operating entities, was tried in federal court in Virginia in August 2010 and, in March 2011, a ruling was issued in our favor and against Sprint Nextel. In the first quarter of 2012, Sprint Nextel filed an appeal of this decision. The other lawsuit, filed on behalf of all Legacy CenturyLink operating entities, 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 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. We have not deferred revenue related to these matters as an adverse outcome is not probable based upon current circumstances.

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 putative 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. Embarq and other defendants continue to vigorously contest these claims and charges. On October 14, 2011, the *Fulghum* lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* CenturyLink/Embarq is not named a defendant in the lawsuit. 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. On February 14, 2013, the *Fulghum* court dismissed the majority of the plaintiffs' claims in that case. Embarq and the other defendants will 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 as it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

### **Litigation Matters Relating to Qwest**

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 certain of the matters described below and Qwest has been advancing legal fees and costs to certain former directors, officers or employees in connection with certain matters described below.

On September 29, 2010, the trustees in the Dutch bankruptcy proceeding for KPNQwest, N.V. (of which Qwest was a major shareholder) filed a lawsuit in the District Court of Haarlem, the Netherlands, alleging tort and mismanagement claims under Dutch law. Qwest and Koninklijke KPN N.V. ("KPN") are defendants in this lawsuit along with a number of former KPNQwest supervisory board members and a former officer of KPNQwest, some of whom were formerly affiliated with Qwest. Plaintiffs allege, among other things, that defendants' actions were a cause of the bankruptcy of KPNQwest, and they seek damages for the bankruptcy deficit of KPNQwest, which is claimed to be approximately €4.2 billion (or approximately \$5.6 billion based on the exchange rate on December 31, 2012), plus statutory interest. Two lawsuits asserting similar claims were previously filed against Qwest and others in federal courts in New Jersey in 2004 and Colorado in 2009; those courts dismissed the lawsuits without prejudice on the grounds that the claims should not be litigated in the United States.

On September 13, 2006, Cargill Financial Markets, Plc and Citibank, N.A. filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, KPN, KPN Telecom B.V., and other former officers, employees or supervisory board members of 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 \$289 million based on the exchange rate on December 31, 2012). On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank are appealing that decision.

We have not accrued a liability for the above matters. Regarding the 2010 proceeding, we believe it is premature to determine whether an accrual is warranted and, if so, a reasonable estimate of our probable liability. Regarding the 2006 suit, we do not believe that liability is probable. We will continue to defend against both KPNQwest litigation matters vigorously.

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. Most of the currently pending actions purport to be brought on behalf of state-wide classes in the named Plaintiffs' respective states, although one action pending before the Illinois Court of Appeals purports to be brought on behalf of landowners in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. 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 22 states (Alabama, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Oklahoma, Tennessee, Virginia and Wisconsin), have received preliminary approval of the settlements in eight

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states (California, Kentucky, Nevada, Ohio, Oregon, Pennsylvania, South Carolina and Utah), and have not yet received either preliminary or final approval in four states (Arizona, Massachusetts, New Mexico and Texas). We have accrued an amount that we believe is probable for these matters; however, the amount is not material to our consolidated financial statements.

**Other Matters**

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

The information included in Note 15–Commitments and Contingencies to the consolidated financial statements included in Item 8 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 Prices		Dividend per Common Share
	High	Low	
<b>2012</b>			
First quarter	\$ 40.54	36.25	.725
Second quarter	39.89	36.91	.725
Third quarter	43.43	38.96	.725
Fourth quarter	40.49	36.52	.725
<b>2011</b>			
First quarter	\$ 46.78	39.45	.725
Second quarter	43.49	38.66	.725
Third quarter	41.32	31.75	.725
Fourth quarter	38.01	31.16	.725

Common stock dividends during 2012 and 2011 were paid each quarter. On February 26, 2013, our Board of Directors declared a common stock dividend of \$.54 per share.

As described in greater detail in Item 1A of this Annual Report on Form 10-K, 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 15, 2013, there were approximately 168,000 stockholders of record although there were significantly more beneficial holders of our common stock. At February 15, 2013, the closing stock price of our common stock was \$33.02.

### Issuer Purchases of Equity Securities

The following table contains information about shares of our common stock that we withheld from employees to satisfy tax obligations related to the vesting of stock-based awards during the fourth quarter of 2012:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs</b>
October 2012	91,527	\$ 39.32	N/A	N/A
November 2012	–	–	N/A	N/A
December 2012	302,915	39.12	N/A	N/A
<b>Total</b>	<b>394,442</b>			

N/A—not applicable

**ITEM 6. SELECTED FINANCIAL DATA**

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

The table of selected financial data shown below is 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, Qwest for periods after April 1, 2011 and Embarq for periods after July 1, 2009.

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

	<b>Years Ended December 31,<sup>(1)</sup></b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in millions, except per share amounts and shares in thousands)</b>				
Operating revenues	\$ 18,376	15,351	7,042	4,974	2,600
Operating expenses	15,663	13,326	4,982	3,741	1,878
Operating income	\$ 2,713	2,025	2,060	1,233	721
Income before income tax expense	1,250	948	1,531	813	561
Net income	777	573	948	647	366
Basic earnings per common share	1.25	1.07	3.13	3.23	3.53
Diluted earnings per common share	1.25	1.07	3.13	3.23	3.52
Dividends declared per common share	2.90	2.90	2.90	2.80	2.1675
Weighted average basic common shares outstanding	620,205	532,780	300,619	198,813	102,268
Weighted average diluted common shares outstanding	622,285	534,121	301,297	199,057	102,560

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" in Item 7 of this report for a discussion of unusual items affecting the results for the years ended December 31, 2012, 2011 and 2010.

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

	<b>December 31,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in millions)</b>				
Net property, plant and equipment	\$ 19,032	19,444	8,754	9,097	2,896
Goodwill	21,732	21,732	10,261	10,252	4,016
Total assets	54,020	56,044	22,038	22,563	8,254
Total long-term debt <sup>(1)</sup>	20,605	21,836	7,328	7,754	3,315
Total stockholders' equity	19,289	20,827	9,647	9,467	3,168

(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 total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of this report.

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

	<b>Years Ended December 31,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in millions)</b>				
Net cash provided by operating activities	\$ 6,065	4,201	2,045	1,574	853
Net cash used in investing activities	(2,690)	(3,647)	(859)	(679)	(389)
Net cash used in financing activities	(3,295)	(577)	(1,175)	(976)	(255)
Payments for property, plant and equipment and capitalized software	(2,919)	(2,411)	(864)	(755)	(287)

The following table presents certain selected consolidated operating data as of the following dates:

	<b>December 31,</b>				
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>	<b>2009<sup>(2)</sup></b>	<b>2008</b>
	<b>(in thousands)</b>				
Broadband subscribers <sup>(3)</sup>	5,848	5,652	2,349	2,186	626
Access lines	13,748	14,584	6,489	7,025	2,025

- (1) In connection with our Qwest acquisition on April 1, 2011, we acquired approximately 9.0 million telephone access lines and approximately 3.0 million broadband subscribers.
- (2) In connection with our Embarq acquisition on July 1, 2009, we acquired approximately 5.4 million telephone access lines and approximately 1.5 million broadband subscribers.
- (3) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables. During the second quarter of 2012, we updated our methodology for counting broadband subscribers to include residential, business and wholesale subscribers instead of only residential and small business subscribers. We have restated our previously reported amounts to reflect this change.

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

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

### 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, network access, private line (including special access), public access, broadband, data, managed hosting (including cloud hosting), colocation, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers and security monitoring. 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, 2012, we operated approximately 13.7 million access lines in 37 states, served approximately 5.8 million broadband subscribers, and operated 54 data centers throughout North America, Europe and Asia. During 2012, we updated our methodology for counting broadband subscribers to include residential, business and wholesale subscribers instead of only residential and small business subscribers. We have restated our previously reported amounts to reflect this change. For purposes of counting our access lines, we include only those access lines that we use to provide services to external customers and exclude lines used solely by us and our affiliates. Our counting methodology also excludes unbundled loops and includes stand-alone broadband subscribers. Our methodology for counting access lines 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. These subsidiaries include SAVVIS, Inc. ("Savvis") as of July 15, 2011 and Qwest Communications International Inc. ("Qwest") as of April 1, 2011. See Note 2—Acquisitions to the consolidated financial statements in Item 8 of this report. Due to the significant size of these acquisitions, direct comparisons of our results of operations for the years ended December 31, 2012, 2011 and 2010 to prior periods are less meaningful than usual. We discuss below, under "Results of Operations—Segment Results", certain trends that we believe are significant, even if they are not necessarily material to the combined company.

In the discussion that follows, we refer to the incremental business activities that we now operate as a result of the Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used in reference to a comparison of our consolidated results for the years ended December 31, 2012 and 2011, mean the business we operated prior to the Qwest and Savvis acquisitions. Due to the magnitude of our recent acquisitions in relation to Legacy CenturyLink operations, in the combined company variance discussions below we have separately reflected the impacts of both the Legacy Qwest and Legacy Savvis operations for enhanced visibility, although we actively manage the combined company through our four segments, as discussed further below.

We have incurred operating expenses related to our acquisitions of Savvis in July 2011, Qwest in April 2011 and Embarq in July 2009. These expenses are reflected in cost of services and products and



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selling, general and administrative expenses in our consolidated statements of operations as summarized below.

	Years Ended		
	December 31,		
	2012	2011	2010
	(Dollars in millions)		
Cost of services and products:			
Integration and other expenses associated with acquisitions	\$ 22	43	37
Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions	–	24	12
Total	<u>\$ 22</u>	<u>67</u>	<u>49</u>
Selling, general and administrative:			
Expenses incurred to effect acquisitions	\$ –	79	13
Integration and other expenses associated with acquisitions	25	172	64
Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions	36	149	19
Total	<u>\$ 61</u>	<u>400</u>	<u>96</u>

This table does not include costs incurred by Qwest or Savvis prior to being acquired by us. 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 \$700 million (which includes approximately \$464 million of cumulative expenses incurred through December 31, 2012) and our capital expenditures associated with integration activities will approximate \$200 million (which includes approximately \$63 million of cumulative capital expenditures incurred through December 31, 2012). 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 significantly higher than those incurred by us during the year ended December 31, 2012.

For several years prior to 2011, we reported our operations as a single segment. However, in 2011, in connection with our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011, we reorganized our business into the following operating segments:

*Regional markets.* Consisted primarily of providing products and services to residential consumers, small to medium-sized businesses and regional enterprise customers;

*Business markets.* Consisted primarily of providing products and services to enterprise and government customers;

*Wholesale markets.* Consisted primarily of providing products and services to other communications providers; and

*Savvis operations.* Consisted primarily of providing hosting and network services primarily to business customers provided by Legacy Savvis.

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In the second quarter of 2012, in order to more effectively deploy the strategic assets acquired from Qwest and Savvis and to better serve our business and government customers, we restructured our business into the following operating segments:

*Regional markets.* Consists primarily of providing strategic and legacy products and services to residential consumers, state and local governments, small to medium-sized businesses and enterprise customers that in each case are located mainly within one of our six regions. Our strategic products and services offered to these customers include our private line, broadband, MPLS, hosting, video services, and wireless services. Our legacy services offered to these customers consist primarily of local and long-distance service;

*Wholesale markets.* Consists primarily of providing strategic and legacy products and services to other domestic and international communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include UNEs which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services;

*Enterprise markets–network.* Consists primarily of providing strategic and legacy network communications products and services to national and international enterprise and government customers. Our strategic products and services offered to these customers include our private line, broadband, MPLS and hosting services. Our legacy services offered to these customers consist primarily of local and long-distance services; and

*Enterprise markets–data hosting.* Consists primarily of providing colocation, managed hosting and cloud hosting services to national and international enterprise and government customers.

Due to system limitations, we have determined that it is impracticable to report 2010 segment information using our segment structure described above. As such, only 2011 financial data has been revised under our segment structure described above.

We now report financial information separately for each of these segments; however, our segment information does not include capital expenditures, total assets, or certain revenues and expenses that we manage on a centralized basis and are only reviewed by our chief operating decision maker ("CODM") on a consolidated basis. Our segment results are not necessarily indicative of the results of operations that our segments would have achieved had they operated as stand-alone entities during the periods presented. For additional information about our segments, see Note 13–Segment Information to the consolidated financial statements in Item 8 of this report and "Results of Operations–Segment Results" below.

On January 3, 2013, we announced a reorganization of our operating segments. Consequently, beginning with the first quarter of 2013, we will report the following four segments in our consolidated financial statements: consumer, business, wholesale and data hosting. The primary purpose of the reorganization is to strengthen our focus on the enterprise business market while continuing our commitment to our hosting and consumer customers. The reorganization combines business sales and operations functions that resided in the enterprise markets–network segment and the regional markets segment into the new business segment. The remaining customers serviced by the regional markets segment will become the new consumer segment. Our wholesale markets and enterprises markets–data hosting segments will not be impacted by the organizational realignment.

## Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2012, 2011 and 2010. Our operating results include operations of Savvis for periods after July 15, 2011 and Qwest for periods after April 1, 2011.

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions except per share amounts)		
Operating revenues	\$ 18,376	15,351	7,042
Operating expenses	15,663	13,326	4,982
Operating income	2,713	2,025	2,060
Other income (expense)	(1,463)	(1,077)	(529)
Income tax expense	473	375	583
Net income	\$ 777	573	948
Basic earnings per common share	\$ 1.25	1.07	3.13
Diluted earnings per common share	\$ 1.25	1.07	3.13

Due to our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011, our 2012 operating results reflect a full year of Qwest's and Savvis' results, as compared to our 2011 operating results, which reflect only nine months of Qwest's operating results and five and a half months of Savvis' operating results.

The increase in net income in 2012 was primarily due to the 2012 period containing a full year of Qwest's operating results compared to the 2011 period only containing nine months and a significant decrease from 2011 in the amount of acquisition, severance and integration expenses resulting from our recent acquisitions, as presented in the table under the "Overview" section above. The lower levels of net income in 2011 as compared to 2010 were primarily due to increased acquisition, severance and integration expenses attributable to the April 1, 2011 acquisition of Qwest. The post-acquisition operations of Legacy Savvis and Legacy Qwest, which included substantial severance and integration expenses and significant acquisition accounting adjustments to depreciation and amortization expense based on valuation estimates, did not contribute significantly to our consolidated net income in 2011. See Note 2—Acquisitions and Note 3—Goodwill, Customer Relationships and Other Intangible Assets to the consolidated financial statements in Item 8 of this report. Within our Legacy CenturyLink business, growth in strategic services revenues (which we describe further below) did not fully offset lower revenues from other services and products, further contributing to decreases in consolidated net income.

Diluted earnings per common share in 2012 was higher than 2011 as a result of increased net income for 2012. Diluted earnings per common share in 2011 was substantially lower than the amounts for the corresponding period of 2010 due to decreases in net income, as well as increases in the weighted average number of outstanding common shares. The increase in the weighted average number of outstanding common shares during 2012 and 2011 was primarily attributable to the issuance of approximately 294 million shares in connection with the Qwest acquisition on April 1, 2011 and the issuance of approximately 14.3 million shares in connection with the Savvis acquisition on July 15, 2011.

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

	<b>As of December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(in thousands)</b>		
Operational metrics:			
Broadband subscribers	5,848	5,652	2,349
Access lines	13,748	14,584	6,489
Employees	47.0	49.2	20.3

During the second quarter of 2012, we updated our methodology for counting broadband subscribers to include residential, business and wholesale subscribers instead of only residential and small business subscribers. We have restated our previously reported amounts to reflect this change.

During the last several years, we have experienced revenue declines primarily due to declines in access lines, intrastate access rates and minutes of use. Prior to our acquisition, Qwest had experienced similar declines in its revenues. 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 new services, such as video, cloud hosting, managed hosting, colocation and other 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 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 which we market to wholesale and business customers who require dedicated equipment to transmit large amounts of data between sites), 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, public access, ISDN (which uses regular telephone lines to support voice, video and data applications), and WAN services (which allows a local communications network to link to networks in remote locations);

*Data integration*, which includes the sale of telecommunications equipment to customers for use on their premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic networks for our government and business customers; and

*Other revenues*, which consists primarily of USF revenue and surcharges. Unlike the first three revenue categories, other revenues are not included in our segment revenues.

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The following table summarizes our operating revenues under our current revenue categorization which is presented in a manner that we believe will be useful for understanding the relevant trends affecting our business:

	Years Ended December 31,		Increase (Decrease)			
	2012	2011	CenturyLink	Qwest	Savvis	Total
	(Dollars in millions)					
Strategic services	\$ 8,361	6,262	307	1,207	585	2,099
Legacy services	8,287	7,672	(633)	1,248	–	615
Data integration	672	537	19	116	–	135
Other	1,056	880	44	132	–	176
<b>Total operating revenues</b>	<b>\$ 18,376</b>	<b>15,351</b>	<b>(263)</b>	<b>2,703</b>	<b>585</b>	<b>3,025</b>

During 2012, operating revenues attributable to certain products and services were reclassified from legacy services to strategic services. Due to system limitations, we have determined that is impracticable to restate 2010's operating revenues to conform to our current revenue categorization. For comparability purposes, we have included our operating revenues for the years ended December 31, 2011 and 2010 under our prior revenue categorization:

	Years Ended December 31,		Increase (Decrease)			
	2011	2010	CenturyLink	Qwest	Savvis	Total
	(Dollars in millions)					
Strategic services	\$ 6,254	2,049	150	3,572	483	4,205
Legacy services	7,680	4,288	(483)	3,875	–	3,392
Data integration	537	158	(23)	402	–	379
Other	880	547	(24)	357	–	333
<b>Total operating revenues</b>	<b>\$ 15,351</b>	<b>7,042</b>	<b>(380)</b>	<b>8,206</b>	<b>483</b>	<b>8,309</b>

Our operating revenues increased substantially in both 2012 and 2011 as compared to 2011 and 2010, respectively, due to our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011. Total operating revenues increased \$3.025 billion in 2012 as compared to 2011 and increased \$8.309 billion in 2011 as compared to 2010. As reflected in the chart above, our acquisitions of Qwest and Savvis contributed incremental operating revenues (net of intercompany eliminations) of \$2.7 billion and \$585 million, respectively, to our 2012 revenues. Legacy CenturyLink operating revenues decreased \$263 million, or 1.7%, in 2012 and \$380 million, or 5.4%, in 2011 as compared to the prior year period. These decreases were primarily attributable to declines in legacy services revenues, which reflected the continuing loss of access lines in our markets. At December 31, 2012, we had 13.748 million access lines, of which 8.055 million were in Legacy Qwest's markets. Access lines in our Legacy CenturyLink markets declined to 5.693 million at December 31, 2012 from 6.051 million at December 31, 2011, a decrease of 5.93% during 2012, and were 6.489 million at December 31, 2010, a decrease of 6.75% during 2011. We believe the decline in the number of access lines was primarily due to the displacement of traditional wireline telephone services by other competitive products and services. We estimate that our access lines loss will be between 5.4% and 5.9% in 2013. Our legacy services revenues were also negatively impacted in 2012 by the continued reduction in access revenues and continued migration of customers to bundled service offerings at lower effective rates. The decreases in our legacy services revenues were partially offset by higher revenues from strategic services revenues. Ethernet,



	Years Ended		Increase (Decrease)			
	December 31,		CenturyLink	Qwest	Savvis	Total
	2011	2010				
	(Dollars in millions)					
Cost of services and products (exclusive of depreciation and amortization)	\$ 6,325	2,544	(4)	3,523	262	3,781
Selling, general and administrative	2,975	1,004	60	1,791	120	1,971
Depreciation and amortization	4,026	1,434	72	2,394	126	2,592
Total operating expenses	\$13,326	4,982	128	7,708	508	8,344

The acquisitions of Qwest and Savvis largely contributed to the increase in total operating expenses of \$2.337 billion in 2012. Excluding the effects of Legacy Qwest and Legacy Savvis expenses, total operating expenses in 2012 decreased \$589 million, or 4.4%, due primarily to decreases in employee-related expenses, severance and integration expenses relating to our recent acquisitions and depreciation and amortization expense. The increase in total operating expenses of \$8.344 billion in 2011 was largely attributable to the inclusion of \$7.7 billion in post-acquisition Legacy Qwest operating expenses (net of intercompany eliminations) in our consolidated operating expenses. In addition, the acquisition of Savvis on July 15, 2011 increased our consolidated operating expenses for 2011 by \$508 million. As discussed in the "Overview" section, our operating expenses for 2012, 2011, and 2010 included substantial severance and integration costs related to the Qwest, Savvis and Embarq acquisitions as well as significant acquisition accounting adjustments to depreciation and amortization expense. See Note 2—Acquisitions and Note 3—Goodwill, Customer Relationships and Other Intangible Assets to the consolidated financial statements in Item 8 of this report. Excluding the effects of Legacy Qwest and Legacy Savvis expenses, total operating expenses in 2011 increased \$128 million, or 2.6%, due primarily to integration costs associated with the Qwest acquisition and increased costs of providing our facilities-based video services to more customers.

For the year ended December 31, 2012, Legacy CenturyLink cost of services and products (exclusive of depreciation and amortization) were slightly lower as compared to 2011. During the year, we experienced decreases in severance, salaries and wages and related benefits, which were partially offset by increases in customer premise equipment and maintenance costs, network expense, and contractor costs. Cost of services and products for Legacy CenturyLink operations was relatively unchanged in 2011. For 2011, \$55 million of higher costs of services and products associated with providing our facilities-based video service were substantially offset by a \$28 million decrease in salaries and benefits and a \$20 million decrease in facilities costs associated with the migration of legacy Embarq long-distance traffic to our internal networks.

Legacy CenturyLink selling, general and administrative expenses decreased \$367 million, or 2.8%, for 2012 as compared to 2011, while selling, general and administrative expenses increased \$60 million, or 6.0%, for 2011 as compared to 2010. The decrease in 2012 primarily was due to a decrease in severance and integration expenses relating to our recent acquisitions, as well as a decrease in salaries, wages, and employee benefits due to a reduction in headcount. For all periods presented, our expenses include significant transaction, severance and integration expenses related to the Qwest, Savvis and Embarq acquisitions (see table in "Overview" above). Changes in the timing and amount of Qwest and Savvis integration expenses resulted in a net increase in Legacy CenturyLink's 2011 selling, general and administrative expenses compared to 2010. This increase was partially offset by a decrease of \$33 million in 2011 in operating taxes, which were primarily due to favorable property tax and transaction tax settlements. In addition, in 2011 we had a decrease of \$20 million in compensation expenses, which were primarily due to workforce reductions and lower pension expense.



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Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain of Qwest's legacy systems to our historical company systems. This transition resulted in an estimated \$40 million to \$55 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if Qwest had continued to use its legacy systems and a corresponding estimated \$40 million to \$55 million decrease in operating expenses for the year ended December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$25 million to \$34 million, or \$0.04 to \$0.05 per basic and diluted common share, for the year ended December 31, 2012.

Excluding the effects of the acquisitions of Qwest and Savvis, depreciation and amortization expense for Legacy CenturyLink decreased \$149 million, or 3.7%, due to annual updates of our depreciation rates for capitalized assets and an out-of-period accounting adjustment, partially offset by net growth in capital assets. Depreciation and amortization for Legacy CenturyLink increased \$72 million, or 5.0%, in 2011 primarily due to higher levels of property, plant and equipment and an out-of-period accounting adjustment corrected in 2012.

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

**Other Consolidated Results**

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

	<b>Years Ended</b>		<b>Increase (Decrease)</b>			
	<b>December 31,</b>					
	<b>2012</b>	<b>2011</b>	<b>CenturyLink</b>	<b>Qwest</b>	<b>Savvis</b>	<b>Total</b>
	<b>(Dollars in millions)</b>					
Interest expense	\$ (1,319)	(1,072)	62	169	16	247
Net loss on early retirement of debt	(179)	(8)	179	(8)	–	171
Other income (expense)	35	3	32	(1)	1	32
Total other income (expense)	\$ (1,463)	(1,077)	273	160	17	386
Income tax expense	\$ 473	375	nm	nm	nm	98

	<b>Years Ended</b>		<b>Increase (Decrease)</b>			
	<b>December 31,</b>					
	<b>2011</b>	<b>2010</b>	<b>CenturyLink</b>	<b>Qwest</b>	<b>Savvis</b>	<b>Total</b>
	<b>(Dollars in millions)</b>					
Interest expense	\$ (1,072)	(544)	34	486	8	528
Net loss on early retirement of debt	(8)	–	–	8	–	8
Other income (expense)	3	15	17	(2)	(3)	12
Total other income (expense)	\$ (1,077)	(529)	51	492	5	548
Income tax expense	\$ 375	583	nm	nm	nm	(208)

nm—Attributing changes in income tax expense to the acquisitions of Savvis and Qwest is considered not meaningful.

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### *Interest Expense*

Interest expense for the year ended December 31, 2012 increased by \$247 million compared to 2011. This increase is primarily due to the 2012 period containing a full year of Qwest interest expense compared to the 2011 period containing only nine months. Interest expense increased \$528 million in 2011 primarily due to higher debt balances associated principally with debt assumed in the Qwest acquisition and incurred to finance the Savvis acquisition. See Note 4—Long-term Debt and Credit Facilities to the consolidated financial statements in Item 8 of this report and "Liquidity and Capital Resources" below for additional information about those transactions.

Interest expense for Legacy CenturyLink increased \$62 million, or 5.8%, in 2012 compared to 2011 and increased \$34 million, or 6.3%, in 2011 compared to 2010. The increase in both years is substantially due to interest on our \$2 billion aggregate principal amount of senior notes issued in June 2011 to finance the Savvis acquisition. The 2012 increase is due to those notes being outstanding for a full year versus a partial year in 2011. The 2011 increase was due to those notes being outstanding for a partial year versus not at all in 2010.

### *Net Loss on Early Retirement of Debt*

In the fourth quarter of 2012, QCII redeemed certain of its outstanding debt securities, which resulted in a gain of \$15 million.

In the second quarter of 2012, our subsidiaries Embarq and 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 a gain of \$5 million.

In the fourth quarter and second quarter of 2011, QC redeemed certain of its outstanding debt securities which resulted in a total net loss of \$8 million.

### *Other Income (Expense)*

Other income (expense) 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 impairments and foreign currency gains and losses. Other income for Legacy CenturyLink was greater for the year ended December 31, 2012 as compared to 2011 due to gains on the sales of our auction rate securities and the recognition in 2011 of \$16 million in transaction expenses incurred in connection with terminating an unused bridge loan financing commitment related to the Savvis acquisition. See Note 2—Acquisitions to the consolidated financial statements in Item 8 of this report. Other income for Legacy CenturyLink decreased \$17 million in 2011, as compared to 2010 primarily due to the \$16 million in transaction expenses discussed above.

### *Income Tax Expense*

Our income tax expense for the years ended December 31, 2012 and 2011 increased \$98 million and decreased \$208 million, respectively, from the amounts for the comparable prior year. Our increase in 2012 was primarily due to a \$302 million, or 32%, increase in income before income tax expense as compared to 2011. Our decrease in 2011 was primarily due to a decrease in income before income tax expense, which was attributable to a decline in operating income and increased interest expense directly related to the acquisition of Qwest. For the years ended December 31, 2012, 2011 and 2010, our effective income tax rate was 37.8%, 39.6% and 38.1%, respectively. The 2012 effective tax rate reflects the \$16 million reversal of a valuation allowance related to the auction rate securities we sold in 2012,

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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. The 2011 rate increase was due in part to \$24 million of non-deductible transaction costs and an \$8 million valuation allowance recorded on deferred tax assets that require future income of a special character to realize the benefits. Such increase was partially offset by a \$16 million reduction in our valuation allowance related to state NOLs due primarily to the effects of a tax law change in one of the states in which we operate. Certain merger-related costs incurred during 2010 are also non-deductible for income tax purposes and similarly increased our effective income tax rate. See Note 12–Income Taxes to the consolidated financial statements in Item 8 of this report and "Income Taxes" below for additional information.

**Segment Results**

As described further above under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations–Overview," we revised our segment structure in 2012 and restated previously reported segment results for the year ended December 31, 2011 to conform to our 2012 segment presentation. The following table summarizes our segment results for 2012 and 2011 under our segment categorization at December 31, 2012.

	Years Ended December 31,	
	2012	2011
	(Dollars in millions)	
Total segment revenues	\$ 17,320	14,471
Total segment expenses	8,094	6,513
Total segment income	\$ 9,226	7,958
Total margin percentage	53%	55%
Regional markets:		
Revenues	\$ 9,876	8,743
Expenses	4,218	3,673
Income	\$ 5,658	5,070
Margin percentage	57%	58%
Wholesale markets:		
Revenues	\$ 3,721	3,305
Expenses	1,117	1,021
Income	\$ 2,604	2,284
Margin percentage	70%	69%
Enterprise markets–network:		
Revenues	\$ 2,609	1,933
Expenses	1,891	1,450
Income	\$ 718	483
Margin percentage	28%	25%
Enterprise markets–data hosting:		
Revenues	\$ 1,114	490
Expenses	868	369
Income	\$ 246	121
Margin percentage	22%	25%

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Due to system limitations, we have determined that it is impracticable to restate 2010's reported segments to conform to our current segment categorization at December 31, 2012. For comparability purposes, we have included our segment information for the years ended December 31, 2011 and 2010 based on the segment categorization we were operating under at the end of 2011.

	Years Ended December 31,	
	2011	2010
	(Dollars in millions)	
Total segment revenues	\$ 14,471	6,495
Total segment expenses	6,535	2,403
Total segment income	\$ 7,936	4,092
Total margin percentage	55%	63%
Regional markets:		
Revenues	\$ 7,832	4,640
Expenses	3,398	1,783
Income	\$ 4,434	2,857
Margin percentage	57%	62%
Business markets:		
Revenues	\$ 2,861	266
Expenses	1,736	120
Income	\$ 1,125	146
Margin percentage	39%	55%
Wholesale markets:		
Revenues	\$ 3,295	1,589
Expenses	1,021	500
Income	\$ 2,274	1,089
Margin percentage	69%	69%
Savvis operations:		
Revenues	\$ 483	-
Expenses	380	-
Income	\$ 103	-
Margin percentage	21%	-

The lower levels of margin percentage for regional markets and business markets in 2011 were primarily attributable to the inclusion of Qwest's results beginning April 1, 2011.

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

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Total segment revenues	\$ 17,320	14,471	6,495
Other operating revenues	1,056	880	547
Operating revenues reported in our consolidated statements of operations	<u>\$ 18,376</u>	<u>15,351</u>	<u>7,042</u>
Total segment income	\$ 9,226	7,958	4,092
Other operating revenues	1,056	880	547
Depreciation and amortization	(4,780)	(4,026)	(1,434)
Other unassigned operating expenses	(2,789)	(2,787)	(1,145)
Operating income reported in our consolidated statement of operations	<u>\$ 2,713</u>	<u>2,025</u>	<u>2,060</u>

Our segment revenues include all revenues from our strategic and 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. We report our segment expenses for our four segments as follows:

*Direct expenses*, which primarily are 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.

During the first quarter of 2012, as we transitioned certain of Qwest's legacy systems to our historical company systems, we updated our methodologies for reporting our direct expenses and for allocating our expenses to our segments. Specifically, we no longer include certain fleet expenses for our regional markets segment in direct expenses; they are now expenses allocated to our segments, with the exception of enterprise markets–data hosting. In addition, we now more fully allocate network building rent and power expenses to our regional markets, wholesale markets and enterprise markets–network segments. We determined that it was impracticable to recast our segment results for prior periods to reflect these changes in methodology.

During the second quarter of 2012, as we reorganized our business into our four segments as indicated above, we further revised our methodology for how we allocate our expenses to our segments to better align segment expenses with related revenues. Under our revised methodology, we no longer allocate certain product development costs to our segments, but we do now allocate certain expenses from our enterprise markets–data hosting segment to our other three segments. We restated our segment results for 2011 to reflect these changes in our methodology. We determined that it was impracticable to recast our segment results for 2010 under our revised methodology.

We do not assign depreciation and amortization expense to our segments, as the related assets and capital expenditures are centrally managed. Similarly, severance expenses, restructuring expenses and, subject to an exception for our enterprise markets–data hosting segment, certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not

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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. In addition, other income (expense) does not relate to our segment operations and is therefore excluded from our segment results.

As discussed under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview", beginning in the first quarter of 2013, we plan to report our operations under the following four segments: consumer, business, wholesale and data hosting.

### **Regional Markets**

The operations of our regional markets segment have been impacted by several significant trends, including those described below.

*Strategic services.* We continue to focus on increasing subscribers of our broadband services in our regional markets segment. In order to remain competitive, we believe continually increasing connection speeds is important. As a result, we continue to invest in our (broadband) network, which allows for the delivery of higher speed broadband services. While traditional broadband services are declining, they have been more than offset by growth in fiber-based broadband services. We also continue to expand our product offerings including facilities-based video services, Ethernet, MPLS and other managed services and we continue to refine our marketing efforts as we compete in a maturing market in which most consumers already have broadband services. We expect these efforts will improve our ability to compete and increase our strategic revenues;

*Facilities-based video expenses.* As we continue to expand our facilities-based video service infrastructure, we are incurring start-up expenses in advance of the revenue that this service is expected to generate. 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;

*Access lines.* 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 and electronic mail, texting and social networking 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 revenues associated with access lines, we continue to offer service bundling and other product promotions to help mitigate this trend, as described below;

*Service bundling and product promotions.* We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video, long-distance and wireless;

*Data integration.* We expect both data integration revenue and the related costs will 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 state and local government customers, many of whom have recently experienced budget cuts; and

*Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions.

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The following table summarizes the results of operations from our regional markets segment:

	Regional Markets Segment					
	Years Ended December 31,		Increase / (Decrease)			
	2012	2011	CenturyLink	Qwest	Savvis	Total
(Dollars in millions)						
Segment revenues:						
Strategic services	\$ 3,607	2,890	168	546	3	717
Legacy services	5,996	5,593	(399)	802	–	403
Data integration	273	260	(19)	32	–	13
Total revenues	9,876	8,743	(250)	1,380	3	1,133
Segment expenses:						
Direct	3,939	3,469	(44)	514	–	470
Allocated	279	204	52	20	3	75
Total expenses	4,218	3,673	8	534	3	545
Segment income	\$ 5,658	5,070	(258)	846	–	588
Segment margin percentage	57%	58%				

#### *Segment Income*

The acquisition of Qwest on April 1, 2011 largely contributed to an increase in our regional markets segment income of \$588 million for the year ended December 31, 2012 as compared to 2011. Our consolidated segment margin percentage remained relatively unchanged from 2011 to 2012. Segment income for our Legacy CenturyLink operations decreased \$258 million as compared to 2011 reflecting declines in revenues while expenses remained relatively flat.

#### *Segment Revenues*

Excluding revenues attributable to the Legacy Qwest and Legacy Savvis acquisitions, regional markets revenues decreased \$250 million, or 2.9%, for the year ended December 31, 2012 as compared to 2011 due to declines in legacy services revenues and the implementation of the CAF order, partially offset by growth in strategic services revenues. Legacy services revenues decreased primarily due to declines in local and long-distance services associated principally with access line losses resulting from the competitive pressures and product substitution described previously. Growth in strategic services revenues was principally due to increases in the number of broadband subscribers as well as volume increases in our facilities-based video, Ethernet, and MPLS services.

#### *Segment Expenses*

Regional markets total expenses, exclusive of Legacy Qwest and Legacy Savvis expenses, increased \$8 million for the year ended December 31, 2012 as compared to 2011, due to an increase in allocated expenses. Allocated expenses increased primarily due to our updated methodology more fully allocating to our segments network and building rent and related power expenses. Direct expenses decreased due to decreases in employee related expenses, fleet expenses and marketing costs, which were partially offset by increases in customer premise equipment costs and network service costs.

## **Wholesale Markets**

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

*Private line services (including special access).* Demand for our private line services continues to increase, despite our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors could negatively impact our wholesale markets segment, we ultimately believe the bandwidth consumption growth in our fiber-based special access services provided to wireless carriers for backhaul will, over time, offset the decline in copper-based special access services provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain;

*Access and local services revenues.* Our access and local services revenues have been and we expect will continue to be, adversely affected by technological migration, industry consolidation, regulation and rate reductions. For example, wholesale consumers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. We expect these factors will continue to adversely impact our wholesale markets segment;

*Switched access revenues.* We believe that changes related to the Connect America and Intercarrier Compensation Reform order ("CAF order") adopted by the Federal Communications Commission ("FCC") on October 27, 2011 will substantially increase the pace of reductions in the amount of switched access revenues we receive in our wholesale markets segment;

*Long-distance services revenues.* Wholesale long-distance revenues continue to decline as a result of customer migration to more technologically advanced services, price compression, declining demand for traditional voice services and industry consolidation; and

*Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our wholesale markets segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.



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The following table summarizes the results of operations from our wholesale markets segment:

	Wholesale Markets Segment					
	Years Ended December 31,		Increase / (Decrease)			
	2012	2011	CenturyLink	Qwest	Savvis	Total
(Dollars in millions)						
Segment revenues:						
Strategic services	\$ 2,296	1,915	33	339	9	381
Legacy services	1,424	1,389	(213)	248	–	35
Data integration	1	1	–	–	–	–
Total revenues	3,721	3,305	(180)	587	9	416
Segment expenses:						
Direct	169	174	(18)	13	–	(5)
Allocated	948	847	(60)	155	6	101
Total expenses	1,117	1,021	(78)	168	6	96
Segment income	\$ 2,604	2,284	(102)	419	3	320
Segment margin percentage	70%	69%				

#### *Segment Income*

The acquisition of Qwest on April 1, 2011 largely contributed to an increase in our wholesale markets segment income of \$320 million for the year ended December 31, 2012 as compared to 2011. Segment income for our Legacy CenturyLink operations decreased \$102 million for the year ended December 31, 2012 as compared to 2011, primarily reflecting declines in revenues, as discussed further below.

#### *Segment Revenues*

Excluding revenues attributable to the Legacy Qwest and Legacy Savvis acquisitions, wholesale markets revenues decreased \$180 million, or 5.5%, for the year ended December 31, 2012 as compared to 2011. This decrease reflects substantially lower revenues from legacy services, partially offset by growth in revenues from strategic services. Strategic services revenues increased primarily due to growth in Ethernet and broadband services. The decrease in legacy services revenues was driven by continuing declines in access, long-distance and local services volumes, and the implementation of the CAF order, as well as the substitution of cable, wireless, VoIP and other services for traditional voice telecommunications services.

#### *Segment Expenses*

Wholesale markets expenses, exclusive of Legacy Qwest and Legacy Savvis expenses, decreased \$78 million, or 7.6%, for the year ended December 31, 2012 as compared to 2011. The decrease in Legacy CenturyLink wholesale markets expenses was primarily due to a lower allocation of fleet and network real estate expenses due to the above-described updated expense allocation methodology and to reductions in employee related expenses.

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**Enterprise Markets–Network**

The operations of our enterprise markets–network segment have been impacted by several significant trends, including those described below.

*Strategic services.* Our mix of total segment revenues continues to migrate from legacy services to strategic services as our enterprise and government customers increasingly demand customized and integrated data, Internet and voice services. We offer to our enterprise customers diverse combinations of products and services such as private line, MPLS and VoIP services. We believe these services afford our customers more flexibility in managing their communications needs and enable us to improve the effectiveness and efficiency of their operations. Although we are experiencing price compression on our strategic services due to competition, we expect overall revenues from these services to grow;

*Legacy services.* We face intense competition with respect to our legacy services and continue to see customers migrating away from these services into 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;

*Data integration.* We expect both data integration revenue and the related costs will 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 federal government customers. In addition, changes to our compensation programs, which focus on higher margin strategic services, could negatively impact data integration revenues; and

*Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our productivity improvements while achieving operational efficiencies and improving our processes through automation. We also expect our enterprise markets–network segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following table summarizes the results of operations from our enterprise markets–network segment:

	<b>Enterprise Markets–Network Segment</b>					
	<b>Years Ended December 31,</b>		<b>Increase / (Decrease)</b>			
	<b>2012</b>	<b>2011</b>	<b>CenturyLink</b>	<b>Qwest</b>	<b>Savvis</b>	<b>Total</b>
	<b>(Dollars in millions)</b>					
<b>Segment revenues:</b>						
Strategic services	\$ 1,344	967	56	314	7	377
Legacy services	867	690	(21)	198	–	177
Data integration	398	276	38	84	–	122
<b>Total revenues</b>	<b>2,609</b>	<b>1,933</b>	<b>73</b>	<b>596</b>	<b>7</b>	<b>676</b>
<b>Segment expenses:</b>						
Direct	781	568	33	180	–	213
Allocated	1,110	882	(40)	261	7	228
<b>Total expenses</b>	<b>1,891</b>	<b>1,450</b>	<b>(7)</b>	<b>441</b>	<b>7</b>	<b>441</b>
Segment income	\$ 718	483	80	155	–	235
Segment margin percentage	28%	25%				

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### *Segment Income*

The acquisition of Qwest on April 1, 2011 substantially increased the scale of our enterprise markets–network segment, resulting in an increase of \$235 million in segment income for the year ended December 31, 2012 as compared to 2011. Segment income for our Legacy CenturyLink operations increased \$80 million for the year ended December 31, 2012 as compared to 2011, primarily reflecting an increase in revenues.

### *Segment Revenues*

Excluding revenues attributable to the Legacy Qwest and Legacy Savvis acquisitions, enterprise markets–network segment revenues increased by \$73 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase was primarily due to growth in strategic services revenues from increased volumes of MPLS services and increased data integration revenues from maintenance and installation of customer premise equipment. Lower revenues from legacy services were driven by access line losses and price compression partially offset the increases in strategic services revenues and data integration revenues.

### *Segment Expenses*

Enterprise markets–network segment expenses, exclusive of Legacy Qwest and Legacy Savvis expenses, decreased by \$7 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to decreased allocated expenses partially offset by increased direct expenses. Allocated expenses decreased for the year ended December 31, 2012 due to lower allocation of fleet and network real estate expenses due to the above-described updated expense allocation methodology. The increase in direct expenses was primarily due to increased maintenance and installation costs associated with customer premise equipment, partially offset by decreases in employee related expenses.

### **Enterprise Markets–Data Hosting**

The operations of our enterprise markets–data hosting segment is largely comprised of the operations of our Legacy Savvis services for periods after the July 15, 2011 acquisition date, which have been impacted by significant trends, including those described below.

*Colocation.* Colocation is designed for clients seeking data center space and power for their server and networking equipment needs. Our data centers provide our domestic and international clients with a secure, high-powered, purpose-built location for their IT equipment. We anticipate continued pricing pressure for these services as wholesale vendors enter the enterprise colocation market; however, we believe that our combination of global data center assets, operational expertise and broad range of services strengthens our competitive position;

*Managed hosting.* Our managed hosting services provide a fully managed solution for a customer's IT infrastructure and network needs, and include dedicated and cloud hosting services, utility and computing storage, consulting and managed security services. We expect increasing pricing pressure on the managed hosting business from competing cloud hosting offerings. However, we remain focused on expanding our managed hosting business, specifically in our cloud hosting offerings, which we believe is a key to growth. We believe that we have continued to strengthen our position in the cloud hosting market by adding differentiating features to our cloud hosting products; and

*Operating efficiencies.* We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions.

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The following table summarizes the results of operations from our enterprise markets–data hosting segment:

	<b>Enterprise Markets–Data Hosting Segment</b>					
	<b>Years Ended December 31,</b>		<b>Increase / (Decrease)</b>			
	<b>2012</b>	<b>2011</b>	<b>CenturyLink</b>	<b>Qwest</b>	<b>Savvis</b>	<b>Total</b>
	<b>(Dollars in millions)</b>					
<b>Segment revenues:</b>						
Strategic services	\$ 1,114	490	50	8	566	624
<b>Total revenues</b>	<b>1,114</b>	<b>490</b>	<b>50</b>	<b>8</b>	<b>566</b>	<b>624</b>
<b>Segment expenses:</b>						
Direct	940	415	56	11	458	525
Allocated	(72)	(46)	1	(10)	(17)	(26)
<b>Total expenses</b>	<b>868</b>	<b>369</b>	<b>57</b>	<b>1</b>	<b>441</b>	<b>499</b>
Segment income	\$ 246	121	(7)	7	125	125
Segment margin percentage	22%	25%				

### *Segment Income*

The acquisition of Savvis on July 15, 2011 substantially increased the scale of our enterprise markets–data hosting segment, resulting in an increase of \$125 million in our segment income for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

### *Segment Revenues*

Savvis operations accounted for 97% of our enterprise markets–data hosting segment revenues for the year ended December 31, 2012. Growth in strategic services is driven by roughly equivalent increases in both colocation and managed hosting.

### *Segment Expenses*

Excluding the expenses attributable to the Legacy Qwest and Legacy Savvis acquisitions, enterprise markets–data hosting segment direct expenses increased for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to increases in salaries and benefits caused by a higher headcount and an increase in facility costs.

Due to the continuing use of Legacy Savvis accounting systems, the direct expenses of our enterprise markets–data hosting segment includes certain data communication, operational, and selling, general, and administrative costs that are allocated to our other three segments and are offset by corporate allocated expenses which resulted in a negative net allocation impact.

## **Other Operational Matters**

Approximately 26% of our employees are subject to collective bargaining agreements that expired on October 6, 2012. We are currently negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least 24 hour advance notice before terminating those predecessor agreements. If we fail to extend or renegotiate our collective bargaining agreements with our labor unions, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could

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be materially harmed. See "Risk Factors—Other Risks Affecting Our Business" in Item 1A of this report. To help mitigate this potential risk, we have established contingency plans in which we would assign trained, non-represented employees to cover jobs for represented employees in the event of a work stoppage to provide continuity for our customers.

### **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 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; 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 significant judgments, assumptions or estimates. We believe that the estimates, judgments and assumptions made when accounting for the items described below are 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.

#### ***Business Combinations***

We have accounted for our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011 under the acquisition method of accounting, whereby the tangible and separately identifiable intangible assets acquired and liabilities assumed are recognized at their estimated fair values at the acquisition date. The portion of the purchase price in excess of the estimated fair value of the net tangible and separately identifiable intangible assets acquired represents goodwill. The estimates of fair value and resulting allocation of the purchase price related to our acquisitions of Qwest and Savvis involved significant estimates and judgments by our management. In arriving at the 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 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. Small changes in the underlying assumptions could impact the estimates of fair value by material amounts, which could in turn materially impact our results of operations.

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

We amortize customer relationships over primarily over an estimated life of 10 years to 12.5 years, using either the sum-of-the-years-digits or straight-line methods, depending on the type of customer. We amortize capitalized software, which consists primarily of assets obtained from the Qwest acquisition, using the straight-line method over estimated lives ranging up to seven years. Approximately \$237 million of our capitalized software represents costs to develop an integrated billing and customer care system and is being amortized over a 20 year period that began in 2004. We amortize trade names and patent assets predominantly using the sum-of-the-years digits over an estimated life of four 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. We periodically 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 periodic reviews.

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Our long-lived intangible assets with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of Accounting Standards Update ("ASU") 2012-2, Intangibles–Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we will be required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired. For more information on our recent acquisitions and resulting fair values, see Note 2–Acquisitions to the consolidated financial statements in Item 8 of this report.

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

We have attributed our goodwill balance to our segments at December 31, 2012 as follows:

	<b>(Dollars in millions)</b>	
Regional markets	\$	15,170
Wholesale markets		3,283
Enterprise markets–network		1,788
Enterprise markets–data hosting		1,491
<b>Total goodwill</b>	<b>\$</b>	<b>21,732</b>

For additional information on the April 1, 2012 reorganization of our segments, see Note 13–Segment Information to the consolidated financial statements in Item 8 of this report.

We are required to test 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 fair value. Our reporting units, which we refer to as our segments, 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, each time we perform goodwill impairment analysis on a reporting unit, we estimate the equity carrying value and future cash flows of each of our segments using allocation methodologies. Certain estimates, judgments and assumptions are required to perform these allocations. We believe these estimates, judgments and assumptions to be reasonable, but slight 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 measurement date for testing goodwill impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units, which were our four operating segments (regional markets, wholesale markets,

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enterprise markets–network and enterprise markets–data hosting) that we recognized following our internal reorganization earlier in 2012.

In the third quarter of 2011, we adopted the provisions of ASU 2011-08, Testing Goodwill for Impairment, which permits us to make a qualitative assessment of whether it is more likely than not that a reporting unit's estimated fair value is less than its carrying amount before applying the two-step goodwill impairment test, which requires us (i) in step one, to identify potential impairments by comparing the estimated fair value of a reporting unit against its carrying value and (ii) in step two, to quantify any impairment identified in step one. At September 30, 2012, as a result of the April 1, 2012 internal reorganization of our four segments we did not have a baseline valuation to perform a qualitative assessment. We estimated the fair value of our four segments using an equal weighting based on a market approach and a discounted cash flow method. The market approach 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 segments beyond the cash flows from the discrete nine-year projection period. We discounted the estimated cash flows for our regional markets, wholesale markets, and enterprise markets–network segments using a rate that represents a market participant's weighted average cost of capital, which we determined to be approximately 6.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 8.4%). We discounted the estimated cash flows of our enterprise markets–data hosting segment using a rate that represents a market participant's estimated weighted average cost of capital, which we determined to be approximately 11.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 12.0%). We also reconciled the estimated fair values of the segments to our market capitalization as of September 30, 2012 and concluded that the indicated implied control premium of approximately 14% was reasonable based on recent transactions in the market place. Based on our analysis performed with respect to our reporting units described above, we concluded that our goodwill was not impaired as of September 30, 2012.

As of September 30, 2012, based on our analysis performed with respect to our four reporting units, the estimated fair value of our equity exceeded our carrying value of equity for our regional markets, wholesale markets, enterprise markets–network and enterprise markets–data hosting segments by 19%, 130%, 78% and 10%, respectively.

We may be required to assess our goodwill for impairment before our next required testing date of September 30, 2013 under certain circumstances, including any failure of our future operating results to meet forecasted expectations 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 testing or an impairment charge. A number of factors, many of which we have no ability to 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 testing. 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; (iv) successful efforts by our competitors to gain market share in our markets; (v) adverse changes as a result of regulatory actions; (vi) a significant adverse change in legal factors or in the overall business climate; and (vii) recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of our reporting units. For additional information, see "Risk Factors" in Item 1A 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 testing date of September 30, 2013.



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### ***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. Property, plant and equipment purchased subsequent to our acquisitions 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. Other types of property, plant and equipment are stated at cost and, when sold or retired, a gain or loss is 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, selecting 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 by approximately \$460 million or increased depreciation by approximately \$650 million, respectively.

We review long-lived assets, other than goodwill and other intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For measurement 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 measured 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. During 2012, we did not incur changes in events or circumstances that would indicate that the carrying amounts of our long-lived assets, other than goodwill and other intangible assets with indefinite lives, may not be recoverable. As a result, no impairment charge was recorded in 2012.

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

We sponsor several noncontributory defined benefit pension plans (referred to as our pension plans) for a substantial portion of our employees. In addition to these tax "qualified" pension plans, 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.



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Pension and post-retirement health care and life insurance benefits attributed to eligible employees' service during the year, as well as interest on benefit obligations, are accrued currently. Pension and post-retirement benefit expenses are recognized over the period in which the employee renders service and becomes eligible to receive benefits as determined using the projected unit credit method. Pension prior service costs and certain actuarial gains and losses are recognized as components of net periodic expense over the average remaining service period of participating employees expected to receive benefits. Post-retirement healthcare prior service costs are recognized as components of net periodic expense over the average expected years to full benefit eligibility for active employees. Certain post-retirement actuarial gains or losses are amortized on a straight-line basis over the average expected future working lifetime of active employees.

In computing the pension and post-retirement health care and life insurance benefits expenses and obligations, the most significant assumptions we make include discount rate, expected rate of return on plan assets, health care trend rates and our evaluation of the legal basis for plan amendments. The plan benefits covered by collective bargaining agreements as negotiated with our employees' unions can also significantly impact the amount of expense, benefit obligations and pension assets that we record.

The discount rate is the rate at which we believe we could effectively settle the benefit obligations as of the end of the year. We selected the discount rate based on a cash flow matching analysis using hypothetical yield curves developed by an actuarial firm 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.

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. 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 subsequent years' net periodic combined benefits expense.

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 income (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 2012 were 100 basis points lower, our qualified pension and post-retirement benefit expenses would have increased by \$118 million. If our assumed discount rates for 2012 were 100 basis points lower, our qualified pension and post-retirement benefit expenses would have increased by \$78 million and our projected benefit obligation would have increased by approximately \$2.2 billion. An increase of 100 basis points in the initial healthcare cost trend rate would have increased our post-retirement benefit expense by \$11 million and increased our projected post-retirement benefit obligation by \$77 million.

The trusts for the pension and post-retirement benefits plans hold investments in equities, fixed income, real estate and other assets such as private equity assets. The assets held by these trusts are

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reflected at estimated fair value as of December 31, 2012. For additional information on our trust investments, see Note 8—Employee Benefits to the consolidated financial statements in Item 8 of this report.

### ***Loss Contingencies and Litigation Reserves***

We are involved in several material legal proceedings, as described in more detail in "Legal Proceedings" in Item 3 of this 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. If a loss is considered reasonably possible, we disclose the estimate of the potential loss if material but we do not recognize any expense for the potential loss.

For matters related to income taxes, we determine that if 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. 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 the successor dates of December 31, 2012 and December 31, 2011, considers the anticipated utilization of any applicable tax credits and net operating losses ("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.

We record deferred income tax assets and liabilities as described above. Valuation allowances are established when necessary to reduce deferred income tax assets to amounts that we believe are more likely than not to be recovered. 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, estimated timing of future deductions and benefits represented by the deferred tax assets and our forecasts of future earnings, the latter two

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of which involve the exercise of significant judgment. At December 31, 2012, we established a valuation allowance of \$281 million, primarily related to state NOLs, as it is more likely than not that this amount will not be utilized prior to expiration. 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 12—Income Taxes to the consolidated financial statements in Item 8 of this report for additional information.

## **Liquidity and Capital Resources**

### ***Overview***

At December 31, 2012, we held cash and cash equivalents of \$211 million and we had \$1.180 billion available under our \$2 billion revolving credit facility (referred to as our "Credit Facility", which is described further below). At December 31, 2012, cash and cash equivalents of \$58 million were held in foreign bank accounts for the purpose of funding our foreign operations. Repatriation of some foreign balances is restricted by local law and subject to United States federal income taxes, less applicable foreign tax credits. Excluding cash used for acquisitions, we have generally relied on cash generated by operations and our Credit Facility to fund our operating and capital expenditures and other cash requirements.

At December 31, 2012, we had a working capital deficit of \$982 million, reflecting current liabilities of \$4.595 billion and current assets of \$3.613 billion, compared to negative working capital of \$500 million at December 31, 2011. The unfavorable change in our working capital position is primarily due to an increase in current maturities of long-term debt of \$725 million, partially offset by a decrease in accounts payable of \$193 million. We anticipate that our existing cash balances and net cash provided by operating activities will enable us to meet our other current obligations, fund capital expenditures and pay dividends to our shareholders. We also may draw on our Credit Facility as a source of liquidity if and when necessary.

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock, subject to our board's discretion to modify or terminate this practice at any time.

### ***Credit Facilities***

On April 6, 2012, we amended and restated our \$1.7 billion revolving credit facility to increase the aggregate principal amount available to \$2 billion and to extend the maturity date to April 2017. This amended credit facility (the "Credit Facility") has 18 lenders, with commitments ranging from \$2.5 million to \$181 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 1.25% and 2.25% per annum for LIBOR loans and 0.25% 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 two of our wholly-owned subsidiaries, Embarq and QCII, and one of QCII's wholly-owned subsidiaries. In the event of a ratings decline below "investment grade" as defined, Savvis and its operating subsidiaries will become guarantors of the Credit Facility. At December 31, 2012, we had \$820 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

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pledge assets or permit liens on our property for the benefit of other debtholders. The Credit Facility also has a cross payment default provision, and the Credit Facility and certain of our debt securities also have cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. To the extent that our EBITDA (as defined in our Credit Facility) is reduced by cash settlements or judgments, including in respect of any of the matters discussed in Note 15–Commitments and Contingencies to the consolidated financial statements in Item 8 of this 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.

In April 2011, we entered into a \$160 million uncommitted revolving letter of credit facility. At December 31, 2012, our outstanding letters of credit totaled \$120 million under this facility.

### ***Stock Repurchase Program***

On February 13, 2013, we announced our board's approval of a two-year program to repurchase up to an aggregate of \$2.0 billion of our outstanding common stock. We expect to execute this share repurchase program primarily in open market transactions, subject to market conditions and other factors.

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

Approximately \$176 million of our CenturyLink, Inc. Series O 5.500% notes will mature on April 1, 2013, and \$750 million of Qwest Corporation floating rate senior notes will mature on June 15, 2013. In addition, approximately \$59 million of Embarq 6.875% notes and \$50 million of Embarq 6.750% notes will mature on July 15, 2013 and August 15, 2013, respectively. 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 QC debt securities to refinance its maturing debt. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us and QC by credit rating agencies, among others factors.

Following our announcement on February 13, 2013 of changes in our capital allocation plans, one credit agency downgraded CenturyLink's debt credit ratings and another indicated that it has placed CenturyLink's debt credit ratings under review for a downgrade. As of the date of this report, the credit ratings for the senior unsecured debt of CenturyLink, Inc. and Qwest Corporation were as follows:

<b>Agency</b>	<b>CenturyLink, Inc.</b>	<b>Qwest Corporation</b>
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc.	Baa3	Baa3
	(under review for downgrade)	(under review for downgrade)
Fitch Ratings	BB+	BBB-

Additional downgrades of CenturyLink's senior unsecured debt ratings could under certain circumstances incrementally increase the cost of our borrowing under the Credit Facility or require us to add a couple of additional subsidiary guarantors thereunder. In addition, the recent actions of the credit agencies, and any additional downgrades in the future, 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 this report.

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**Future Contractual Obligations**

The following table summarizes our estimated future contractual obligations as of December 31, 2012:

	2013	2014	2015	2016	2017	2018 and thereafter	Total
<b>(Dollars in millions)</b>							
Long-term debt, including current maturities and capital lease obligations	\$ 1,205	781	545	1,488	2,313	14,255	20,587
Interest on long-term debt and capital leases <sup>(1)</sup>	1,317	1,279	1,220	1,148	1,034	14,397	20,395
Operating leases	297	252	219	183	156	964	2,071
Purchase commitments <sup>(2)</sup>	213	76	53	45	41	96	524
Post-retirement benefit obligation	74	73	72	70	68	1,100	1,457
Non-qualified pension obligations	6	5	5	5	5	22	48
Unrecognized tax benefits <sup>(3)</sup>	–	–	–	–	–	87	87
Other	14	4	5	8	11	135	177
<b>Total future contractual obligations<sup>(4)</sup></b>	<b>\$ 3,126</b>	<b>2,470</b>	<b>2,119</b>	<b>2,947</b>	<b>3,628</b>	<b>31,056</b>	<b>45,346</b>

(1) Actual interest paid in all years may differ due to future refinancing of debt. Interest on our floating rate debt was calculated for all years using the rates effective at December 31, 2012.

(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 the level of services we expect to receive.

(3) Represents the amount of tax and interest we would pay for our unrecognized tax benefits. Of our total balance of unrecognized tax benefits of \$78 million and related estimated interest and penalties of \$33 million, only \$87 million would result in future cash payments if our tax positions were not upheld. The remaining \$24 million is an unrecognized tax benefit in the form of a refund claim that, if not granted, would not result in a cash payment and therefore is not included in the table above. See Note 12–Income Taxes to the consolidated financial statements in Item 8 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 "2018 and thereafter" column in the above table.

(4) The table is limited to contractual obligations only and does not include:

contingent liabilities;

our open purchase orders as of December 31, 2012. 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 8–Employee Benefits to the consolidated financial statements in Item 8 of this report;

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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 2013, the contract termination fees would be approximately \$495 million. Under the same assumption, termination fees for these contracts to purchase goods and services would be \$31 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. Historically, we have not incurred significant costs related to performance under these types of arrangements.

### ***Capital Expenditures***

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted revenue growth, operating, productivity, expense or service impacts) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations. We estimate our total 2013 capital expenditures to be approximately \$2.85 billion to \$3.05 billion.

Our capital expenditures continue to be focused on our strategic services such as video, broadband and managed hosting services. In particular, we expect to continue to focus on expanding our fiber infrastructure, including installations of "fiber to the tower," which is a type of telecommunications network consisting of fiber-optic cables that run from a wireless carrier's mobile telephone switching office to cellular towers to enable the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional copper-based telecommunications network. For more information on capital spending, see Items 1 and 1A of this report.

We have agreed to accept approximately \$35 million of the \$90 million available to us from Phase 1 of the FCC's Connect America Fund ("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 45,000 homes in unserved rural areas principally in Colorado, Minnesota, New Mexico, Virginia and Washington. We determined that restrictions on the use of these funds have made acceptance of additional CAF funds uneconomical. We have, however, filed with the FCC a waiver application, which, if granted, would allow us to deploy broadband services with CAF funds to approximately 60,000 more homes in high-cost unserved areas in our markets. We received approximately \$32 million in CAF funds during 2012 and received approximately \$3 million in January 2013.

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

We are subject to material obligations under our existing defined benefit pension plans and other post-retirement benefit plans. The accounting unfunded status as of December 31, 2012 of our defined pension plans and other post-retirement benefit obligations were \$2.6 billion and \$3.4 billion, respectively. See Note 8—Employee Benefits to the consolidated financial statements in Item 8 of this report for additional information about our pension and other post-retirement benefit arrangements.

Benefits paid by our qualified pension plans are paid through a trust that holds all plan assets. We made cash contributions of \$32 million during the year ended December 31, 2012 to our qualified pension plans. In the first quarter of 2013, we made cash contributions totaling \$147 million. Based on current laws and circumstances, we do not expect any further required contributions to the plans for



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the remainder of 2013. For information on a 2012 law that reduced the amount of our required pension plan cash contributions, please see our Quarterly Report on Form 10-Q for the quarter ended September 30, 2012.

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, 2012, the fair value of these trust assets was \$626 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 four years. Thereafter, covered benefits will be paid either directly by us or from the trusts as the remaining assets become liquid. This projected four year period could be substantially shorter or longer depending on returns on plan assets, the timing of maturities of illiquid plan assets and future changes in benefits.

Our estimated annual long-term rate of return on the pension plans trust assets is 7.50% and for the post-retirement plans trust assets ranges from 6.00% to 7.50% based on the assets currently held; however, actual returns could vary widely in any given year.

**Historical Information**

The following table summarizes our consolidated cash flow activities (which include cash flows from Savvis and Qwest after their respective acquisition dates):

	Years Ended December 31,		Increase (Decrease)
	2012	2011	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 6,065	4,201	1,864
Net cash used in investing activities	(2,690)	(3,647)	(957)
Net cash used in financing activities	(3,295)	(577)	2,718

	Years Ended December 31,		Increase (Decrease)
	2011	2010	
	(Dollars in millions)		
Net cash provided by operating activities	\$ 4,201	2,045	2,156
Net cash used in investing activities	(3,647)	(859)	2,788
Net cash used in financing activities	(577)	(1,175)	(598)

The increase in net cash provided by operating activities for 2012 and 2011 is primarily attributable to the acquisitions of Qwest and Savvis, which contributed net cash provided by operating activities of approximately \$3.4 billion in 2012 and \$2.2 billion in 2011. Our consolidated financial statements in Item 8 of this report provide information about the components of net income and differences between net income and net cash provided by operating activities. For additional information about our operating results, see "Results of Operations" above.

Net cash used in investing activities included payments for property, plant and equipment and capitalized software of \$2.9 billion in 2012, including \$1.9 billion for Qwest and Savvis' capital expenditures. Net cash used in investing activities included payments for property, plant and equipment and capitalized software of \$2.4 billion in 2011, including \$1.3 billion for Qwest and Savvis' post-acquisition capital expenditures, compared to \$864 million in 2010. In addition, we paid \$1.7 billion, net of \$61 million cash received, for the acquisition of Savvis on July 15, 2011. Cash used in investing activities in 2011 was partially offset by cash acquired through the April 1, 2011 acquisition of Qwest of \$419 million, net of \$5 million cash paid.



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Net cash used in financing activities increased in 2012 compared to 2011, primarily due to a net long-term debt pay down of \$1.8 billion in 2012 versus a net long-term debt issuance of \$1.1 billion in 2011, a \$2.9 billion difference. This difference was primarily due to the \$2 billion senior notes issued in June 2011 to finance the Savvis acquisition. Also contributing was a \$255 million increase in dividends paid attributable to an increase in the average number of shares outstanding. These increases in cash used in financing activities were partially offset by a \$631 million increase in net borrowings under our Credit Facility. Net cash used in financing activities decreased in 2011 primarily due to us receiving net debt proceeds in excess of payments of approximately \$1.1 billion in 2011 versus debt payments of \$500 million in 2010. In addition, our cash dividends paid increased \$677 million in 2011 as compared to 2010 primarily as a result of the issuance of 308 million common shares in connection with our acquisitions of Qwest and Savvis in 2011.

On October 26, 2012, QCII redeemed all \$550 million of its 8.00% Notes due 2015, which resulted in a gain of \$15 million.

On August 29, 2012, certain subsidiaries of CenturyLink paid \$29 million and \$30 million, respectively, to retire its outstanding Rural Utilities Service and Rural Telephone Bank debt.

On August 15, 2012, CenturyLink paid at maturity the \$318 million principal amount of its 7.875% Notes.

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

On June 25, 2012, QC issued \$400 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$387 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after July 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On May 17, 2012, QCII redeemed \$500 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

On April 23, 2012, Embarq redeemed the remaining \$200 million of its 6.738% Notes due 2013, which resulted in an immaterial loss.

On April 18, 2012, CenturyLink entered into a term loan in the amount of \$440 million with CoBank and several other Farm Credit System banks. This term loan is payable in 29 consecutive quarterly installments of \$5.5 million in principal plus interest through April 18, 2019, when the balance will be due. We have the option of paying monthly interest based upon either London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our term loan is guaranteed by two of our wholly-owned subsidiaries, Embarq and Qwest Communications International Inc ("QCII"), and one of QCII's wholly-owned subsidiaries. The remaining terms and conditions of our term loan are substantially similar to those set forth in our Credit Facility (as described further in Note 4—Long-Term Debt and Credit Facilities to the consolidated financial statements in Item 8 of this report).

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

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On April 2, 2012, QC issued \$525 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$508 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after April 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 2, 2012, Embarq completed a cash tender offer to purchase a portion of its \$528 million of 6.738% Notes due 2013 and its \$2.0 billion of 7.082% Notes due 2016. With respect to its 6.738% Notes due 2013, Embarq received and accepted tenders of approximately \$328 million aggregate principal amount of these notes, or 62%, for \$360 million including a premium, fees and accrued interest. With respect to its 7.082% Notes due 2016, Embarq received and accepted tenders of approximately \$816 million aggregate principal amount of these notes, or 41%, for \$944 million including a premium, fees and accrued interest. The completion of these tender offers resulted in a loss of \$144 million.

On March 12, 2012, CenturyLink issued (i) \$650 million aggregate principal amount of 7.65% Senior Notes due 2042 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$644 million and (ii) \$1.4 billion aggregate principal amount of 5.80% Senior Notes due 2022 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$1.389 billion. The Notes are unsecured obligations and may be redeemed at any time on the terms and conditions specified therein.

On March 1, 2012, QCII redeemed \$800 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

### ***Certain Matters Related to Acquisitions***

Qwest's pre-existing debt obligations consisted primarily of debt securities issued by QCII and two of its subsidiaries while Savvis' remaining long-term debt obligations consist primarily of capital leases, all of which are now included in our consolidated debt balances. The indentures governing Qwest's 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.

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

	Years Ended		Total Since Acquisition
	December 31,		
	2012	2011	
	(Dollars in millions)		
Amortized	\$ 86	154	240
Extinguished <sup>(1)</sup>	177	58	235
Total premiums recognized	\$ 263	212	475

(1) See "Debt and Other Financing Arrangements" for more information

The remaining premium of \$218 million as of December 31, 2012 will reduce interest expense in future periods, unless otherwise extinguished.

### ***Net Operating Loss Carryforwards***

We are currently using federal NOLs to offset a portion of our federal taxable income. We expect to deplete a significant portion of these NOLs and certain other deferred tax attributes by 2014, and substantially all of these tax benefits by 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. For additional information, see "Risk Factors—Risks Related to our Recent Acquisitions" appearing in Item 1A of Part II of this report.

### ***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. In accordance with generally accepted accounting principles, these advances are eliminated as intercompany transactions. Although CenturyLink periodically repays 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 are not recognized on our consolidated balance sheets.

In connection with reclassifying certain wireless spectrum assets as assets held for sale, during the second quarter of 2012 we reclassified \$154 million from "other intangible assets, net" to "current assets—other." For more information on the sale of these assets, see "Business—Operations—Products and Services—Additional Information" in Item 1 of this report.

We also are involved in various legal proceedings that could have a material adverse effect on our financial position. See Note 15—Commitment and Contingencies to the consolidated financial statements in Item 8 of this report for the current status of such legal proceedings, including matters involving Qwest.

### **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.

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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, 2012, 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. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure.

There were no material changes to market risks arising from changes in interest rates for the year ended December 31, 2012, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2011.

At December 31, 2012, we have approximately \$19.9 billion (excluding capital lease and other obligations with a carrying amount of \$734 million) of long-term debt outstanding, 89.9% of which bears interest at fixed rates and is therefore not exposed to interest rate risk. We had \$2 billion 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 \$20 million.

With our acquisition of Savvis in July 2011, we have become exposed to the risk of fluctuations in the foreign currencies in which its international operations are denominated, primarily the Euro, the British Pound, the Canadian Dollar, the Japanese Yen and the Singapore Dollar. As a consolidated entity, the percentage of revenues generated and costs incurred that are denominated in these currencies are immaterial. 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 assets resulting from a hypothetical 10% change in these exchange rates was \$18 million at December 31, 2012.

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, 2012.

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

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we do not engage in leasing, hedging, or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 15–Commitments and Contingencies to the consolidated financial statements in Item 8 of this report, or in the Future Contractual Obligations table included in this Item 7 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 this report is incorporated herein by reference.

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Report of Management

The Shareholders

CenturyLink, Inc.:

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements. The consolidated financial statements 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).

Management is responsible for establishing and maintaining adequate internal control over financial reporting, 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* 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, 2012. The effectiveness of our internal control over financial reporting at December 31, 2012 has been audited by KPMG LLP, as stated in their report which is included herein.

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.

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.

/s/ R. Stewart Ewing, Jr.

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R. Stewart Ewing, Jr.

Executive Vice President, Chief Financial Officer and Assistant Secretary

March 1, 2013

## 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, 2012 and 2011, 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, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Shreveport, Louisiana

March 1, 2013

## 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, 2012, based on criteria established in *Internal Control–Integrated Framework* 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 *Report of Management*. 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, 2012, based on criteria established in *Internal Control–Integrated Framework* 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, 2012 and 2011, 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, 2012, and our report dated March 1, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Shreveport, Louisiana

March 1, 2013

**CENTURYLINK, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions, except per share amounts and shares in thousands)</b>		
OPERATING REVENUES	\$ 18,376	15,351	7,042
OPERATING EXPENSES			
Cost of services and products (exclusive of depreciation and amortization)	7,639	6,325	2,544
Selling, general and administrative	3,244	2,975	1,004
Depreciation and amortization	4,780	4,026	1,434
Total operating expenses	15,663	13,326	4,982
OPERATING INCOME	2,713	2,025	2,060
OTHER INCOME (EXPENSE)			
Interest expense	(1,319)	(1,072)	(544)
Net loss on early retirement of debt	(179)	(8)	-
Other income	35	3	15
Total other income (expense)	(1,463)	(1,077)	(529)
INCOME BEFORE INCOME TAX EXPENSE	1,250	948	1,531
Income tax expense	473	375	583
NET INCOME	\$ 777	573	948
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$ 1.25	1.07	3.13
DILUTED	\$ 1.25	1.07	3.13
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
BASIC	620,205	532,780	300,619
DILUTED	622,285	534,121	301,297

See accompanying notes to consolidated financial statements.



**CENTURYLINK, INC.**  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
NET INCOME	<u>\$ 777</u>	<u>573</u>	<u>948</u>
OTHER COMPREHENSIVE (LOSS) INCOME:			
Items related to employee benefit plans:			
Change in net actuarial loss, net of \$432, \$508 and \$32 tax	(694)	(812)	(53)
Change in net prior service credit, net of \$4, \$23 and \$2 tax	(6)	(37)	(3)
Auction rate securities marked to market, net of \$(1), \$2 and \$- tax	2	(4)	-
Auction rate securities settlements reclassified to net income, net of \$(1), \$- and \$- tax	3	-	-
Foreign currency translation adjustment and other, net of \$-, \$2 and \$- tax	6	(18)	-
Other comprehensive (loss) income	<u>(689)</u>	<u>(871)</u>	<u>(56)</u>
COMPREHENSIVE INCOME (LOSS)	<u>\$ 88</u>	<u>(298)</u>	<u>892</u>

See accompanying notes to consolidated financial statements.

**CENTURYLINK, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions and shares in thousands)</b>	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 211	128
Accounts receivable, less allowance of \$158 and \$145	1,917	1,950
Income tax receivable	42	27
Deferred income taxes, net	891	1,019
Other	552	393
Total current assets	3,613	3,517
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>		
Property, plant and equipment	32,086	29,585
Accumulated depreciation	(13,054)	(10,141)
Net property, plant and equipment	19,032	19,444
<b>GOODWILL AND OTHER ASSETS</b>		
Goodwill	21,732	21,732
Customer relationships, net	7,052	8,239
Other intangible assets, net	1,795	2,243
Other, net	796	869
Total goodwill and other assets	31,375	33,083
<b>TOTAL ASSETS</b>	<b>\$ 54,020</b>	<b>56,044</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 1,205	480
Accounts payable	1,207	1,400
Accrued expenses and other liabilities		
Salaries and benefits	683	633
Income and other taxes	356	383
Interest	268	293
Other	234	255
Advance billings and customer deposits	642	573
Total current liabilities	4,595	4,017
<b>LONG-TERM DEBT</b>	19,400	21,356
<b>DEFERRED CREDITS AND OTHER LIABILITIES</b>		
Deferred income taxes, net	3,644	3,800
Benefit plan obligations, net	5,844	4,855
Other	1,248	1,189
Total deferred credits and other liabilities	10,736	9,844
<b>COMMITMENTS AND CONTINGENCIES (Note 15)</b>		

**STOCKHOLDERS' EQUITY**

Preferred stock – non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 9 shares	–	–
Common stock, \$1.00 par value, authorized 1,600,000 and 800,000 shares, respectively, issued and outstanding 625,658 and 618,514 shares	626	619
Additional paid-in capital	19,079	18,901
Accumulated other comprehensive (loss) income	(1,701)	(1,012)
Retained earnings	1,285	2,319
Total stockholders' equity	<u>19,289</u>	<u>20,827</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 54,020</u></u>	<u><u>56,044</u></u>

See accompanying notes to consolidated financial statements.

**CENTURYLINK, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 777	573	948
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,780	4,026	1,434
Deferred income taxes	394	395	132
Provision for uncollectible accounts	187	153	91
Long-term debt (premium) discount amortization	(88)	(148)	1
Net loss on early retirement of debt	179	8	-
Changes in current assets and current liabilities:			
Accounts receivable	(154)	(102)	(118)
Accounts payable	(72)	(58)	(96)
Accrued income and other taxes	(14)	31	38
Other current assets and other current liabilities, net	16	(76)	(127)
Retirement benefits	(169)	(688)	(271)
Changes in other noncurrent assets and liabilities	161	(6)	(13)
Other, net	68	93	26
Net cash provided by operating activities	<u>6,065</u>	<u>4,201</u>	<u>2,045</u>
<b>INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment and capitalized software	(2,919)	(2,411)	(864)
Cash paid for Savvis acquisition, net of \$61 cash acquired	-	(1,671)	-
Cash acquired in Qwest acquisition, net of \$5 cash paid	-	419	-
Proceeds from sale of property and intangible assets	191	-	-
Other, net	38	16	5
Net cash used in investing activities	<u>(2,690)</u>	<u>(3,647)</u>	<u>(859)</u>
<b>FINANCING ACTIVITIES</b>			
Net proceeds from issuance of long-term debt	3,362	4,102	-
Payments of long-term debt	(5,118)	(2,984)	(500)
Net borrowings (payments) on credit facility	543	(88)	74
Early retirement of debt costs	(346)	(114)	-
Dividends paid	(1,811)	(1,556)	(879)
Net proceeds from issuance of common stock	110	103	130
Repurchase of common stock	(37)	(31)	(17)
Other, net	2	(9)	17
Net cash used in financing activities	<u>(3,295)</u>	<u>(577)</u>	<u>(1,175)</u>
Effect of exchange rate changes on cash and cash equivalents	3	(22)	-
Net increase (decrease) in cash and cash equivalents	83	(45)	11
Cash and cash equivalents at beginning of period	128	173	162
Cash and cash equivalents at end of period	<u>\$ 211</u>	<u>128</u>	<u>173</u>

Supplemental cash flow information:

Income taxes (paid) refunded, net	\$ (82)	\$ 118	(424)
Interest (paid) (net of capitalized interest of \$43, \$25 and \$13)	\$ (1,405)	\$ (1,225)	(548)

See accompanying notes to consolidated financial statements.

**CENTURYLINK, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
<b>COMMON STOCK (represents dollars and shares)</b>			
Balance at beginning of period	\$ 619	305	299
Issuance of common stock to acquire Qwest, including shares issued in connection with share-based compensation awards	-	294	-
Issuance of common stock to acquire Savvis, including shares issued in connection with share-based compensation awards	-	14	-
Issuance of common stock through dividend reinvestment, incentive and benefit plans	8	6	6
Shares withheld to satisfy tax withholdings	(1)	-	-
Balance at end of period	<u>626</u>	<u>619</u>	<u>305</u>
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of period	18,901	6,181	6,020
Issuance of common stock to acquire Qwest, including assumption of share-based compensation awards	-	11,974	-
Issuance of common stock to acquire Savvis, including assumption of share-based compensation awards	-	601	-
Issuance of common stock through dividend reinvestment, incentive and benefit plans	102	97	124
Shares withheld to satisfy tax withholdings	(34)	(30)	(16)
Share-based compensation and other, net	110	78	53
Balance at end of period	<u>19,079</u>	<u>18,901</u>	<u>6,181</u>
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME</b>			
Balance at beginning of period	(1,012)	(141)	(85)
Other comprehensive (loss) income	(689)	(871)	(56)
Balance at end of period	<u>(1,701)</u>	<u>(1,012)</u>	<u>(141)</u>
<b>RETAINED EARNINGS</b>			
Balance at beginning of period	2,319	3,302	3,233
Net income	777	573	948
Dividends declared	(1,811)	(1,556)	(879)
Balance at end of period	<u>1,285</u>	<u>2,319</u>	<u>3,302</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>\$19,289</u>	<u>20,827</u>	<u>9,647</u>

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Unless the context requires otherwise, references in this report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, including SAVVIS, Inc. and its consolidated subsidiaries (referred to as "Savvis") for periods on or after July 15, 2011 and Qwest Communications International Inc. and its consolidated subsidiaries (referred to as "Qwest") for periods on or after April 1, 2011.*

**(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, network access, private line (including special access), public access, broadband, data, managed hosting (including cloud hosting), colocation, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers and security monitoring.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries over which we exercise control. These subsidiaries include our acquisition of SAVVIS, Inc. ("Savvis") on July 15, 2011 and Qwest Communications International Inc. ("Qwest") on April 1, 2011. See Note 2—Acquisitions for additional information. All intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain of Qwest's legacy systems to our historical company systems. This transition resulted in an estimated \$40 million to \$55 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if Qwest had continued to use its legacy systems and a corresponding estimated \$40 million to \$55 million decrease in operating expenses for the year ended December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$25 million to \$34 million, or \$0.04 to \$0.05 per basic and diluted common share, for the year ended December 31, 2012.

Effective January 1, 2012, we changed our estimates of the remaining useful lives and net salvage value for certain telecommunications equipment. These changes resulted in additional depreciation expense of approximately \$26 million for the year ended December 31, 2012. This additional depreciation expense, net of tax, reduced net income by approximately \$16 million, or \$0.03 per basic and diluted common share, for the year ended December 31, 2012.

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

We also have reclassified certain other prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 13—Segment Information for additional information. These changes had no impact on total revenues, total operating expenses or net income for any period.

**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 made 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 revenue, 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 12–Income Taxes and Note 15–Commitments and Contingencies for additional information.

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

For matters related to income taxes, if 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 revenues 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 each element is allocated to each element based on the relative estimated selling price of the separate elements. We have estimated the selling prices of each



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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 have periodically transferred 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.

We offer some products and services that are 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 data 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 revenue, with a corresponding increase in the credit reserve.

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

In determining whether to include in our revenue and expenses the taxes and surcharges collected from customers and remitted to governmental 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 revenue 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 revenue 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. For the years ended December 31, 2012, 2011 and 2010, our advertising expense was \$189 million, \$275 million and \$49 million, 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. At December 31, 2012, we had established a \$281 million valuation allowance, primarily related to state NOLs, as it is more likely than not that this amount will not be utilized prior to expiration. See Note 12—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

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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. Property, plant and equipment purchased subsequent to our acquisitions 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 categorized in the year acquired on the basis of equal life groups for purposes of depreciation and tracking. 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 life of our asset base.

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 assets, other than goodwill and other intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For measurement 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 measured 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 years to 12.5 years, using either the sum-of-the-years-digits or straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years and amortize our other intangible assets predominantly using the sum-of-the-years digits method over an estimated life of four 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 group 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 with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of Accounting Standards Update ("ASU") 2012-2, Intangibles–Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we are required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

We are required to test 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 fair value. Our reporting units, which we refer to as our segments, 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 analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are allocated to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these allocations. 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 measurement date for testing goodwill impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units,

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which are our four operating segments (regional markets, wholesale markets, enterprise markets–network and enterprise markets–data hosting) that we recognized following our internal reorganization effective April 1, 2012. In the fourth quarter of 2012, we completed our annual impairment testing and concluded that our goodwill was not impaired as of September 30, 2012. See Note 3–Goodwill, Customer Relationships and Other Intangible Assets for additional information.

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

We periodically 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 periodic reviews.

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

We recognize the overfunded or underfunded status of our defined benefit and post-retirement plans as an asset or a liability on our 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) income. 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 and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 8–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. Resulting gains or losses from translating foreign currency are a component of our other comprehensive (loss) income, which is then included in our accumulated other comprehensive (loss) income. For the years ended December 31, 2012, 2011 and 2010, our foreign currency translation gain (loss), net of tax, was \$6 million, \$(15) million and \$-0- million, respectively.

### **Common Stock**

At December 31, 2012, we had unissued shares of CenturyLink common stock reserved of 34 million shares for incentive compensation, 4 million shares for acquisitions and 3 million shares for our employee stock purchase plan ("ESPP").

### **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.

### ***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

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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) Acquisitions**

*Acquisition of Savvis*

On July 15, 2011, we acquired all of the outstanding common stock of Savvis, a provider of cloud hosting, managed hosting, colocation and network services in domestic and foreign markets. We believe this acquisition enhances our ability to be an information technology partner with our existing business customers and strengthens our opportunities to attract new business customers in the future. Each share of Savvis common stock outstanding immediately prior to the acquisition converted into the right to receive \$30 per share in cash and 0.2479 shares of CenturyLink common stock. The aggregate consideration of \$2.382 billion consisted of:

cash payments of \$1.732 billion;

the 14.313 million shares of CenturyLink common stock issued to consummate the acquisition,

the closing stock price of CenturyLink common stock at July 14, 2011 of \$38.54; and

the estimated net value of the pre-combination portion of certain share-based compensation awards assumed by CenturyLink of \$98 million, of which \$33 million was paid in cash.

Upon completing the acquisition, we also paid \$547 million to retire certain pre-existing Savvis debt and accrued interest, and paid related transaction expenses totaling \$15 million. The cash payments required on or about the closing date were funded using existing cash balances, which included the net proceeds from the June 2011 issuance of senior notes with an aggregate principal amount of \$2 billion. See Note 4—Long-term Debt and Credit Facilities, for additional information about our senior notes.

We have completed our valuation of the fair value of Savvis' assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. The aggregate consideration paid by us exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$1.349 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, and product and market diversification that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

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The following is our assignment of the aggregate consideration:

	<u>July 15, 2011</u>
	<u>(Dollars in millions)</u>
Cash, accounts receivable and other current assets*	\$ 214
Property, plant and equipment	1,367
Identifiable intangible assets	
Customer relationships	739
Other	51
Other noncurrent assets	27
Current liabilities, excluding current maturities of long-term debt	(129)
Current maturities of long-term debt	(38)
Long-term debt	(840)
Deferred credits and other liabilities	(358)
Goodwill	1,349
Aggregate consideration	<u>\$ 2,382</u>

\* Includes estimated fair value of \$90 million for accounts receivable which had gross contractual value of \$101 million on July 15, 2011. The \$11 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of July 15, 2011 of contractual cash flows that would not be collected.

We have retrospectively adjusted our previously reported preliminary assignment of the aggregate Savvis consideration for changes to our original estimates. These changes are the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2011, which occurred during the one-year measurement period. Due to these revisions in our estimates, (i) customer relationships decreased \$55 million due to a decrease in our customer relationships valuation, (ii) property, plant and equipment increased \$32 million primarily from a revision to our valuation of our capital lease assets, and (iii) deferred credits and other liabilities decreased by \$30 million primarily from changes in deferred taxes. Among other minor revisions, goodwill decreased by \$8 million as an offset to the above-mentioned changes. The depreciation and amortization expense impact of the adjustments to intangible assets and property, plant and equipment valuations did not result in a material change to previously-reported amounts.

### ***Acquisition of Qwest***

On April 1, 2011, we acquired all of the outstanding common stock of Qwest, a provider of data, Internet, video and voice services nationwide and globally. We entered into this acquisition, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks. As of the acquisition date, Qwest served approximately 9.0 million access lines and approximately 3.0 million broadband subscribers across 14 states. Each share of Qwest common stock outstanding immediately prior to the acquisition converted into the right to receive 0.1664 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. The aggregate consideration was \$12.273 billion based on:

the 294 million shares of CenturyLink common stock issued to consummate the acquisition;

the closing stock price of CenturyLink common stock at March 31, 2011 of \$41.55;

the estimated net value of the pre-combination portion of share-based compensation awards assumed by CenturyLink of \$52 million (excluding the value of restricted stock included in the number of issued shares specified above); and

cash paid in lieu of the issuance of fractional shares of \$5 million.



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We assumed approximately \$12.7 billion of long-term debt in connection with our acquisition of Qwest.

We have completed our valuation of the fair value of Qwest's assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. The aggregate consideration exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$10.123 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

The following is our assignment of the aggregate consideration:

	<u>April 1, 2011</u>
	<u>(Dollars in millions)</u>
Cash, accounts receivable and other current assets*	\$ 2,121
Property, plant and equipment	9,529
Identifiable intangible assets	
Customer relationships	7,558
Capitalized software	1,702
Other	189
Other noncurrent assets	390
Current liabilities, excluding current maturities of long-term debt	(2,426)
Current maturities of long-term debt	(2,422)
Long-term debt	(10,253)
Deferred credits and other liabilities	(4,238)
Goodwill	10,123
Aggregate consideration	<u>\$ 12,273</u>

\* Includes estimated fair value of \$1.194 billion for accounts receivable which had gross contractual value of \$1.274 billion on April 1, 2011. The \$80 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of April 1, 2011 of contractual cash flows that would not be collected.

We have retrospectively adjusted our reported assignment of the aggregate Qwest consideration for changes to our original estimates of the fair value of certain items at the acquisition date. These changes are the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2011, which occurred during the one-year measurement period. Due to these revisions of our estimates, (i) identifiable intangible assets decreased due to a \$67 million decrease in our customer relationships valuation, (ii) property, plant and equipment decreased by \$24 million primarily from a revision to our valuation of our buildings, and (iii) deferred credits and other liabilities decreased by \$63 million primarily from a revision to one of our lease valuations and changes in tax liabilities. Among other minor revisions, goodwill increased by \$17 million as an offset to the above-mentioned changes. The depreciation and amortization expense impact of the adjustments to intangible assets and property, plant and equipment valuations did not result in a material change to previously reported amounts.

On the acquisition date, we assumed Qwest's contingencies. For more information on our contingencies, see Note 15—Commitments and Contingencies.



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**Acquisition-Related Expenses**

We have incurred operating expenses related to our acquisition of Savvis in July 2011, Qwest in April 2011 and Embarq in July 2009. The table below summarizes our expenses related to our acquisitions, which consist primarily of integration and severance expenses:

	Years Ended December 31,		
	2012	2011	2010
Acquisition-related expenses	\$ 83	467	145

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

At December 31, 2012, we had incurred cumulative acquisition related expenses, consisting primarily of integration and severance related expenses, of \$56 million for Savvis and \$464 million for Qwest. In addition to the acquisition-related expenses included in the schedule for the year ended December 31, 2011, transaction expenses in the amount of \$16 million were incurred in connection with terminating an unused loan financing commitment related to our Savvis acquisition. This amount was not considered an operating activity and therefore not included as an operating expense.

Qwest incurred cumulative pre-acquisition related expenses of \$71 million, including \$36 million in periods prior to being acquired and \$35 million on the date of acquisition. Savvis incurred cumulative pre-acquisition related expenses of \$22 million, including \$3 million in periods prior to being acquired and \$19 million on the date of acquisition. These amounts are 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 Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used to a comparison of our consolidated results for the years ended December 31, 2012 and 2011, mean the business we operated prior to the Qwest and Savvis acquisitions.

**Combined Pro Forma Operating Results (Unaudited)**

The following unaudited pro forma financial information presents the combined results of CenturyLink as if the Qwest and Savvis acquisitions had been consummated as of January 1, 2010.

	Years Ended December 31,	
	2011	2010
Operating revenues	\$ 18,692	19,431
Net income	601	293
Basic earnings per common share	.97	.48
Diluted earnings per common share	.97	.48

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 and deferred expenses associated with installation activities and capacity leases that were assigned no

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value at the acquisition date and the elimination of transactions among CenturyLink, Qwest and Savvis that are now subject to intercompany elimination;

increased amortization expense related to identifiable intangible assets, net of decreased depreciation expense to reflect the fair value of property, plant and equipment;

decreased recognition of retiree benefit expenses for Qwest due to the elimination of unrecognized actuarial losses;

decreased interest expense primarily due to the amortization of an adjustment to reflect the increased fair value of long-term debt of Qwest recognized on the acquisition date; and

the related income tax effects.

The pro forma information does not necessarily reflect the actual results of operations had the Qwest and Savvis acquisitions been consummated at January 1, 2010, nor is it necessarily indicative of future operating results. The pro forma information does not adjust for integration costs incurred by us, Qwest and Savvis during 2011 (which are further described above in this note) or 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 the respective acquisition dates).

**(3) Goodwill, Customer Relationships and Other Intangible Assets**

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

	<b>December 31, December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Goodwill	\$ 21,732	21,732
Customer relationships, less accumulated amortization of \$2,524 and \$1,337	7,052	8,239
Indefinite-life intangible assets	268	422
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$814 and \$441	1,399	1,622
Trade names and patents, less accumulated amortization of \$142 and \$71	128	199
Total other intangible assets, net	\$ 1,795	2,243

Total amortization expense for intangible assets for the years ended December 31, 2012, 2011 and 2010 was \$1.682 billion, \$1.425 billion and \$206 million, respectively.

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We estimate that total amortization expense for intangible assets for the years ending December 31, 2013 through 2017 will be as follows:

<b>(Dollars in millions)</b>		
2013	\$	1,493
2014		1,369
2015		1,232
2016		1,104
2017		983

Our goodwill was derived from numerous acquisitions whereby the purchase price exceeded the fair value of the net assets acquired. For more information on our recent acquisitions and resulting fair values, see Note 2–Acquisitions. During the year ended December 31, 2012, during the respective one-year measurement periods for our recent acquisitions we retrospectively adjusted our previously reported preliminary assignment of the aggregate consideration for changes to our original estimates. Due to these revisions in our estimates, goodwill increased by \$8 million. This adjustment to goodwill has been reflected in the balance sheets for both December 31, 2012 and December 31, 2011.

Effective April 1, 2012, we restructured our operating segments to support our new operating structure. As a result, we reassigned goodwill to our reporting units using a relative fair value allocation approach. As of December 31, 2012, we attributed our goodwill balances to our segments as follows:

<b>December 31, 2012</b>		
<b>(Dollars in millions)</b>		
Regional markets	\$	15,170
Wholesale markets		3,283
Enterprise markets–network		1,788
Enterprise markets–data hosting		1,491
<b>Total goodwill</b>	<b>\$</b>	<b>21,732</b>

We test our goodwill 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 in periods in which the recorded amount of goodwill exceeds the estimated fair value. Our annual measurement date for testing impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units, which are our four operating segments (regional markets, wholesale markets, enterprise markets–network and enterprise markets–data hosting) that we recognized following our internal reorganization in the second quarter of 2012.

We adopted the provisions of ASU 2011-08, Testing Goodwill for Impairment, in the third quarter of 2011, which permits us to make a qualitative assessment of whether it is more likely than not that a reporting unit's, which we refer to as our segments, fair value is less than its carrying amount before applying the two-step goodwill impairment test, which requires us (i) in step one, to identify potential impairments by comparing the estimated fair value of a reporting unit against its carrying value and (ii) in step two, to quantify any impairment identified in step one. At September 30, 2012, as a result of the recent internal reorganization of our four segments we did not have a baseline valuation to perform a qualitative assessment. We estimated the fair value of our four segments using an equal weighting based on a market approach and a discounted cash flow method. The market approach 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 segments beyond the cash flows from the discrete nine-year projection period. We discounted the estimated cash flows for our regional

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markets, wholesale markets, and enterprise markets–network segments using a rate that represents a market participant's weighted average cost of capital, which we determined to be approximately 6.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 8.4%). We discounted the estimated cash flows of our enterprise markets–data hosting segment using a rate that represents a market participant's estimated weighted average cost of capital, which we determined to be approximately 11.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 12.0%). We also reconciled the estimated fair values of the segments to our market capitalization as of September 30, 2012 and concluded that the indicated implied control premium of approximately 14% was reasonable based on recent transactions in the market place. Based on our analysis performed with respect to our reporting units described above, we have concluded that our goodwill is not impaired.

Our long-lived intangible assets with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of ASU 2012-2, Intangibles–Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we will be required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

During the second quarter of 2012, we committed to a plan to sell our Advanced Wireless Services A Block and 700 MHz wireless in the A, B, and C Blocks, which in the aggregate had a basis of \$154 million. We sold \$58 million of our wireless spectrum assets during the fourth quarter of 2012, and we sold another \$43 million of our wireless spectrum assets in January 2013. In the aggregate, these transactions resulted in a gain of \$32 million. We expect to reach agreements with various other purchasers for the remaining spectrum, and the consummation of which will be subject to regulatory approval.

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**(4) Long-Term Debt and Credit Facilities**

Long-term debt, including unamortized discounts and premiums, at December 31, 2012 and 2011 consisted of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest and Embarq Corporation ("Embarq"), as follows:

	Interest Rates	Maturities	December 31,	
			2012	2011
<b>(Dollars in millions)</b>				
<b>CenturyLink, Inc.</b>				
Senior notes	5.000% - 7.650%	2013 - 2042	\$ 6,250	4,518
Credit facility <sup>(1)</sup>	1.960% - 4.000%	2017	820	277
Term loan	2.22%	2019	424	–
<b>Subsidiaries</b>				
Qwest				
Senior notes <sup>(2)</sup>	3.558% - 8.375%	2013 - 2052	9,168	11,460
Embarq				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	4,013
First mortgage bonds	6.875% - 8.770%	2013 - 2025	322	322
Other	6.750% - 9.000%	2013 - 2019	200	200
Other subsidiary notes				
First mortgage notes			–	65
Capital lease and other obligations	Various	Various	734	712
Unamortized premiums (discounts) and other, net			18	269
Total long-term debt			20,605	21,836
Less current maturities			(1,205)	(480)
Long-term debt, excluding current maturities			\$ 19,400	21,356

(1) The information presented here illustrates the interest rates and maturity on our credit facility as amended and restated on April 6, 2012. The outstanding amount of our Credit Facility borrowings at December 31, 2012 was \$820 million with a weighted average interest rate of 2.45%.

(2) The \$750 million of Qwest Corporation Notes due 2013 are floating rate notes, with a rate that resets every three months. As of the most recent measurement date of December 17, 2012, the rate for these notes was 3.558%.

***New Issuances***

**2012**

On June 25, 2012, QC issued \$400 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$387 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after July 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 18, 2012, CenturyLink entered into a term loan in the amount of \$440 million with CoBank and several other Farm Credit System banks. This term loan is payable in 29 consecutive quarterly installments of \$5.5 million in principal plus interest through April 18, 2019, when the balance will be due. We have the option of paying monthly interest based upon either 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

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rate loans depending on our then current senior unsecured long-term debt rating. Our term loan is guaranteed by two of our wholly-owned subsidiaries, Embarq and QCII, and one of QCII's wholly-owned subsidiaries. The remaining terms and conditions of our term loan are substantially similar to those set forth in our Credit Facility, described in this Note below under "Credit Facilities."

On April 2, 2012, QC issued \$525 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$508 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after April 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On March 12, 2012, CenturyLink issued (i) \$650 million aggregate principal amount of 7.65% Senior Notes due 2042 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$644 million and (ii) \$1.4 billion aggregate principal amount of 5.80% Senior Notes due 2022 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$1.389 billion. The Notes are unsecured obligations and may be redeemed at any time on the terms and conditions specified therein.

### **2011**

On October 4, 2011, our indirect wholly owned subsidiary, QC issued \$950 million aggregate principal amount of its 6.75% Notes due 2021 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$927 million. The notes are senior unsecured obligations of QC and may be redeemed, in whole or in part, at a redemption price equal to the greater of their principal amount or the present value of the remaining principal and interest payments discounted at a U.S. Treasury interest rate specified in the indenture agreement plus 50 basis points. In October 2011, QC used the net proceeds from this offering, together with the \$557 million of net proceeds received on September 21, 2011 from the debt issuance described below and available cash, to redeem the \$1.500 billion aggregate principal amount of its 8.875% Notes due 2012 and to pay all related fees and expenses, which resulted in an immaterial loss.

On September 21, 2011, QC issued \$575 million aggregate principal amount of its 7.50% Notes due 2051 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$557 million. The notes are senior unsecured obligations of QC and may be redeemed, in whole or in part, on or after September 15, 2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On June 16, 2011, we issued unsecured senior notes with an aggregate principal amount of \$2.0 billion ("Senior Notes"), consisting of (i) \$400 million of 7.60% Senior Notes, Series P, due 2039, (ii) \$350 million of 5.15% Senior Notes, Series R, due 2017 and (iii) \$1.250 billion of 6.45% Senior Notes, Series S, due 2021. After deducting underwriting discounts and expenses, we received aggregate net proceeds of \$1.959 billion in exchange for the Senior Notes. We may redeem the Senior Notes, in whole or in part, at any time at a redemption price equal to the greater of their principal amount or the present value of the remaining principal and interest payments discounted at a U.S. Treasury interest rates plus 50 basis points. We used the net proceeds to fund a portion of our acquisition of Savvis and repay certain of Savvis' debt. See Note 2—Acquisitions for additional information. In April 2011, we received commitment letters from two banks to provide up to \$2.0 billion in bridge financing for the Savvis acquisition. This arrangement was terminated in June 2011 in connection with the issuance of the Senior Notes resulting in \$16 million in transaction expenses recognized in other income (expense), net.

On June 8, 2011, QC issued \$661 million aggregate principal amount of its 7.375% Notes due 2051 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$642 million. The notes are unsecured obligations of QC and may be redeemed, in whole or in part, on or after June 1,

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2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

**Repayments**

**2012**

On October 26, 2012, QCII redeemed all \$550 million of its 8.00% Notes due 2015, which resulted in a gain of \$15 million.

On August 29, 2012, certain subsidiaries of CenturyLink paid \$29 million and \$30 million, respectively, to retire its outstanding Rural Utilities Service and Rural Telephone Bank debt.

On August 15, 2012, CenturyLink paid at maturity the \$318 million principal amount of its 7.875% Notes.

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

On May 17, 2012, QCII redeemed \$500 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

On April 23, 2012, Embarq redeemed the remaining \$200 million of its 6.738% Notes due 2013, which resulted in an immaterial loss.

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

On April 2, 2012, Embarq completed a cash tender offer to purchase a portion of its \$528 million of 6.738% Notes due 2013 and its \$2.0 billion of 7.082% Notes due 2016. With respect to its 6.738% Notes due 2013, Embarq received and accepted tenders of approximately \$328 million aggregate principal amount of these notes, or 62%, for \$360 million including a premium, fees and accrued interest. With respect to its 7.082% Notes due 2016, Embarq received and accepted tenders of approximately \$816 million aggregate principal amount of these notes, or 41%, for \$944 million including a premium, fees and accrued interest. The completion of these tender offers resulted in a loss of \$144 million.

On March 1, 2012, QCII redeemed \$800 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

**2011**

In October 2011, QC used the net proceeds of \$927 million from the October 4, 2011 issuance, together with the \$557 million of net proceeds received from the September 21, 2011 debt issuance described above and available cash, to redeem the \$1.5 billion aggregate principal amount of its 8.875% Notes due 2012 and to pay all related fees and expenses, which resulted in an immaterial loss.

In June 2011, QC used the net proceeds of \$642 million from the June 8, 2011 debt issuance, together with available cash, to redeem \$825 million aggregate principal amount of its 7.875% Notes due 2011 and to pay related fees and expenses, which resulted in an immaterial loss.

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**Credit Facilities**

On April 6, 2012, we amended and restated our \$1.7 billion revolving credit facility to increase the aggregate principal amount available to \$2.0 billion and to extend the maturity date to April 2017. This amended credit facility (the "Credit Facility") has 18 lenders, with commitments ranging from \$2.5 million to \$181 million and allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which will reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (as defined in the Credit Facility) plus an applicable margin between 1.25% and 2.25% per annum for LIBOR loans and 0.25% 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 two of our wholly-owned subsidiaries, Embarq and QCII, and one of QCII's wholly-owned subsidiaries. In the event of a ratings decline below "investment grade" as defined, Savvis and its operating subsidiaries will become guarantors of the Credit Facility. As of December 31, 2012, there was \$820 million outstanding under the Credit Facility.

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, 2012, our outstanding letters of credit totaled \$120 million under this facility.

**Aggregate Maturities of Long-Term Debt**

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

	<b>(Dollars in millions)</b>	
2013	\$	1,205
2014		781
2015		545
2016		1,488
2017		2,313
2018 and thereafter		14,255
Total long-term debt	\$	20,587

**Interest Expense**

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

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Interest expense:			
Gross interest expense	\$ 1,362	1,097	557
Capitalized interest	(43)	(25)	(13)
Total interest expense	\$ 1,319	1,072	544



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### **Covenants**

Certain of our loan agreements contain various restrictions, as described more fully below. 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.

The indentures governing Qwest's debt securities contain customary covenants that restrict the ability of Qwest or its subsidiaries from incurring additional debt, making certain payments and investments, granting liens, and selling or transferring assets. 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.

Since the Qwest parent company has achieved investment grade ratings from one of the rating agencies, most of the covenants listed above have been suspended. These covenants will be reinstated if the Qwest parent company loses the investment grade rating from that agency. Under the indenture governing these notes, we must repurchase the notes upon certain changes of control, which were not triggered upon the acquisition on April 1, 2011. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in an aggregate amount in excess of \$100 million.

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. The indenture does not contain any financial covenants or restrictions on the ability to issue new securities in accordance with the terms of the indenture.

Several of our other subsidiaries have outstanding first mortgage bonds or notes. Each issue of these first mortgage bonds or notes is secured by substantially all of the property, plant and equipment of the issuing subsidiary. Approximately 21% of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

Under the Credit Facility, we, and our indirect subsidiary, QC, must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in our Credit Facility) ratio of not more than 4:1 and 2.85:1, 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 provides restrictions if we pledge assets or permit liens on our property, and requires that any advances under the Credit Facility must also be secured equally and ratably. 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.

At December 31, 2012, we were in compliance with all of the provisions and covenants contained in our Credit Facility and other debt agreements.

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**(5) Accounts Receivable**

The following table presents details of our accounts receivable balances:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011<sup>(1)</sup></b>
	<b>(Dollars in millions)</b>	
Trade and purchased receivables	\$ 1,782	1,768
Earned and unbilled receivables	274	296
Other	19	31
Total accounts receivable	2,075	2,095
Less: allowance for doubtful accounts	(158)	(145)
Accounts receivable, less allowance	\$ 1,917	1,950

(1) We have reclassified prior period amounts to conform to the current period presentation.

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:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Other</b>	<b>Ending Balance</b>
	<b>(Dollars in millions)</b>				
2012	\$ 145	187	(174)	-	158
2011	\$ 60	153	(68)	-	145
2010	\$ 48	91	(79)	-	60

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**(6) Property, Plant and Equipment**

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

	Depreciable Lives	December 31,	
		2012	2011
		(Dollars in millions)	
Land	N/A	\$ 579	590
Fiber, conduit and other outside plant <sup>(1)</sup>	15-45 years	13,030	12,415
Central office and other network electronics <sup>(2)</sup>	3-10 years	11,395	9,683
Support assets <sup>(3)</sup>	3-30 years	6,235	6,098
Construction in progress <sup>(4)</sup>	N/A	847	799
Gross property, plant and equipment		32,086	29,585
Accumulated depreciation		(13,054)	(10,141)
Net property, plant and equipment		\$ 19,032	19,444

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

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain of Qwest's legacy systems to our historical company systems. This transition resulted in an estimated \$40 million to \$55 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if Qwest had continued to use its legacy systems and a corresponding estimated \$40 million to \$55 million decrease in operating expenses for the year ended December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$25 million to \$34 million, or \$0.04 to \$0.05 per basic and diluted common share, for the year ended December 31, 2012.

Effective January 1, 2012, we changed our estimates of the remaining useful lives and net salvage value for certain telecommunications equipment. These changes resulted in additional depreciation expense of approximately \$26 million for the year ended December 31, 2012. This additional depreciation expense, net of tax, reduced net income by approximately \$16 million, or \$0.03 per basic and diluted common share, for the year ended December 31, 2012.

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.

During the first and second quarters of 2012, we retrospectively adjusted our reported preliminary assignment of the aggregate Qwest and Savvis consideration for changes to our original estimates of the fair value of buildings at the acquisition date. This retrospective adjustment increased the previously reported December 31, 2011 support assets by \$8 million.

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During 2012, we reclassified certain prior period amounts of inventory held for construction to conform to the current period presentation. This reclassification increased construction in progress at December 31, 2011 by \$55 million with an offsetting decrease to fiber, conduit and other outside plant and central office and other network electronics by \$8 million and \$47 million, respectively.

We recorded depreciation expense of \$3.098 billion, \$2.601 billion and \$1.228 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

### **Asset Retirement Obligations**

At December 31, 2012, 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,		
	2012	2011	2010
	(Dollars in millions)		
Balance at beginning of year	\$ 109	41	39
Accretion expense	7	9	2
Liabilities incurred	1	–	–
Liabilities assumed in Qwest and Savvis acquisitions	–	124	–
Liabilities settled and other	(1)	(3)	–
Change in estimate	(10)	(62)	–
Balance at end of year	<u>\$ 106</u>	<u>109</u>	<u>41</u>

During 2012 and 2011, we revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$10 million and \$62 million, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment.

### **(7) Severance and Leased Real Estate**

Periodically, we have reductions in our workforce and have accrued liabilities for related severance costs. These workforce reductions resulted primarily from the progression or completion of our integration plans, increased competitive pressures and reduced workload demands due to the loss of access lines.

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. We have not allocated any severance expense to our regional, enterprise and wholesale markets segments.

In periods prior to our acquisition of Qwest, Qwest had ceased using certain real estate that it was leasing under long-term operating leases. As of the April 1, 2011 acquisition date, we recognized 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 experience differs from

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our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities 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, 2012, the current and noncurrent portions of our leased real estate accrual were \$19 million and \$112 million, respectively. The remaining lease terms range from 0.1 to 13.0 years, with a weighted average of 9.0 years.

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

	<u>Severance</u>	<u>Real Estate</u>
	(Dollars in millions)	
Balance at December 31, 2010	\$ 18	–
Accrued to expense	132	6
Liabilities assumed in Qwest acquisition	20	168
Payments, net	(133)	(21)
Balance at December 31, 2011	37	153
Accrued to expense	96	2
Payments, net	(113)	(24)
Reversals and adjustments	(3)	–
Balance at December 31, 2012	<u>\$ 17</u>	<u>131</u>

Our severance expenses for the year ended December 31, 2011 included \$12 million of share-based compensation associated with the accelerated vesting of stock awards that occurred in connection with workforce reductions relating to the acquisition of Qwest.

**(8) Employee Benefits**

***Pension, Post-Retirement and Other Post-Employment Benefits***

We sponsor several defined benefit pension plans, which in the aggregate cover a substantial portion of our employees including separate plans for Legacy CenturyLink, Legacy Qwest and Legacy Embarq employees. Until such time as we elect to integrate the Qwest and Embarq benefit plans with ours, we plan to continue to operate these plans independently. Pension benefits for participants of these plans 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. In addition to these tax qualified pension plans, we also maintain non-qualified pension plans for certain 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**

In connection with the acquisition of Qwest on April 1, 2011, we assumed defined benefit pension plans sponsored by Qwest for its employees. Based on a valuation analysis, we recognized a \$490 million net liability at April 1, 2011 for the unfunded status of the Qwest pension plans, reflecting projected benefit obligations of \$8.3 billion in excess of the \$7.8 billion fair value of plan assets.

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 the pension plans is to make contributions with the objective of accumulating sufficient assets to pay all qualified

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pension benefits when due under the terms of the plans. The accounting unfunded status of our qualified pension plans was \$2.5 billion as of December 31, 2012.

We made cash contributions of approximately \$32 million in 2012 to our qualified pension plans. During the first quarter of 2013, we made a series of cash contributions totaling \$147 million to our qualified pension plans. Based on current laws and circumstances, we do not expect any further required contributions to these plans for the remainder of 2013.

In 2010, to align our benefit structure closer to those offered by our competitors, we froze our Legacy CenturyLink and Legacy Embarq pension benefit accruals for our non-represented employees at December 31, 2010. Such action resulted in a reduction of our benefit obligation of approximately \$110 million and resulted in the recognition of a curtailment gain of approximately \$21 million in 2010. Prior to their acquisition on April 1, 2011, Qwest had frozen its pension benefit accruals for non-represented employees.

**Other 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. Our plans use a December 31 measurement date.

In connection with the acquisition of Qwest on April 1, 2011, we assumed post-retirement benefit plans sponsored by Qwest for certain of its employees. At April 1, 2011, we recognized a \$2.5 billion liability for the unfunded status of Qwest's post-retirement benefit plans, reflecting estimated accumulated post-retirement benefit obligations of \$3.3 billion in excess of the \$762 million fair value of the plan assets.

No contributions were made to the post-retirement trusts in 2012 or 2011, and we do not expect to make a contribution in 2013.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2012:

	<b>100 Basis Points Change</b>	
	<b>Increase</b>	<b>(Decrease)</b>
	<b>(Dollars in millions)</b>	
Effect on the aggregate of the service and interest cost components of net periodic post-retirement benefit expense (statement of operations)	\$ 3	(3)
Effect on benefit obligation (balance sheet)	77	(70)

We expect our health care cost trend rate to decrease by 0.25% per year from 6.75% in 2013 to an ultimate rate of 4.50% in 2022. 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.

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**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.

	<b>Pension Plans</b>	<b>Post-Retirement Benefit Plans</b>	<b>Medicare Part D Subsidy Receipts</b>
	<b>(Dollars in millions)</b>		
<b>Estimated future benefit payments:</b>			
2013	\$ 1,051	377	(25)
2014	1,006	370	(26)
2015	996	358	(28)
2016	985	348	(29)
2017	972	338	(31)
2018 - 2022	4,626	1,511	(173)

**Net Periodic Benefit Expense**

The measurement date used to determine pension, non-qualified pension and post-retirement health care and life insurance benefits is December 31. 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.

	<b>Pension Plans</b>			<b>Post-Retirement Benefit Plans</b>		
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>	<b>2012</b>	<b>2011<sup>(2)</sup></b>	<b>2010</b>
<b>Actuarial assumptions at beginning of year:</b>						
Discount rate	4.25% - 5.10%	5.00% - 5.50%	5.50% - 6.00%	4.60% - 4.80%	5.30% - 5.70%	5.70% - 5.80%
Rate of compensation increase	3.25%	3.25%	3.50% - 4.00%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50% - 8.00%	8.25% - 8.50%	6.00% - 7.50%	7.25%	7.25%
Initial health care cost trend rate	N/A	N/A	N/A	8.00%	8.50%	8.00%
Ultimate health care cost trend rate	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	N/A	2018	2018	2014

N/A—Not applicable

- (1) This column does not consider Qwest's actuarial assumptions for its pension plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.40%; expected long-term rate of return on plan assets 7.50%; and a rate of compensation increase of 3.50%.
- (2) This column does not consider Qwest's actuarial assumptions for its post-retirement benefit plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.30%; expected long-term rate of return on plan assets of 7.50%; initial health care cost trend rate of 7.50% and ultimate health care trend rate of 5.00% to be reached in 2016.

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Net periodic pension expense, which includes the effects of the Qwest acquisition subsequent to April 1, 2011, included the following components:

	<b>Pension Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Service cost	\$ 87	70	61
Interest cost	625	560	246
Expected return on plan assets	(847)	(709)	(283)
Curtailment gain	–	–	(21)
Settlements	–	1	–
Amortization of unrecognized prior service cost	4	2	2
Amortization of unrecognized actuarial loss	35	13	17
Net periodic pension (income) expense	<u>\$ (96)</u>	<u>(63)</u>	<u>22</u>

(1) Includes \$58 million of income related to the Qwest plans subsequent to the April 1, 2011 acquisition date.

Net periodic post-retirement benefit expense, which includes the effects of the Qwest acquisition subsequent to April 1, 2011, included the following components:

	<b>Post-Retirement Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Service cost	\$ 22	18	15
Interest cost	173	152	32
Expected return on plan assets	(45)	(41)	(4)
Amortization of unrecognized prior service cost	–	(2)	(3)
Amortization of unrecognized actuarial loss	–	–	1
Net periodic post-retirement benefit expense	<u>\$ 150</u>	<u>127</u>	<u>41</u>

(1) Includes \$92 million related to the Qwest plans subsequent to the April 1, 2011 acquisition date.



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**Benefit Obligations**

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2012 and December 31, 2011 and are as follows:

	<b>Pension Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Actuarial assumptions at end of year:				
Discount rate	3.25% - 4.20%	4.25% - 5.10%	3.60%	4.60% - 4.80%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	6.75% / 7.50%	7.25% / 8.00%
Ultimate health care cost trend rate	N/A	N/A	4.50%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2022 / 2024	2018

N/A-Not applicable

The following table summarizes the change in the benefit obligations for the pension and post-retirement benefit plans:

	<b>Pension Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 13,596	4,534	4,182
Service cost	87	70	61
Interest cost	625	560	246
Plan amendments	14	12	4
Acquisitions	-	8,267	-
Actuarial loss	1,565	930	427
Curtailement gain	-	-	(110)
Benefits paid by company	(5)	(16)	(5)
Benefits paid from plan assets	(1,001)	(761)	(271)
Benefit obligation at end of year	\$ 14,881	13,596	4,534

**Post-Retirement Benefit Plans**  
**Years Ended December 31,**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$ 3,930	558	582
Service cost	22	18	15
Interest cost	173	152	32
Participant contributions	86	64	14
Plan amendments	-	31	-
Acquisitions	-	3,284	-
Direct subsidy receipts	19	22	1
Actuarial loss (gain)	260	153	(32)
Benefits paid by company	(268)	(219)	(45)
Benefits paid from plan assets	(147)	(133)	(9)
Benefit obligation at end of year	<u>\$ 4,075</u>	<u>3,930</u>	<u>558</u>

Our aggregate accumulated benefit obligation as of December 31, 2012, 2011 and 2010 was \$18.956 billion, \$17.499 billion and \$4.509 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,**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$ 11,814	3,732	3,220
Return on plan assets	1,476	479	483
Acquisitions	-	7,777	-
Employer contributions	32	587	300
Settlements	-	-	-
Benefits paid from plan assets	(1,001)	(761)	(271)
Fair value of plan assets at end of year	<u>\$ 12,321</u>	<u>11,814</u>	<u>3,732</u>

<b>Post-Retirement Benefit Plans</b>			
<b>Years Ended December 31,</b>			
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$ 693	54	57
Actual gain on plan assets	80	4	6
Acquisitions	–	768	–
Employer contributions	–	–	–
Participant contributions	–	–	–
Benefits paid from plan assets	(147)	(133)	(9)
Fair value of plan assets at end of year	<u>\$ 626</u>	<u>693</u>	<u>54</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 55% to interest rate sensitive investments and 45% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 35% of plan assets targeted primarily to long-duration investment grade bonds, 13.5% targeted to high yield, emerging market bonds and convertible bonds and 6.5% targeted to diversified strategies, which primarily have exposures to global government, corporate and inflation-linked 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% to U.S. stocks and 14% to developed and emerging market non-U.S. stocks. Approximately 12% is allocated to other private markets investments including funds primarily invested in private equity, debt and hedge funds. Real estate investments are targeted at 5% of plan assets. At the beginning of 2013, 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 35% to equities and 65% 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 equity. While no new private equity investments have been made in recent years, the percent allocation to existing private equity investments is expected to increase as liquid, publicly traded stocks are drawn down for the reimbursement of health care costs. The 65% non-equity allocation includes investment grade bonds, high yield bonds, convertible bonds, emerging market debt, real estate, hedge funds, private debt and diversified strategies. At the beginning of 2013, 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

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assets in securities issued by the sponsor company. At December 31, 2012 and 2011, 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 and total return swaps are used primarily 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. We closely 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.

	<b>Gross Notional Exposure</b>			
	<b>Pension Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>Years Ended December 31,</b>			
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>			
<b>Derivative instruments:</b>				
Exchange-traded U.S. equity futures	\$ 302	535	30	12
Exchange-traded non-U.S. equity futures	1	4	–	–
Exchange-traded Treasury futures	1,763	1,512	–	19
Interest rate swaps	1,471	635	–	–
Total return swaps	–	110	–	51
Credit default swaps	495	201	–	–
Foreign exchange forwards	726	635	21	23
Options	768	917	–	–

*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 11–Fair Value Disclosure.

At December 31, 2012, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2012:

Level 1–Assets were valued using the closing price reported in the active market in which the individual security was traded.

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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 presents the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2012. It is important to note that the asset allocations do not include market exposures that are gained with derivatives.

<b>Fair Value of Pension Plan Assets at December 31, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(Dollars in millions)</b>			
Investment grade bonds (a)	\$ 830	1,555	–	\$ 2,385
High yield bonds (b)	–	1,303	59	1,362
Emerging market bonds (c)	199	396	–	595
Convertible bonds (d)	–	374	–	374
Diversified strategies (e)	–	655	–	655
U.S. stocks (f)	1,225	119	–	1,344
Non-U.S. stocks (g)	1,212	178	–	1,390
Emerging market stocks (h)	111	193	–	304
Private equity (i)	–	–	711	711
Private debt (j)	–	–	465	465
Market neutral hedge funds (k)	–	906	–	906
Directional hedge funds (k)	–	340	194	534
Real estate (l)	–	223	337	560
Derivatives (m)	(5)	3	–	(2)
Cash equivalents and short-term investments (n)	–	750	–	750
Total investments	<u>\$ 3,572</u>	<u>6,995</u>	<u>1,766</u>	<u>12,333</u>
Accrued expenses				<u>(12)</u>
Total pension plan assets				<u>\$ 12,321</u>

**Fair Value of Post-Retirement Plan Assets  
at December 31, 2012**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<b>(Dollars in millions)</b>			
Investment grade bonds (a)	\$ 22	86	–	\$ 108
High yield bonds (b)	–	90	–	90
Emerging market bonds (c)	–	40	–	40
Convertible bonds (d)	–	2	–	2
Diversified strategies (e)	–	72	–	72
U.S. stocks (f)	55	–	–	55
Non-U.S. stocks (g)	58	1	–	59
Emerging market stocks (h)	–	20	–	20
Private equity (i)	–	–	45	45
Private debt (j)	–	–	6	6
Market neutral hedge funds (k)	–	41	–	41
Directional hedge funds (k)	–	24	–	24
Real estate (l)	–	21	28	49
Cash equivalents and short-term investments (n)	5	21	–	26
<b>Total investments</b>	<u>\$ 140</u>	<u>418</u>	<u>79</u>	<u>637</u>
Accrued expenses				(1)
Reimbursement accrual				(10)
<b>Total post-retirement plan assets</b>				<u>\$ 626</u>

The tables below presents the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2011. It is important to note that the asset allocations do

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not include market exposures that are gained with derivatives. Investments include dividend and interest receivable, pending trades, trades payable and accrued expenses.

<b>Fair Value of Pension Plan Assets at December 31, 2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>(Dollars in millions)</b>				
Investment grade bonds (a)	\$ 694	2,206	–	\$ 2,900
High yield bonds (b)	–	541	79	620
Emerging market bonds (c)	–	295	–	295
Convertible bonds (d)	–	337	–	337
Diversified strategies (e)	–	489	–	489
U.S. stocks (f)	401	944	–	1,345
Non-U.S. stocks (g)	994	459	–	1,453
Emerging market stocks (h)	102	136	–	238
Private equity (i)	–	–	791	791
Private debt (j)	–	–	461	461
Market neutral hedge funds (k)	–	620	188	808
Directional hedge funds (k)	–	268	183	451
Real estate (l)	–	48	535	583
Derivatives (m)	12	(5)	–	7
Cash equivalents and short-term investments (n)	13	1,183	–	1,196
Total investments	<u>\$ 2,216</u>	<u>7,521</u>	<u>2,237</u>	<u>11,974</u>
Dividends and interest receivable				32
Pending trades receivable				436
Accrued expenses				(8)
Pending trades payable				(620)
Total pension plan assets				<u>\$ 11,814</u>

**Fair Value of Post-Retirement Plan Assets  
at December 31, 2011**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	<b>(Dollars in millions)</b>			
Investment grade bonds (a)	\$ 45	100	–	\$ 145
High yield bonds (b)	–	61	–	61
Emerging market bonds (c)	–	33	–	33
Convertible bonds (d)	–	30	–	30
Diversified strategies (e)	–	62	–	62
U.S. stocks (f)	64	4	–	68
Non-U.S. stocks (g)	62	2	–	64
Emerging market stocks (h)	–	17	–	17
Private equity (i)	–	–	60	60
Private debt (j)	–	–	8	8
Market neutral hedge funds (k)	–	67	–	67
Directional hedge funds (k)	–	20	–	20
Real estate (l)	–	19	26	45
Cash equivalents and short-term investments (n)	5	20	–	25
<b>Total investments</b>	<b>\$ 176</b>	<b>435</b>	<b>94</b>	<b>705</b>
Dividends and interest receivable				3
Pending trades receivable				23
Accrued expenses				(15)
Pending trades payable				(23)
<b>Total post-retirement plan assets</b>				<b>\$ 693</b>

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



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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 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.

(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.

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(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 are valued at the last published price reported on the major market on which the mutual funds 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. 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 the market value of exchange traded futures contracts which are classified as Level 1, as well as privately negotiated over-the-counter swaps that are valued based

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on the change in interest rates or a specific market index and 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. U.S. Treasury Bills 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 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.

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

<b>Pension Plan Assets Valued Using Level 3 Inputs</b>								
	<b>High Yield Bonds</b>	<b>Private Equity</b>	<b>Private Debt</b>	<b>Market Neutral Hedge Fund</b>	<b>Directional Hedge Funds</b>	<b>Real Estate</b>	<b>Other</b>	<b>Total</b>
(Dollars in millions)								
Balance at December 31, 2010	\$ -	1	3	-	161	182	3	350
Net acquisitions (dispositions)	96	795	453	185	30	318	(3)	1,874
Actual return on plan assets:								
(Losses) gains relating to assets sold during the year	(12)	197	13	3	(1)	9	-	209
(Losses) gains relating to assets still held at year-end	(5)	(202)	(8)	-	(7)	26	-	(196)
Balance at December 31, 2011	79	791	461	188	183	535	-	2,237
Net transfers	(12)	-	-	(188)	-	(105)	-	(305)
Acquisitions	1	70	120	-	-	18	-	209
Dispositions	(11)	(109)	(102)	-	-	(121)	-	(343)
Actual return on plan assets:								
Gains relating to assets sold during the year	-	3	1	-	-	-	-	4
Gains (losses) relating to assets still held at year-end	2	(44)	(15)	-	11	10	-	(36)
Balance at December 31, 2012	\$ 59	711	465	-	194	337	-	1,766

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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			Total
	Private Equity	Private Debt	Real Estate	
	(Dollars in millions)			
Balance at December 31, 2010	\$ –	–	–	–
Net acquisitions	55	8	24	87
Actual return on plan assets:				
Gains relating to assets sold during the year	33	1	–	34
(Losses) gains relating to assets still held at year-end	(28)	(1)	2	(27)
Balance at December 31, 2011	60	8	26	94
Acquisitions	1	–	–	1
Dispositions	(15)	(3)	(1)	(19)
Gains (losses) relating to assets sold during the year	4	2	(1)	5
(Losses) gains relating to assets still held at year-end	(5)	(1)	4	(2)
Balance at December 31, 2012	\$ 45	6	28	79

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, 2012, the investment program produced actual gains on qualified pension and post-retirement plan assets of \$1.555 billion as compared to the expected returns of \$892 million for a difference of \$663 million. For the year ended December 31, 2011, the investment program produced actual gains on pension and post-retirement plan assets of \$483 million as compared to the expected returns of \$750 million for a difference of \$267 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.

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**Unfunded Status**

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

	<b>Pension Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>Years Ended December 31,</b>		<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>			
Benefit obligation	\$ (14,881)	(13,596)	(4,075)	(3,930)
Fair value of plan assets	12,321	11,814	626	693
Unfunded status	(2,560)	(1,782)	(3,449)	(3,237)
Current portion of unfunded status	\$ (6)	–	(160)	(164)
Non-current portion of unfunded status	\$ (2,554)	(1,782)	(3,289)	(3,073)

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) Income—Recognition and Deferrals***

The following tables present cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2011, items recognized as a component of net periodic benefits expense in 2012, additional items deferred during 2012 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2012. The items not recognized as a

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component of net periodic benefits expense have been recorded on our consolidated balance sheets in accumulated other comprehensive loss:

<b>As of and for the Years Ended December 31,</b>					
<b>2011</b>	<b>Recognition of Net Periodic Benefits Expense</b>	<b>Deferrals</b>	<b>Net Change in AOCI</b>	<b>2012</b>	
<b>(Dollars in millions)</b>					
<b>Accumulated other comprehensive (loss) income:</b>					
<b>Pension plans:</b>					
Net actuarial (loss) gain	\$ (1,335)	35	(936)	(901)	(2,236)
Prior service (cost) benefit	(29)	4	(13)	(9)	(38)
Deferred income tax benefit (expense)	526	(15)	364	349	875
<b>Total pension plans</b>	<b>(838)</b>	<b>24</b>	<b>(585)</b>	<b>(561)</b>	<b>(1,399)</b>
<b>Post-retirement benefit plans:</b>					
Net actuarial loss	(221)	–	(225)	(225)	(446)
Prior service (cost) benefit	(21)	–	(1)	(1)	(22)
Deferred income tax benefit	92	–	87	87	179
<b>Total post-retirement benefit plans</b>	<b>(150)</b>	<b>–</b>	<b>(139)</b>	<b>(139)</b>	<b>(289)</b>
<b>Total accumulated other comprehensive (loss) income</b>	<b>\$ (988)</b>	<b>24</b>	<b>(724)</b>	<b>(700)</b>	<b>(1,688)</b>

The following table presents estimated items to be recognized in 2013 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	<b>Pension Plans</b>	<b>Post- Retirement Plans</b>
<b>(Dollars in millions)</b>		
<b>Estimated recognition of net periodic benefit expense in 2013:</b>		
Net actuarial loss	\$ (81)	(4)
Prior service cost	(5)	–
Deferred income tax benefit	33	2
<b>Estimated net periodic benefit expense to be recorded in 2013 as a component of other comprehensive income (loss)</b>	<b>\$ (53)</b>	<b>(2)</b>

**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.

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**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 were \$360 million, \$377 million and \$190 million for the years ended December 31, 2012, 2011 and 2010, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$113 million, \$90 million and \$47 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our group 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, 2012 and December 31, 2011, the assets of the plans included approximately 10 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 \$76 million, \$70 million and \$17 million and for the years ended December 31, 2012, 2011 and 2010, 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 plans have been frozen, and the participants are no longer allowed to defer compensation into the plans. The value of assets and liabilities related to these plans was not significant.

**(9) 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. We also offer an ESPP, which allows 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.

**Acquisitions**

Upon the July 15, 2011, closing of our acquisition of Savvis, and pursuant to the terms of the acquisition agreement, we assumed certain obligations under Savvis' share-based compensation arrangements. Specifically:

all Savvis stock options outstanding immediately prior to the acquisition were vested in full and were converted into 2,420,532 fully vested CenturyLink stock options, and

all non-vested Savvis restricted stock units outstanding immediately prior to the acquisition converted into an aggregate 1,080,070 non-vested CenturyLink awards.

We estimate the aggregate fair value of the assumed Savvis share-based compensation arrangements was \$123 million, of which \$98 million was attributable to services performed prior to the acquisition date and was included in the cost of the acquisition. The fair value of CenturyLink shares



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was determined based on the \$38.54 closing price of our common stock on July 14, 2011. The remaining \$25 million of the aggregate fair value of the assumed Savvis awards was attributable to post-acquisition services and was recognized as compensation expense, net of forfeitures, over the remaining 1.5 year vesting period.

Upon the April 1, 2011, closing of our acquisition of Qwest, pursuant to the terms of the acquisition agreement, we assumed certain obligations under Qwest's pre-existing share-based compensation arrangements. Specifically:

all Qwest non-qualified stock options outstanding immediately prior to the acquisition converted into an aggregate of 7,198,331 CenturyLink non-qualified stock options (including 5,562,198 fully vested options),

all non-vested shares of Qwest restricted stock outstanding immediately prior to the acquisition converted into an aggregate of 780,455 non-vested shares of CenturyLink restricted stock, and

all Qwest market-based awards outstanding immediately prior to the acquisition vested in full and were paid out by us through the issuance of an aggregate of 563,269 shares of CenturyLink common stock in April 2011.

The aggregate fair value of the assumed Qwest awards was \$114 million, of which \$85 million was attributable to services 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 \$41.55 closing price of our common stock on March 31, 2011. We determined the fair value of Qwest's non-qualified stock options, using the Black-Scholes option-pricing model, reflecting a risk-free interest rate ranging from 0% to 2.13% (depending on the expected life of the option), an expected dividend yield of 6.98%, an expected term ranging from 0.1 to 4.8 years (depending on the option's remaining contractual term and exercise price and on historical experience), and expected volatility ranging from 11.1% to 35.3% (based on the expected term and historical experience). The remaining \$29 million of the aggregate fair value of the assumed Qwest awards was attributable to the post-acquisition period and was included in the cost of the acquisition, which is being recognized as compensation expense, net of estimated forfeitures, over the remaining vesting periods from 0.1 years to 3.0 years.

### **Stock Options**

The following table summarizes activity involving stock option awards for the year ended December 31, 2012:

	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>
	<u>(in thousands)</u>	
Outstanding at December 31, 2011	10,389	\$ 31.05
Exercised	(3,155)	\$ 24.21
Forfeited/Expired	(501)	\$ 31.31
Outstanding at December 31, 2012	<u>6,733</u>	\$ 34.23
Exercisable at December 31, 2012	<u>6,264</u>	\$ 34.70

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2012 was \$51 million and \$46 million, respectively. The weighted average remaining contractual term for such options was 4.0 years and 3.8 years, respectively.

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During 2012, we received net cash proceeds of \$76 million in connection with our option exercises. The tax benefit realized from these exercises was \$20 million. The total intrinsic value of options exercised for the years ended December 31, 2012, 2011 and 2010 was \$49 million, \$47 million and \$28 million, respectively.

### ***Restricted Stock***

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

During the first quarter of 2012, we granted approximately 402,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 201,000 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 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.

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 519,000 of awards will vest on a straight-line basis on January 9, 2013, 2014 and 2015. Approximately 873,000 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 over a three year period.

During the second and third quarter of 2011, we granted approximately 624,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 474,000 contained only service conditions and will vest on a straight-line basis on May 31, 2012, 2013 and 2014. The remaining awards contain market conditions and will vest on May 31, 2014. These shares 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 2011, 2012 and 2013 in relation to that of the S&P 500 Index.

In addition to these awards, during 2011 we granted approximately 689,000 shares of restricted stock awards to certain other key employees and our outside directors as part of our equity compensation and retention programs. These awards require only service conditions for vesting.

During the first quarter of 2010, we granted approximately 397,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 198,000 contained only service conditions and will vest on a straight-line basis on March 15, 2011, 2012 and 2013. The remaining awards contain service and market conditions. One half of these awards will vest on March 15, 2012 based on our two-year total shareholder return for 2010 and 2011 as measured against the total shareholder return of the companies comprising the S&P 500 Index. The other half will vest on March 15, 2013 based on our three-year total shareholder return for 2010, 2011 and 2012 as measured against the total shareholder return of the companies comprising the S&P 500 Index. These shares 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 in relation to that of the S&P 500 Index.

In addition to these awards, during 2010 we granted approximately 600,000 shares of restricted stock awards to certain other key employees and our outside directors as part of our equity compensation and retention programs. These awards require only service conditions for vesting.

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In anticipation of our acquisition of Qwest, during the third quarter of 2010, we granted 407,000 shares of restricted stock to certain executive officers and other key employees as part of a retention program. The shares of restricted stock contain only service conditions and will vest in equal installments on the first, second and third anniversaries of the April 1, 2011 closing date of the acquisition. As this retention program was contingent upon the consummation of the Qwest acquisition, we did not begin expensing these awards until the closing of the acquisition on April 1, 2011.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2012:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
	<b>(in thousands)</b>	
Non-vested at December 31, 2011	4,208	\$ 36.78
Granted	2,139	\$ 39.13
Vested	(2,603)	\$ 36.33
Forfeited	(216)	\$ 39.13
Non-vested at December 31, 2012	<u>3,528</u>	<u>\$ 38.43</u>

During 2011, we granted 1.3 million shares of restricted stock at a weighted-average price of \$36.15, excluding the 1.9 million shares issued in connection with our acquisitions of Qwest and Savvis. During 2010, we granted 1.4 million shares of restricted stock at a weighted-average price of \$36.56. The total fair value of restricted stock that vested during 2012, 2011 and 2010 was \$102 million, \$72 million and \$48 million, respectively.

***Compensation Expense and Tax Benefit***

We recognize compensation expense related to our 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, 2012, 2011 and 2010 was \$78 million, \$65 million and \$38 million, respectively. These amounts included \$12 million in compensation expense recognized in 2011 for the acceleration of certain awards resulting from the consummation of the Qwest acquisition. Our tax benefit recognized in the income statements for our share-based payment arrangements for the years ended December 31, 2012, 2011 and 2010 was \$31 million, \$25 million and \$14 million, respectively. At December 31, 2012, there was \$92 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.

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Basic and diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010 were calculated as follows:

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions, except per share amounts, shares in thousands)</b>		
<b>Income (Numerator):</b>			
Net income	\$ 777	573	948
Earnings applicable to non-vested restricted stock	(1)	(2)	(6)
Net income applicable to common stock for computing basic earnings per common share	776	571	942
Net income as adjusted for purposes of computing diluted earnings per common share	\$ 776	571	942
<b>Shares (Denominator):</b>			
<b>Weighted average number of shares:</b>			
Outstanding during period	622,139	534,320	301,428
Non-vested restricted stock	(2,796)	(2,209)	(1,756)
Non-vested restricted stock units	862	669	947
Weighted average shares outstanding for computing basic earnings per common share	620,205	532,780	300,619
<b>Incremental common shares attributable to dilutive securities:</b>			
Shares issuable under convertible securities	12	13	13
Shares issuable under incentive compensation plans	2,068	1,328	665
Number of shares as adjusted for purposes of computing diluted earnings per common share	622,285	534,121	301,297
Basic earnings per common share	\$ 1.25	1.07	3.13
Diluted earnings per common share	\$ 1.25	1.07	3.13

Our calculations of diluted earnings per common share exclude 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 period. Such potentially issuable shares totaled 2.2 million, 2.4 million and 2.9 million for 2012, 2011 and 2010, respectively.

**(11) Fair Value Disclosure**

Our financial instruments consist of cash and cash equivalents, accounts receivable, investments, 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

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fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the Financial Accounting Standards Board ("FASB").

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

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

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

The following table presents the carrying amounts and estimated fair values of our investment securities, which are reported in noncurrent other assets, and long-term debt, excluding capital lease obligations, as well as the input levels used to determine the fair values:

		<b>December 31, 2012</b>		<b>December 31, 2011</b>	
	<b>Input Level</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
(Dollars in millions)					
Assets—Investments securities	3	\$ —	—	73	73
Liabilities—Long-term debt excluding capital lease obligations	2	\$ 19,871	21,457	21,124	22,052

In connection with the acquisition of Qwest on April 1, 2011, we acquired auction rate securities that were not actively traded in liquid markets. We designated these securities as available for sale and, accordingly, we reported them on our balance sheet under our "goodwill and other assets—other" line item at fair value on December 31, 2011. During 2012, we sold these securities in increments of \$17 million, \$39 million and \$19 million for a gain of \$14 million. In connection with auction rate securities sales, temporary losses of approximately \$3 million, net of tax, were reclassified into income from other comprehensive income and recognized in our consolidated statement of operations for 2012. During 2012, we recognized an unrealized temporary holding gain on these securities in the amount of \$2 million, net of tax in other comprehensive income. At December 31, 2011, we estimated the fair value of these securities using a probability-weighted cash flow model that considered the coupon rate for the securities, probabilities of default and liquidation prior to maturity, and a discount rate commensurate with the creditworthiness of the issuer.

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**(12) Income Taxes**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
Income tax expense was as follows:			
Federal			
Current	\$ 57	(49)	384
Deferred	361	401	145
State			
Current	15	25	67
Deferred	33	(6)	(13)
Foreign			
Current	7	4	-
Deferred	-	-	-
<b>Total income tax expense</b>	<b>\$ 473</b>	<b>375</b>	<b>583</b>

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
Income tax expense was allocated as follows:			
Income tax expense in the consolidated statements of income:			
Attributable to income	\$ 473	375	583
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(18)	(13)	(12)
Tax effect of the change in accumulated other comprehensive loss	(434)	(535)	(34)

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

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Percentage of pre-tax income)</b>		
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5%	1.3%	1.9%
Change in tax treatment of Medicare subsidy	–	–	0.3%
Nondeductible acquisition related costs	–	0.9%	0.2%
Nondeductible compensation pursuant to executive compensation limitations	0.5%	0.4%	0.2%
Reversal of valuation allowance on auction rate securities	(1.2)%	–	–
Foreign income taxes	0.3%	0.4%	–
Foreign valuation allowance	–	0.8%	–
Other, net	0.7%	0.8%	0.5%
Effective income tax rate	<u>37.8%</u>	<u>39.6%</u>	<u>38.1%</u>

Included in income tax expense for the years ended December 31, 2011 and 2010 is \$24 million and \$4 million, respectively, which is related to a portion of our transaction costs associated with our recent acquisitions. The transaction costs were primarily related to the acquisition of Qwest. These costs are considered non-deductible for income tax purposes. We did not incur non-deductible transaction costs in 2012.

The 2012 effective tax rate is 37.8% compared to 39.6% for 2011. The 2012 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 an expense of \$6 million associated with reversing a receivable related to periods that have been effectively settled with the IRS. The 2011 rate increase was due in part to \$24 million of non-deductible transaction costs and an \$8 million valuation allowance recorded on deferred tax assets that require future income of a special character to realize the benefits. Because we are not currently forecasting income of an appropriate character for these benefits to be realized, we will continue to maintain a valuation allowance equal to the amount we do not believe is more likely than not to be realized. This 2011 increase was partially offset by a \$16 million reduction in valuation allowances related to state NOLs due primarily to the effects of a tax law change in one of the states in which we operate.

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The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 were as follows:

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
<b>Deferred tax assets</b>		
Post-retirement and pension benefit costs	\$ 2,327	2,040
Net operating loss carryforwards	1,764	2,492
Other employee benefits	193	122
Other	754	802
Gross deferred tax assets	5,038	5,456
Less valuation allowance	(281)	(293)
Net deferred tax assets	4,757	5,163
<b>Deferred tax liabilities</b>		
Property, plant and equipment, primarily due to depreciation differences	(3,983)	(3,638)
Goodwill and other intangible assets	(3,316)	(4,144)
Other	(211)	(162)
Gross deferred tax liabilities	(7,510)	(7,944)
Net deferred tax liability	\$ (2,753)	(2,781)

Of the \$2.753 billion and \$2.781 billion net deferred tax liability at December 31, 2012 and 2011, respectively, \$3.644 billion and \$3.800 billion is reflected as a long-term liability and \$891 million and \$1.019 billion is reflected as a net current deferred tax asset at December 31, 2012 and December 31, 2011, respectively.

In connection with our acquisitions of Savvis on July 15, 2011 and Qwest on April 1, 2011, we recognized net noncurrent deferred tax liabilities of approximately \$320 million and \$595 million, respectively, which reflects the expected future tax effects of certain differences between the financial reporting carrying amounts and tax bases of Savvis' and Qwest's assets and liabilities. In addition, due to the Qwest acquisition, we recognized a net current deferred tax asset of \$271 million, which relates primarily to certain accrued liabilities that are expected to result in future tax deductions. These primary differences involve Qwest's pension and other post-retirement benefit obligations as well as tax effects for acquired intangible assets, property, plant and equipment and long-term debt, including the effects of acquisition date valuation adjustments, for both entities. The net deferred tax liability is partially offset by a deferred tax asset for expected future tax deductions relating to Savvis' and Qwest's net operating loss carryforwards.

At December 31, 2012, we had federal NOLs of \$4.7 billion and state NOLS of \$7 billion. If unused, the NOLs will expire between 2015 and 2032; however, no significant amounts expire until 2020. At December 31, 2012, we had \$72 million (\$47 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2013 and 2024 if not utilized. In addition, at December 31, 2012 we had \$62 million of 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 is subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these NOLs as an offset against our future taxable income, although the timing of that use will depend upon our future earnings and future tax circumstances.



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We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2012, a valuation allowance of \$281 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, 2012 and 2011 is primarily related to state NOL carryforwards. This valuation allowance decreased by \$12 million during 2012.

We recorded valuation allowances of \$10 million and \$248 million related to the Savvis and Qwest acquisitions, respectively, for the portion of the acquired net deferred tax assets that we did not believe is more likely than not to be realized. Our acquisition date assignment of deferred income taxes and the related valuation allowance was completed in 2012 as discussed in Note 2—Acquisitions.

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 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
	<b>(Dollars in millions)</b>	
Unrecognized tax benefits at beginning of year	\$ 111	311
Assumed in Qwest and Savvis acquisitions	–	206
Increase in tax positions taken in the current year	3	–
Decrease due to the reversal of tax positions taken in a prior year	(34)	(13)
Decrease from the lapse of statute of limitations	(2)	(1)
Settlements	–	(392)
Unrecognized tax benefits at end of year	<u>\$ 78</u>	<u>111</u>

Upon the dismissal of our refund appeal in October 2011, we recorded a \$242 million settlement related to the treatment of universal service fund receipts of certain subsidiaries acquired in our Embarq acquisition, effectively settling the issue for the 1990 through 1994 years. We dismissed our 2004-2006 Tax Court proceedings due to an agreement in place with the IRS Chief Counsel's office. Dismissal of the Tax Court proceedings will result in an agreed tax deficiency amount for each period. Since the Tax Court proceedings involved years that Embarq was owned by Sprint, Sprint will receive the deficiency and the payment to the IRS will trigger a settlement obligation under the Tax Sharing agreement with Sprint. During 2011, Qwest also withdrew their claims associated with the treatment of universal services fund receipts resulting in a \$141 million settlement decrease in our unrecognized tax benefits. Due to Qwest's NOL carryforward, the settlement of the position resulted in a reduction in our unrecognized tax benefit but no cash payment is required.

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 those negotiations at year end, we have partially reversed an unrecognized tax benefit that was assumed as part of the Qwest acquisition, which decreased our total unrecognized tax benefits.

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$52 million at December 31, 2012 and \$118 million at December 31, 2011.

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 at December 31, 2012 and December 31, 2011.

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 2010 tax year, our federal consolidated returns are subject to annual examination by the IRS. Qwest's federal consolidated returns for the 2009, 2010 and pre-merger 2011

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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. In 2012, Qwest filed an amended 2008 federal income tax return primarily to report the carryforward impact of prior year settlements. Such amended filing is subject to adjustment by the IRS. At the same time, Qwest also filed an amended return for 1999 for its predecessor U S WEST, Inc. to make certain refund claims. An agreed resolution of those claims is pending conditioned upon Congressional Joint Committee Approval.

Our open income tax years by major jurisdiction are as follows at December 31, 2012:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2008–current
State	
Florida	2006–current
Louisiana	2009–current
Minnesota	1996–1999 and 2002–current
New York	2001–2006 and 2009–current
North Carolina	2004–2006 and 2009–current
Oregon	2002–2003 and 2009–current
Texas	2008–current
Other states	2006–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 \$32 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.

### **(13) Segment Information**

For several years prior to 2011, we reported our operations as a single segment. However, in 2011, after our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011, we reorganized our business into the following operating segments:

*Regional markets.* Consisted generally of providing strategic and legacy products and services to residential consumers, small to medium-sized businesses and regional enterprise customers. Our strategic products and services offered to these customers include our private line, broadband, Multi-Protocol Label Switching ("MPLS"), hosting and video services. Our legacy services offered to these customers include local and long-distance service;

*Business markets.* Consisted generally of providing strategic and legacy products and services to enterprise and government customers. Our strategic products and services offered to these

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customers include our private line, broadband, MPLS, hosting and video services. Our legacy services offered to these customers include local and long-distance service;

*Wholesale markets.* Consisted generally of providing strategic and legacy products and services to other communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include unbundled network elements ("UNEs") which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services; and

*Savvis operations.* Consisted of the entire centrally-managed operations of our Savvis subsidiaries, which provides hosting and network services primarily to business customers when provided by Legacy Savvis.

Effective April 1, 2012, in order to more effectively leverage the strategic assets from our acquisitions of Qwest and Savvis and to better serve our business and government customers, we restructured our business into the following operating segments:

*Regional markets.* Consists generally of providing strategic and legacy products and services to residential consumers, state and local governments, small to medium-sized businesses and enterprise customers that in each case are located mainly within one of our six regions. Our strategic products and services offered to these customers include our private line, broadband, MPLS, hosting, video and wireless services. Our legacy services offered to these customers include local and long-distance service;

*Wholesale markets.* Consists generally of providing strategic and legacy products and services to other domestic and international communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include UNEs which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services;

*Enterprise markets–network.* Consists generally of providing strategic and legacy network communications products and services to national and international enterprise and government customers. Our strategic products and services offered to these customers include our private line, broadband, MPLS and hosting services. Our legacy services offered to these customers include local and long-distance services;

*Enterprise markets–data hosting.* Consists generally of providing colocation, managed hosting and cloud hosting services to national and international enterprise and government customers.

On January 3, 2013, we announced a reorganization of our operating segments. Consequently, beginning with the first quarter of 2013, we will report the following four segments in our consolidated financial statements: consumer, business, wholesale and data hosting. The primary purpose of the reorganization is to strengthen our focus on the enterprise business market while continuing our commitment to our hosting and consumer customers. The reorganization combines business sales and operations functions that resided in the enterprise markets–network segment and the regional markets segment into the new business segment. The remaining customers serviced by the regional markets segment will become the new consumer segment. Our wholesale markets and enterprises markets–data hosting segments will not be impacted by this reorganization.

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We have restated previously reported segment results for the year ended December 31, 2011 due to the above-described restructuring of our business on April 1, 2012. The following table summarizes our segment results for 2012 and 2011 based on the segment categorization we were operating under on December 31, 2012.

	Years Ended December 31,	
	2012	2011
	(Dollars in millions)	
Total segment revenues	\$ 17,320	14,471
Total segment expenses	8,094	6,513
Total segment income	\$ 9,226	7,958
Total margin percentage	53%	55%
Regional markets:		
Revenues	\$ 9,876	8,743
Expenses	4,218	3,673
Income	\$ 5,658	5,070
Margin percentage	57%	58%
Wholesale markets:		
Revenues	\$ 3,721	3,305
Expenses	1,117	1,021
Income	\$ 2,604	2,284
Margin percentage	70%	69%
Enterprise markets–network:		
Revenues	\$ 2,609	1,933
Expenses	1,891	1,450
Income	\$ 718	483
Margin percentage	28%	25%
Enterprise markets–data hosting:		
Revenues	\$ 1,114	490
Expenses	868	369
Income	\$ 246	121
Margin percentage	22%	25%

Due to system limitations, we have determined that is impracticable to restate 2010's reportable segments to conform to our current segment categorization. For comparability purposes, we have

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included our segment information for the years ended December 31, 2011 and 2010 based on the segment categorization we were operating under on December 31, 2011:

	Years Ended December 31,	
	2011	2010
(Dollars in millions)		
Total segment revenues	\$ 14,471	6,495
Total segment expenses	6,535	2,403
Total segment income	\$ 7,936	4,092
Total margin percentage	55%	63%
Regional markets:		
Revenues	\$ 7,832	4,640
Expenses	3,398	1,783
Income	\$ 4,434	2,857
Margin percentage	57%	62%
Business markets:		
Revenues	\$ 2,861	266
Expenses	1,736	120
Income	\$ 1,125	146
Margin percentage	39%	55%
Wholesale markets:		
Revenues	\$ 3,295	1,589
Expenses	1,021	500
Income	\$ 2,274	1,089
Margin percentage	69%	69%
Savvis operations:		
Revenues	\$ 483	-
Expenses	380	-
Income	\$ 103	-
Margin percentage	21%	-

We categorize our products and services related to revenues into the following four categories:

*Strategic services*, which include primarily broadband, private line (including special access which we market to wholesale and business customers), 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), voice over Internet Protocol ("VoIP") and Verizon Wireless services;

*Legacy services*, which include primarily local, long-distance, switched access, public 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 allows a local communications network to link to networks in remote locations);



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*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 networks for our government and business customers; and

*Other revenues*, which consists primarily of 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, 2012 and 2011:

	Years Ended December 31,	
	2012	2011
	(Dollars in millions)	
Strategic services	\$ 8,361	6,262
Legacy services	8,287	7,672
Data integration	672	537
Other	1,056	880
Total operating revenues	\$ 18,376	15,351

During 2012, operating revenues attributable to certain products and services were reclassified from legacy services to strategic services. Due to system limitations, we have determined that is impracticable to restate 2010's operating revenues to conform to our current revenue categorization. For comparability purposes, we have included our operating revenues for the years ended December 31, 2011 and 2010 under our prior revenue categorization:

	Years Ended December 31,	
	2011	2010
	(Dollars in millions)	
Strategic services	\$ 6,254	2,049
Legacy services	7,680	4,288
Data integration	537	158
Other	880	547
Total operating revenues	\$ 15,351	7,042

Other operating revenues include revenue from universal service funds, which allows 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. These surcharge billings to our customers are reflected on a gross basis in our statements of operations (included in both operating revenues and expenses) and aggregated approximately \$531 million, \$392 million and \$115 million for the years ended December 31, 2012, 2011 and 2010, respectively. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. We centrally-manage the activities that generate these other operating revenues and consequently these revenues are not included in any of our four segments presented above.

Our segment revenues include all revenues from our strategic, legacy and data integration as described in more detail above. Segment revenues are based upon each customer's classification to an

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individual segment. We report our segment revenues based upon all services provided to that segment's customers. We report our segment expenses for our four segments as follows:

*Direct expenses*, which primarily are 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.

During the first quarter of 2012, as we transitioned certain of Qwest's legacy systems to our historical company systems, we updated our methodologies for reporting our direct expenses and for allocating our expenses to our segments. Specifically, we no longer include certain fleet expenses for our regional markets segment in direct expenses; they are now expenses allocated to our segments, with the exception of enterprise markets–data hosting. In addition, we now more fully allocate network building rent and power expenses to our regional markets, wholesale markets and enterprise markets–network segments. We determined that it was impracticable to recast our segment results for the prior period to reflect these changes in methodology.

During the second quarter of 2012, as we reorganized our business into our four segments as indicated above, we further revised our methodology for how we allocate our expenses to our segments to better align segment expenses with related revenues. Under our revised methodology, we no longer allocate certain product development costs to our segments, but we do now allocate certain expenses from our enterprise markets–data hosting segment to our other three segments. We have restated prior periods to reflect these changes in our methodology.

We do not assign depreciation and amortization expense to our segments, as the related assets and capital expenditures are centrally managed. Similarly, severance expenses, restructuring expenses and, subject to an exception for our enterprise markets–data hosting segment, 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. In addition, other income (expense) does not relate to 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, 2012, 2011 and 2010:

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Total segment income	\$ 9,226	7,958	4,092
Other operating revenues	1,056	880	547
Depreciation and amortization	(4,780)	(4,026)	(1,434)
Other unassigned operating expenses	(2,789)	(2,787)	(1,145)
Other income (expense), net	(1,463)	(1,077)	(529)
Income tax expense	(473)	(375)	(583)
Net income	<u>\$ 777</u>	<u>573</u>	<u>948</u>

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



**(14) Quarterly Financial Data (Unaudited)**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
<b>(Dollars in millions, except per share amounts)</b>					
<b>2012</b>					
Operating revenues	\$ 4,610	4,612	4,571	4,583	18,376
Operating income	654	657	736	666	2,713
Net income	200	74	270	233	777
Basic earnings per common share	.32	.12	.43	.37	1.25
Diluted earnings per common share	.32	.12	.43	.37	1.25
<b>2011</b>					
Operating revenues	\$ 1,696	4,406	4,596	4,653	15,351
Operating income	464	480	548	533	2,025
Net income	211	115	138	109	573
Basic earnings per common share	.69	.19	.22	.18	1.07
Diluted earnings per common share	.69	.19	.22	.18	1.07

These results include Savvis operations for periods beginning July 15, 2011 and Qwest operations for periods beginning April 1, 2011. See Note 2—Acquisitions for additional information. During the third quarter of 2012, we discovered and corrected an error that resulted in an overstatement of depreciation expense in the amount of \$30 million in 2011 and \$15 million in the first six months of 2012. The total reduction in depreciation expense of \$45 million was recognized in the third quarter of 2012.

**(15) Commitments and Contingencies**

In this section, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. Until and unless a class has been certified by the court, it has not been established that the named plaintiffs represent the class of plaintiffs they purport to represent.

We have established accrued liabilities for the matters described below where losses are deemed probable and reasonably estimable.

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 settlement opportunities.

***Litigation Matters Relating to CenturyLink and Embarq***

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 presently approximate \$34 million. The lawsuits allege that Sprint Nextel has breached contracts, violated tariffs, and violated the Federal Communications Act by failing to pay these charges. One lawsuit, filed on behalf of all legacy Embarq operating entities, was tried in federal court in Virginia in August 2010 and, in March 2011, a ruling was issued in our favor and against Sprint Nextel. In the first quarter of 2012, Sprint Nextel filed an appeal of this decision. The other lawsuit, filed on behalf of all Legacy CenturyLink operating entities, is pending in federal court in

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Louisiana. In that case, in early 2011 the Court dismissed certain of CenturyLink's claims, referred other claims to the 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. We have not deferred revenue related to these matters as an adverse outcome is not probable based upon current circumstances.

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 putative 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. Embarq and other defendants continue to vigorously contest these claims and charges. On October 14, 2011, the *Fulghum* lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* CenturyLink/Embarq is not named a defendant in the lawsuit. 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. On February 14, 2013, the *Fulghum* court dismissed the majority of the plaintiffs' claims in that case. Embarq and the other defendants will 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 as it is premature (i) to determine whether an accrual is warranted and, (ii) if so, a reasonable estimate of probable liability.

### ***Litigation Matters Relating to Qwest***

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 certain of the matters described below, and Qwest has been advancing legal fees and costs to certain former directors, officers or employees in connection with certain matters described below.

On September 29, 2010, the trustees in the Dutch bankruptcy proceeding for KPNQwest, N.V. (of which Qwest was a major shareholder) filed a lawsuit in the District Court of Haarlem, the Netherlands, alleging tort and mismanagement claims under Dutch law. Qwest and Koninklijke KPN N.V. ("KPN") are defendants in this lawsuit along with a number of former KPNQwest supervisory board members and a former officer of KPNQwest, some of whom were formerly affiliated with Qwest. Plaintiffs allege, among other things, that defendants' actions were a cause of the bankruptcy of KPNQwest, and they seek damages for the bankruptcy deficit of KPNQwest, which is claimed to be approximately €4.200 billion (or approximately \$5.6 billion based on the exchange rate on December 31, 2012), plus statutory interest. Two lawsuits asserting similar claims were previously filed against Qwest and others in federal courts in New Jersey in 2004 and Colorado in 2009; those courts dismissed the lawsuits without prejudice on the grounds that the claims should not be litigated in the United States.

On September 13, 2006, Cargill Financial Markets, Plc and Citibank, N.A. filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, KPN, KPN Telecom B.V., and other former officers, employees or supervisory board members of 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

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KPNQwest to borrow funds under that facility. Plaintiffs allege damages of approximately €219 million (or approximately \$289 million based on the exchange rate on December 31, 2012). On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank are appealing that decision.

We have not accrued a liability for the above matters. Regarding the 2010 proceeding, we believe it is premature to determine whether an accrual is warranted and, if so, a reasonable estimate of our probable liability. Regarding the 2006 suit, we do not believe that liability is probable. We will continue to defend against both KPNQwest litigation matters vigorously.

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. Most of the currently pending actions purport to be brought on behalf of state-wide classes in the named Plaintiffs' respective states, although one action pending before the Illinois Court of Appeals purports to be brought on behalf of landowners in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. 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 22 states (Alabama, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Oklahoma, Tennessee, Virginia and Wisconsin), have received preliminary approval of the settlements in eight states (California, Kentucky, Nevada, Ohio, Oregon, Pennsylvania, South Carolina and Utah), and have not yet received either preliminary or final approval in four states (Arizona, Massachusetts, New Mexico and Texas). We have accrued an amount that we believe is probable for these matters; however, the amount is not material to our consolidated financial statements.

### **Other Matters**

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

### **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. Payments on capital leases are included in repayments of long-term debt, including current maturities in the consolidated statements of cash flows.

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The tables below summarize our capital lease activity:

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
	<b>(Dollars in millions)</b>	
Assets acquired through capital leases	\$ 209	696
Depreciation expense	150	89
Cash payments towards capital leases	113	76

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	<b>(Dollars in millions)</b>	
Assets included in property, plant and equipment	\$ 893	698
Accumulated depreciation	229	91

The future annual minimum payments under capital lease arrangements as of December 31, 2012 were as follows:

	<u>Future Minimum Payments (Dollars in millions)</u>
Capital lease obligations:	
2013	\$ 155
2014	143
2015	107
2016	72
2017	68
2018 and thereafter	381
Total minimum payments	926
Less: amount representing interest and executory costs	(245)
Present value of minimum payments	681
Less: current portion	(117)
Long-term portion	\$ 564

### ***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, 2012, 2011 and 2010, our gross rental expense was \$445 million, \$401 million and \$174 million, respectively. We also received sublease rental income for the years ended December 31, 2012 and 2011 of \$18 million and \$17 million, respectively. We did not have any material sublease rental income for the year ended December 31, 2010.

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At December 31, 2012, our future rental commitments for operating leases were as follows:

	<b>Future Minimum Payments</b>
	<b>(Dollars in millions)</b>
2013	\$ 297
2014	252
2015	219
2016	183
2017	156
2018 and thereafter	964
<b>Total future minimum payments<sup>(1)</sup></b>	<b>\$ 2,071</b>

- (1) Minimum payments have not been reduced by minimum sublease rentals of \$115 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 \$524 million at December 31, 2012. Of this amount, we expect to purchase \$213 million in 2013, \$129 million in 2014 through 2015, \$86 million in 2016 through 2017 and \$96 million in 2018 and thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we are contractually committed.

**(16) Other Financial Information**

**Other Current Assets**

The following table presents details of our other current assets:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Prepaid expenses	\$ 257	240
Materials, supplies and inventory	125	107
Assets held for sale	96	-
Deferred activation and installation charges	53	25
Other	21	21
<b>Total other current assets</b>	<b>\$ 552</b>	<b>393</b>

During the second quarter of 2012, we reclassified \$154 million related to our wireless spectrum assets from "Other intangible assets, net" to "current assets-other" in the consolidated balance sheet. We sold \$58 million of our wireless spectrum assets during the fourth quarter of 2012, and we sold another \$43 million of our wireless spectrum assets in January 2013. In the aggregate, these transactions resulted in a gain of \$32 million. We expect to reach agreements with various other purchasers for the remaining spectrum, and the consummation of which will be subject to regulatory approval.

**Selected Current Liabilities**

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

	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Accounts payable	\$ 1,207	1,400
Other current liabilities:		
Accrued rent	\$ 48	44
Legal reserves	39	44
Other	147	167
Total other current liabilities	\$ 234	255

Included in accounts payable at December 31, 2012 and December 31, 2011 were \$132 million and \$61 million, respectively, representing book overdrafts.

**(17) Labor Union Contracts**

Over 38% of our employees are members of various bargaining units represented by the Communications Workers of America and the International Brotherhood of Electrical Workers. Approximately 12,000, or 26%, of our employees are subject to collective bargaining agreements that expired October 6, 2012. We are currently negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least twenty-four hour advance notice before terminating those predecessor agreements. Any strikes or other changes in our labor relations could have a significant impact on our business. 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. To help mitigate this potential risk, we have established contingency plans in which we would assign trained, non-represented employees to cover jobs for represented employees in the event of a work stoppage to provide continuity for our customers.

**(18) Dividends**

Our Board of Directors declared the following dividends payable in 2012 and 2011:

<u>Date Declared</u>	<u>Record Date</u>	<u>Dividend Per Share</u>	<u>Total Amount</u>	<u>Payment Date</u>
			<b>(in millions)</b>	
November 13, 2012	December 11, 2012	.725	\$ 454	December 21, 2012
August 21, 2012	September 11, 2012	.725	\$ 452	September 21, 2012
May 24, 2012	June 5, 2012	.725	\$ 453	June 15, 2012
February 12, 2012	March 6, 2012	.725	\$ 452	March 16, 2012
November 15, 2011	December 6, 2011	.725	\$ 449	December 16, 2011
August 23, 2011	September 6, 2011	.725	\$ 449	September 16, 2011
May 18, 2011	June 6, 2011	.725	\$ 436	June 16, 2011
January 24, 2011	February 18, 2011	.725	\$ 222	February 25, 2011

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

None.

**ITEM 9A. 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 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, 2012. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during 2012 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

See Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm on our internal control over financial reporting in Item 8, which are incorporated herein by reference.

**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, 2012 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 <sup>(1)</sup> (a)	Weighted-average price of outstanding options and rights <sup>(2)</sup> (b)	Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders	4,256,501 <sup>(1)</sup>	\$ 42.28	29,507,231 <sup>(3)</sup>
Equity compensation plans not approved by shareholders <sup>(4)</sup>	6,423,214 <sup>(5)</sup>	32.55	–
<b>Totals</b>	<b>10,679,715</b>	<b>\$ 34.23</b>	<b>29,507,231</b>

- (1) The total includes 323,749 potentially issuable restricted stock units, which contain market provisions and have a maximum payout of 200%. This payout could be reduced to zero if specified total shareholder return targets as compared to the S&P 500 are not met over a specified period.
- (2) The total number of securities issued and outstanding includes restricted stock units, which do not have an exercise price. Consequently, these awards were excluded from the computation of weighted-average exercise price of outstanding options and rights.
- (3) This amount includes 2,605,468 shares remaining to be granted under our shareholder-approved employee stock purchase plan.
- (4) These amounts represent common shares to be issued upon exercise of options or vesting of restricted stock approved under our required company equity incentive plans. See Note 2–Acquisitions to the Consolidated Financial Statements in Item 8 of this report.
- (5) The total includes 94,774 potentially issuable restricted stock units, which contain market provisions and have a maximum payout of 200%. This payout could be reduced to zero if specified total shareholder return targets as compared to the S&P 500 are not met over a specified period.

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.

<b>Exhibit Number</b>	<b>Description</b>
	Agreement and Plan of Merger, dated as of October 26, 2008, by and among CenturyLink, Inc., Embarq Corporation and
2.1	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).
	Agreement and Plan of Merger, dated as of April 21, 2010, by and among CenturyLink, Inc., its subsidiary SB44 Acquisition
2.2	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).
	Agreement and Plan of Merger, dated as of April 26, 2011, by and among CenturyLink, Inc., SAVVIS, Inc. and Mimi
2.3	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).
	Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by
3.1	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).
	Bylaws of CenturyLink, Inc., as amended and restated through November 4, 2010 (incorporated by reference to Exhibit 3.2 of
3.2	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).
	Form of common stock certificate (incorporated by reference to Exhibit 4.10 of CenturyLink, Inc.'s Registration Statement on
4.1	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.
	Amended and Restated Credit Agreement, dated as of April 6, 2012, by and among CenturyLink, Inc. and the lenders and
a.	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).
	Guarantee Agreement, dated as of April 6, 2012, by and among the guarantors named therein (incorporated by reference to
b.	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).
4.3	Instruments relating to CenturyLink, Inc.'s Term Loan.
	Credit Agreement, dated as of April 18, 2012, by and among CenturyLink, Inc., the several banks and other financial
a.	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).
b.	Guarantee Agreement, dated as of April 18, 2012, by and among the 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).

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### 4.4 Instruments relating to CenturyLink's public senior debt.<sup>1</sup>

Form of Indenture, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and First American Bank & Trust of Louisiana, as Trustee (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Registration Statement on Form S-3 (File No. No. 33-52915) filed with the Securities and Exchange Commission on March 31, 1994).

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).

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).

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).

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).

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).

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).

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).

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).

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).

Form of 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to (i). 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).

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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.

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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).

### 4.5 Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries.

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 November 4, 1998, by and between Qwest Communications International Inc. and Bankers Trust Company (incorporated by reference to Exhibit 4.1(e) of Qwest Communications International Inc.'s Registration Statement on Form S-4 (File No. 333-71603) filed with the Securities and Exchange Commission on February 2, 1999).

e. Indenture, dated as of November 27, 1998, by and between Qwest Communications International Inc. and Bankers Trust

Company (incorporated by reference to Exhibit 4.1(d) of Qwest Communications International Inc.'s Registration Statement on Form S-4 (File No. 333-71603) filed with the Securities and Exchange Commission on February 2, 1999).

f. 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).

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- (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).
  
- (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).
  
- (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).
  
- (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).
  
- g. Indenture, dated as of February 5, 2004, by and among Qwest Communications International Inc., Qwest Services Corporation, Qwest Capital Funding, Inc. and J.P. Morgan Trust Company, National Association (incorporated by reference to 4.17 of Qwest Communications International Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-15577) filed with the Securities and Exchange Commission on March 11, 2004).
  
- (i). First Supplemental Indenture, dated as of June 17, 2005, by and among Qwest Communications International Inc., Qwest Services Corporation, Qwest Capital Funding, Inc. 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 June 3, 2005).

- (ii). Third Supplemental Indenture, dated as of September 17, 2009, by and among Qwest Communications International Inc., Qwest Services Corporation, Qwest Capital Funding, Inc. 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 September 21, 2009).



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Fourth Supplemental Indenture, dated as of January 12, 2010, by and among Qwest Communications International Inc., Qwest Services Corporation, Qwest Capital Funding, Inc. 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 January 13, 2010).

### 4.6 Instruments relating to indebtedness of Embarq Corporation.

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).

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).

### 4.7 Intercompany debt instruments.

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).

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).

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, included herein.

### 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).

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).

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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).

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) 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 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

Amended and Restated 1983 Restricted Stock Plan, as amended and restated through February 23, 2010 (incorporated by a. 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).

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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 b. 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).

(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).

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) c. 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).

(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).

(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).

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) d. 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).

(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).

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- (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. 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).
  
- (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).
  
- (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).



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- (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).
- (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).

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Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of March 8, 2010 (incorporated by (ix) 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).

Amended and Restated CenturyLink Legacy Embarq 2008 Equity Incentive Plan, as amended and restated through February 23, g. 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).

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 (i) 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).

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 (ii) 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).

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 (iii) ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).

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 h. 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).

CenturyLink 2011 Equity Incentive Plan (incorporated by reference to Appendix B of CenturyLink, Inc.'s Proxy Statement for i. its 2011 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2011).

Form of Restricted Stock Agreement for executive officers (incorporated by reference to Exhibit 10.2(a) (i) of (i) 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).

Form of Restricted Stock Agreement for non-management directors (incorporated by reference to Exhibit 10.2(a) (ii) of (ii) 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).

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 10.3 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).

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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 10.4 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).

Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of 10.5 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).

Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by 10.6 reference to Exhibit 10.16 of CenturyLink, Inc.'s Annual Report on Form 10-K for the year ended December 31, 1991).

2010 Executive Officer Short-Term Incentive Program (incorporated by reference to Appendix B of CenturyLink, Inc.'s 2010 10.7 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 7, 2010).

Amended and Restated CenturyLink 2001 Employee Stock Purchase Plan, dated as of June 30, 2009 (incorporated by reference 10.8 to Exhibit 10.3 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).

Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of July 1, 2009 10.9 (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).

Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of July 1, 2009 10.10 (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).

Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated 10.11 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).

Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive 10.12 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).

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, 10.13 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.

Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the a. Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) with the Securities and Exchange Commission on July 1, 2009).

Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of  
b. Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on  
February 27, 2007).

Form of 2008 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.2 of Embarq Corporation's Current  
c. Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008).

Form of 2009 Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current  
d. Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on March 5, 2009).

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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 Certain Material Agreements and Plans of Qwest Communications International Inc.

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).

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).



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Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s  
d. 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).

### 10.16 Certain Material Agreements and Plans of Savvis, Inc.

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  
a. 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).

Form agreements under Amended and Restated 2003 Incentive Compensation Plan applicable to awards held by James E.  
Ousley: Form of Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.1 of SAVVIS, Inc.'s  
Quarterly Report on Form 10-Q for the period ended September 30, 2003 (File No. 000-29375) filed with the Securities and  
b. Exchange Commission on October 30, 2003); and Form of Stock Unit Agreement (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  
August 23, 2005).

Form of Indemnification Agreement between SAVVIS, Inc. and James E. Ousley (incorporated by reference to Exhibit 10.4 of  
c. SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 000-29375) filed with the  
Securities and Exchange Commission on November 5, 2010).

Amended and Restated Employment Agreement, Confidentiality, Severance and Non-Competition Agreement, dated as of  
September 2, 2011, by and among James E. Ousley, SAVVIS, Inc. and CenturyLink, Inc. (incorporated by reference to  
10.17 Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2011 (File  
No. 001-07784) filed with the Securities and Exchange Commission on November 7, 2011).

Form of Restricted Stock Agreement, dated as of October 7, 2011, by and between CenturyLink, Inc. and James E. Ousley  
10.18 (incorporated by reference to Exhibit 10.18 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).

Employment, Confidentiality, Severance and Non-Competition Agreement, dated as of January 8, 2013, by and among James E.  
10.19 Ousley, Savvis, Inc. and CenturyLink, Inc.

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.

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101\* Financial statements from the Annual Report on Form 10-K of CenturyLink, Inc. for the period ended December 31, 2012, formatted in XBRL: (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Stockholders' Equity and (vi) the Notes to the 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](http://www.centurylink.com).

**SIGNATURES**

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

**CenturyLink, Inc.**

Date: March 1, 2013

By: /s/ David D. Cole

David D. Cole

Senior Vice President, Controller and Operations Support  
(Chief Accounting Officer)

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

/s/ Glen F. Post, III Chief Executive Officer, March 1, 2013  
Glen F. Post, III President and Director

/s/ William A. Owens Chairman of the Board March 1, 2013  
William A. Owens

/s/ R. Stewart Ewing, Jr. Executive Vice President, Chief Financial March 1, 2013  
R. Stewart Ewing, Jr. Officer and Assistant Secretary

/s/ David D. Cole Senior Vice President, Controller and March 1, 2013  
David D. Cole Operations Support

/s/ Virginia Boulet Director March 1, 2013  
Virginia Boulet

/s/ Peter C. Brown Director March 1, 2013  
Peter C. Brown

/s/ Richard A. Gephardt Director March 1, 2013  
Richard A. Gephardt

/s/ W. Bruce Hanks Director March 1, 2013  
W. Bruce Hanks

/s/ Gregory J. McCray Director March 1, 2013  
Gregory J. McCray

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<u>/s/ C. G. Melville, Jr.</u> C. G. Melville, Jr.	Director	March 1, 2013
<u>/s/ Fred R. Nichols</u> Fred R. Nichols	Director	March 1, 2013
<u>/s/ Harvey P. Perry</u> Harvey P. Perry	Director	March 1, 2013
<u>/s/ Michael J. Roberts</u> Michael J. Roberts	Director	March 1, 2013
<u>/s/ Laurie A. Siegel</u> Laurie A. Siegel	Director	March 1, 2013
<u>/s/ Joseph R. Zimmer</u> Joseph R. Zimmer	Director	March 1, 2013



**EMPLOYMENT, CONFIDENTIALITY,  
SEVERANCE AND NON-COMPETITION AGREEMENT**

**THIS EMPLOYMENT, CONFIDENTIALITY, SEVERANCE AND NON-COMPETITION AGREEMENT** (this “Agreement”) is entered into as of January 8, 2013 by and among James E. Ousley (the “Executive”), Savvis, Inc., a Delaware corporation, (“Savvis”) and all its subsidiaries (collectively referred to as the “Company”) and CenturyLink, Inc., a Louisiana corporation (“Parent”), and is effective as of the Effective Date. Capitalized terms used but not defined herein have the respective meanings ascribed to such terms in Section 7 of this Agreement.

WHEREAS, Parent acquired the Company on July 15, 2011 (the “Closing”) via a merger described in the Agreement and Plan of Merger, dated as of April 26, 2011, among Savvis, Inc., Parent and Mimi Acquisition Company, as amended from time to time (the “Merger Agreement”);

WHEREAS, the Executive is currently serving as Chief Executive Officer of the Company and President of the Enterprise Markets Group (“EMG”) for the Parent;

WHEREAS, Executive, Company and Parent previously entered into the Amended and Restated Employment, Confidentiality, Severance and Non-Competition Agreement (the “Prior Agreement”);

WHEREAS, although the Prior Agreement will expire and terminate by its own terms on December 31, 2012, unless earlier terminated as provided therein, the Parent and the Company desire to continue the employment of the Executive without interruption or termination, and the Executive is willing to continue his employment with Parent and its Affiliates from and after the date hereof, on the terms and conditions herein provided;

WHEREAS, the Executive acknowledges that:

- Parent and its Affiliates are and will be engaged in a number of highly competitive lines of business;
- Parent and its Affiliates conduct business throughout the United States and in numerous foreign countries;
- Parent and its Affiliates possess Confidential Information and customer goodwill that provide Parent and its Affiliates with a significant competitive advantage; and
- Parent’s and its Affiliates’ success depends to a substantial extent upon the protection of its Confidential Information (which includes trade secrets and customer lists) and customer goodwill by all of their employees;
- The Executive has and will continue to have possession of Confidential Information; and

WHEREAS, if the Executive were to leave Parent and its Affiliates, Parent and its Affiliates would in all fairness need certain protections to prevent competitors from gaining an unfair competitive advantage over them.

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NOW, THEREFORE, in consideration of the covenants and agreements hereinafter set forth, the parties agree as follows:

1. **Term of Agreement.** The term of employment (the “Term”) hereunder shall commence on January 1, 2013 (the “Effective Date”) and end on December 31, 2013, subject to earlier termination of the Executive’s employment as provided under Section 4 hereof. The following provisions shall survive termination or expiration of this Agreement for any reason, to the extent applicable and in accordance with their terms: Sections 4, 5, 6, 7 and 8. Executive’s employment is “at-will,” and nothing contained herein shall be deemed a guarantee of employment with Company or Parent for any period of time.

2. **Capacity and Performance.**

(a) During the Term, the Executive shall serve Savvis in the position of Chief Executive Officer, Savvis and serve Parent as President of Enterprise Markets Group or in such other position to which Executive may be appointed from time to time. During the Term, the Executive will be employed by Company or Parent on a full-time basis and shall perform the duties and responsibilities of his position and such other duties and responsibilities on behalf of the Company and its Affiliates, reasonably related to that position, as may be designated from time to time by Parent. For the avoidance of doubt, by entering into this Agreement, Executive agrees that the consummation of the transaction described in the Merger Agreement shall not, by itself, constitute an event of Good Reason pursuant to clause (i) of the definition of Good Reason in the Employment, Confidentiality, Severance and Non-Competition Agreement by and between the Company and Executive, effective as of August 31, 2010 and, as a result, the Executive waives any right that he may have to terminate his employment with Good Reason due to any such event solely on account of the consummation of the transaction described in the Merger Agreement.

(b) During the Term, the Executive shall devote his full business time and his best efforts, business judgment, skill and knowledge to the advancement of the business and interests of Parent, Company and their respective Affiliates and to the discharge of his duties and responsibilities hereunder. Except for corporate or non-profit board positions that Executive currently holds, the Executive shall not engage in any other business activity or serve in any industry, trade, professional, governmental or academic position during the term of this Agreement, except as may otherwise be expressly approved in advance by the Chief Executive Officer of Parent or his designee in writing, and such approval shall not be unreasonably withheld.

3. **Compensation and Benefits.** As compensation for all services performed by the Executive during the Term, and subject to performance of the Executive’s duties and the fulfillment of the obligations of the Executive to Company, Parent and their respective Affiliates, pursuant to this Agreement or otherwise:

(a) **Base Salary.** During the Term, Parent shall pay the Executive a base salary, which as of the Effective Date is set at the rate of five hundred fifty thousand dollars (\$550,000) per annum, payable in accordance with the regular payroll practices of Parent for its executives subject to adjustment from time to time by Parent, in its sole discretion. Such base salary, as from time to time adjusted, is hereafter referred to as the “Base Salary”.

(b) **Bonus Compensation.** Commencing on January 1, 2013 and through the end of the Term, the Executive shall be entitled to an annual bonus, with a target bonus opportunity of 110% of Base Salary, on terms to be determined annually by Parent prior to the commencement of each fiscal year. The incentive payment to the Executive, if any, shall be made at the same time as incentive payments are made to similarly situated employees of Parent, but in no event later than March 15<sup>th</sup> of the year following

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the year in which the services were performed. Any annual bonus compensation paid to the Executive pursuant to this paragraph shall be in addition to the Base Salary. Except as otherwise expressly provided under the terms of this Agreement, Executive shall not be entitled to earn bonus or other compensation for services rendered to Parent.



(c) Equity Awards. Any equity awards granted to the Executive by Parent or the Company shall vest and be paid in accordance with the terms of the applicable equity award agreement and, as to equity awards granted prior to January 1, 2013, in accordance with the Prior Agreement.

Subject to and conditioned upon (i) Executive's continued employment with the Company through the normal grant date for 2013 Long Term Incentive ("LTI") grants, and (ii) the approval of the Compensation Committee of the Board of Directors, Executive will be eligible for a grant of shares of restricted stock under Parent's 2011 Equity Incentive Plan (the "Equity Plan") in connection with Parent's 2013 LTI grants to executives. The Compensation Committee will determine the terms of any such 2013 LTI grant to Executive, including the aggregate grant date value of it. Those terms will be reflected in an award agreement with Executive and the Equity Plan. The Parent will recommend to the Compensation Committee that it award a 2013 LTI grant to the Executive.

(d) Living Expenses. The Executive shall continue to receive reimbursements, consistent with the letter agreement between the Company and the Executive dated March 10, 2010, for reasonable and necessary expenses for a furnished apartment, travel expenses to and from his home to his primary work city, and local transportation in his primary work city. Pursuant to such letter agreement, to the extent the benefits provided under this Section 3(d) are taxable to the Executive, the Executive will receive an additional amount (the "gross-up payment") that, after reduction for all taxes with respect to such gross-up payment, equals the additional taxes due with respect to such benefits. Any gross-up payment required to be paid under this Section 3(d) will be paid to the Executive not later than five business days after the Executive remits the related taxes.

(e) Amounts due Under the Prior Agreement. Pursuant and subject to the Prior Agreement, Executive is entitled to certain payments, such as those provided in Paragraphs 3(c)(i), 3(c)(ii) and 3(d), which are due on a specified date even without termination of his employment. This Agreement does not extinguish, enlarge, amend or modify Executive's rights with respect to such payments under the Prior Agreement. The Executive, however, is not entitled to any payments under the Prior Agreement to the extent such payments are conditioned upon a termination of employment.

#### 4. Termination of Employment.

(a) The Executive's employment with Parent or its Affiliates, as applicable, may be terminated as follows:

- (i) by Parent or its Affiliates with Cause;
- (ii) by Parent or its Affiliates without Cause;
- (iii) upon the Executive's death or Disability;
- (iv) by the Executive with Good Reason; or
- (v) by the Executive without Good Reason.

(b) Upon termination of the Executive's employment for any reason (including those specified in Paragraph 4(a)) before the end of the Term, all rights and obligations under this Agreement shall cease, except as referred to in Section 1 and except that the Executive shall be entitled to (i) payment of his Base Salary through the effective date of the termination of employment, plus (ii) payment of any other amounts owed but not yet paid to the Executive as of the effective date of termination of

employment (such as reimbursement for Living Expenses and business expenses incurred prior to termination of employment and for accrued but unused vacation, in accordance with this Agreement and Parent's expense, reimbursement and Paid Time Off policies), plus (iii) payment of his Converted RSUs with payment within 30 days after termination of employment, plus (iv) any other benefits to which the Executive may be entitled which provide for payment or other benefits following termination of employment.

(c) Severance Benefits.

(i) If the Executive is subject to termination of employment pursuant to an Involuntary Termination, then in addition to any amounts and/or benefits owed under Section 4(b), the Company shall pay the Executive: (x) an amount equal to 100% of his then-current annual Base Salary for 18 months (the "Severance Payment") at the time and in the manner described in Section 4(d); (y) any equity awards granted to the Executive by Parent or the Company shall vest and be paid in accordance with the terms of the applicable equity award agreement and, as to equity awards granted prior to January 1, 2013, in accordance with the Prior Agreement; and (z) a pro-rated portion of the annual bonus that the Executive would have been entitled to receive for the fiscal year in which the termination occurs, paid at the time and in the manner described in Section 4(d). The pro-rated annual bonus will be calculated by extrapolating the anticipated full year performance of Parent and/or the affiliated business unit, as applicable, based on the current year performance to the termination date and then multiplying the resulting full year extrapolation by a fraction the numerator of which is the number of days during the calendar year the Executive worked in the year of Involuntary Termination up to the termination date and the denominator of which is 365. In addition, if the Executive is subject to an Involuntary Termination following the end of a fiscal year but before payment of his annual bonus in respect of such fiscal year, then the Executive will also be entitled to payment of such annual bonus as he would otherwise have been entitled to receive had he remained employed on the regular payment date of such annual bonus. Any such annual bonus in respect of the fiscal year preceding the termination date shall be paid at the time bonuses are paid to other senior employees of Parent in respect of such fiscal year, but not later than the end of the year during which the Involuntary Termination occurred.

(ii) If any portion of the payments or benefits to or for the benefit of the Executive (including, but not limited to, payments and benefits under this Agreement but determined without regard to this Section 4(c)(ii)) (collectively, the "Total Payments") in connection with a Change in Control occurring after December 31, 2011 constitute Excess Parachute Payments, then Parent shall have no obligation to pay any gross-up payment and instead the Total Payments shall be reduced to the greatest amount that can be paid that would not result in the imposition of the Excise Tax (the "Reduced Amount"), but such reduction shall be made only if the Net After Tax Receipt from the Reduced Amount would be greater than the Net After-Tax Receipt from the Total Payments if the Total Payments are not reduced. "Net After-Tax Receipt" shall mean the present value (as determined in accordance with Sections 280G(b)(2)(A)(ii) and 280G(d)(4) of the Code) of a payment (or payments) net of all taxes imposed on the Executive with respect thereto under Sections 1 and 4999 of the Code and under applicable state and local laws. If the Net After-Tax Receipt from the Reduced Amount is not greater than the Net After-Tax Receipt from the Total Payments if the Total Payments are not reduced, no reduction shall be made to the Total Payments. If any reduction of the Total Payments is required pursuant to the preceding provisions of this Section 4(c)(ii), such reduction shall be made in the following order: (A) the payment provided for by Section 4(e); (B) the Severance Payment; (C) the annual bonus provided under Section 3(b); (D) payments and benefits (other than the accelerated vesting of equity-based or other compensation awards) that are not subject to Section 409A of the Code and are not described in the preceding clauses (A) through (C); (E) payments and benefits (other than the accelerated vesting of equity-based awards or other consideration awards) that are subject to Section 409A of the Code and are not described in the preceding clauses (A) through (D), in reverse order of payment; and (F) the

accelerated vesting of equity-based awards or other compensation awards, with cancellation of accelerated vesting applying first to the latest dates of scheduled vesting to which the acceleration applies.

(d) Timing of and Conditions to Payment. The Severance Payment due under clause (x) of Section 4(c)(i) shall be paid bi-weekly, in accordance with Parent's standard payroll procedures, for the eighteen (18) month period following the effective date of Involuntary Termination. Subject to Section 4(g), installments of such Severance Payment, as well as any amount due under clause (z) of Section 4(c)(i), will commence on the first payroll date following the 60<sup>th</sup> day after the effective date of the Involuntary Termination with the first installment including all installment payments that otherwise would have been made during such 60-day period. Each installment is a separate payment. The Severance Payment is, and shall be treated as, a series of separate payments.

Subject to Section 4(g), all other severance benefits, other than stock options, shall be paid in a single lump sum payment on the 60<sup>th</sup> day following the effective date of the Involuntary Termination.

Executive' s right to Severance Benefits hereunder is contingent upon and subject to each of the following having occurred:

(i) within such 60 day period, the Executive has executed and delivered to Parent a general release (in a form prescribed by Parent and acceptable to the Executive) of all known and unknown claims that he may then have against Parent, Company or their respective Affiliates and has agreed not to prosecute any legal action or other proceeding based upon any of such claims (the "General Release"), and any rescission or revocation period applicable to such General Release has expired;

(ii) the Executive has, no later than the effective date of termination, delivered to Parent a resignation from all offices, directorships and fiduciary positions with Parent and its affiliates;

(iii) the effective date of the Executive' s Involuntary Termination; and

(iv) the Executive is and continues to be in compliance with all of his obligations under this Agreement, including, without limitation, Sections 5 and 6, and under the agreements and other documents referred to or incorporated by reference herein.

For purposes of Section 409A of the Code, an installment Severance Payment shall be deemed to be made as of the scheduled bi-weekly payroll date following the Executive' s effective date of termination if made by the 15th day of the third calendar month following such payroll date.

(e) Health Care Benefit. Following an Involuntary Termination, Parent shall pay to the Executive a monthly taxable cash payment in an amount equal (on an after tax basis, taking into account federal, state, local and foreign taxes) to the monthly COBRA (Consolidated Omnibus Budget Reconciliation Act) premium(s) in effect as of immediately prior to the Executive' s Involuntary Termination for the most expensive level of coverage under the group health plan(s) applicable to the Executive at the time of the Executive' s Involuntary Termination. The monthly payments will commence with the first month following the Executive' s Involuntary Termination and will terminate upon the earlier of (i) the Executive having received eighteen monthly payments and (ii) the Executive becoming re-employed and entitled to coverage under the new employer' s group health plan. The Executive agrees to notify Parent in writing immediately upon becoming re-employed and entitled to coverage under a new employer' s group health plan.

(f) Withholding Taxes. All payments made under this Agreement shall be subject to reduction to reflect taxes or other charges required to be withheld by law.

(g) Section 409A Savings Clause. This Agreement is intended to comply with the requirements of section 409A of the Code (including the exceptions thereto) to the extent applicable, and the Agreement shall be interpreted in a manner consistent with such requirements. Notwithstanding any other provision hereof, if any provision of the Agreement conflicts with the requirements of Section 409A of the Code (or an exception hereto), such provision shall be deemed reformed so as to comply with the requirements of Section 409A of the Code (or an exception thereto) and shall be interpreted and applied accordingly.

Severance Benefits shall be due to Executive under this Agreement only if and to the extent Executive' s termination of employment constitutes a "separation from service" within the meaning of 26 C.F.R. § 1.409A-1(h). Amounts payable other than those expressly payable on a deferred or installment basis, will be paid as promptly as practical and, in any event, within 2 ½ months after the end of the year in which such amount was earned. Executive is not permitted to designate the taxable year of any payment

hereunder. If any Severance Payment subject to Section 409A could be made in either one of two tax years, payment will be made in the later year.

Any amount that the Executive is entitled to be reimbursed will be reimbursed as promptly as practical in accordance with Parent's applicable policies and practices, and in any event not later than the last day of the calendar year after the calendar year in which the expenses are incurred, and the amount of the expenses eligible for reimbursement during any calendar year will not affect the amount of expenses eligible for reimbursement in any other calendar year. Living Expenses under Section 3(d) are not Severance Benefits or deferred compensation and shall be reimbursed in accordance with the letter agreement between the Company and the Executive dated March 10, 2010 and/or the parties' past practice.

If at the time of separation from service (i) the Executive is a specified employee (within the meaning of Section 409A and using the identification methodology selected by Parent from time to time), and (ii) Parent makes a good faith determination that an amount payable by Parent to the Executive constitutes deferred compensation (within the meaning of Section 409A) the payment of which is required to be delayed pursuant to the six-month delay rule set forth in Section 409A in order to avoid taxes or penalties under Section 409A, then Parent will not pay such amount on the otherwise scheduled payment date but will instead pay it in a lump sum on the first business day after such six-month period together with interest for the period of delay, compounded annually, equal to the prime rate (as published in the Wall Street Journal) in effect as of the dates the payments should otherwise have been provided. All payments that constitute nonqualified deferred compensation under Section 409A that are to be made upon a termination of employment under this Agreement may only be made upon a "separation from service" under Section 409A of the Code.

5. **Confidential Information.**

(a) The Executive acknowledges that Parent and its Affiliates (including the Company) continually develop Confidential Information, that the Executive may develop Confidential Information for Parent or its Affiliates and that the Executive will have possession of and access to Confidential Information during the course of employment. The Executive will comply with the policies and procedures of Parent and its Affiliates for protecting Confidential Information, and shall not disclose to any Person or use, other than as required by applicable law or for the proper performance of his duties and responsibilities to Parent and its Affiliates, any Confidential Information obtained by the Executive incident to his employment or other association with Parent or any of its Affiliates. The Executive understands that this restriction shall continue to apply after his employment terminates, regardless of the reason for such termination. The confidentiality obligation under this Section 5 shall not apply to information which is generally known or readily available to the public at the time of disclosure or

becomes generally known through no wrongful act on the part of the Executive or any other Person having an obligation of confidentiality to Parent or any of its Affiliates.

(b) All documents, records, tapes and other media of every kind and description relating to the business, present or otherwise, of Parent or its Affiliates and any copies, in whole or in part, thereof (the "Documents"), whether or not prepared by the Executive, shall be the sole and exclusive property of Parent and its Affiliates. The Executive shall safeguard all Documents and shall surrender to Parent at the time that his employment terminates, or at such earlier time or times as the Board or its designee may specify, all Documents then in the Executive's possession or control.

(c) In the event that Executive is requested or becomes legally compelled (by oral questions, interrogatories, requests for information or documents; deposition, subpoena, civil investigative demand or similar process) to disclose any of the Confidential Information, the Executive shall, where permitted under applicable law, rule or regulation, provide written notice to Parent promptly after such request so that Parent may, at its expense, seek a protective order or other appropriate remedy (the Executive agrees to reasonably cooperate with Parent in connection with seeking such order or other remedy). In the event that such protective order or

other remedy is not obtained, the Executive shall furnish only that portion of the Confidential Information that the Executive is advised by Parent's counsel is required, and shall exercise reasonable efforts to obtain assurance that confidential treatment will be accorded such Confidential Information. In addition, the Executive may disclose Confidential Information in the course of inspections, examinations or inquiries by federal or state regulatory agencies and self regulatory organizations that have requested or required the inspection of records that contain the Confidential Information provided that the Executive exercises reasonable efforts to obtain reliable assurances that confidential treatment will be accorded to such Confidential Information. To the extent such information is required to be disclosed and is not accorded confidential treatment as described in the immediately preceding sentence, it shall not constitute "Confidential Information" under this Agreement.

6. **Certain Covenants.**

(a) The Executive agrees that, during his employment with Parent, he will not undertake any outside activity, whether or not competitive with the business of Savvis that could reasonably give rise to a conflict of interest or otherwise materially interfere with his duties and obligations to Savvis.

(b) During the term of Executive's employment and for twelve (12) months following termination of his employment for any reason (the "Restricted Period"), the Executive shall not, directly or indirectly, whether as owner, partner, investor, consultant, agent, employee, co-venturer or otherwise:

(i) compete with Savvis or Parent's EMG within the geographic area in which Savvis or Parent's EMG does business or undertake any planning for any business competitive with Savvis or Parent's EMG. Specifically, but without limiting the foregoing, the Executive agrees not to engage in any manner in any activity that is directly or indirectly competitive with the business of Savvis or Parent's EMG as conducted or under consideration at any time during the Executive's employment, and further agrees not to work or provide services, in any capacity, whether as an employee, independent contractor or otherwise, whether with or without compensation, to any Person who is engaged in any business that is competitive with the business of Savvis or Parent's EMG for which the Executive has provided services. The foregoing, however, shall not prevent the Executive's passive ownership of two percent (2%) or less of the equity securities of any publicly traded company; or

(ii) solicit or encourage any customer of Savvis or Parent's EMG to

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terminate or diminish its relationship with Savvis; or

(iii) seek to persuade any such customer of Savvis or Parent's EMG to conduct with anyone else any business or activity which such customer conducts with Savvis or Parent's EMG; provided that these restrictions shall apply only if the Executive has performed work for or on behalf of such Person during his employment with Company or Parent or has been introduced to, or otherwise had contact with, such Person as a result of his employment or other associations with Company or Parent or has had access to Confidential Information which would assist in the Executive's solicitation of such Person.

(iv) solicit for hiring any employee or independent contractor of Savvis or Parent's EMG, or seek to persuade any employee or independent contractor of Savvis or Parent's EMG to discontinue or diminish such employee or independent contractor's relationship with Savvis.

(c) **Cooperation and Non-Disparagement.** The Executive agrees that, during the Restricted Period, he shall cooperate with Parent in every reasonable respect and shall use his best efforts to assist Parent with the transition of the Executive's duties to his successor. The Executive further agrees that, during the Restricted Period, he shall not in any way or by any means disparage Parent, the members of Parent's Board or Parent's officers and employees.

(d) Assignment of Inventions. The Executive shall promptly and fully disclose all Work Product to Parent, the Executive hereby assigns to Parent all of the Executive's rights, title, and interest (including but not limited to all patent, trademark, copyright and trade secret rights) in and to all work product prepared by the Executive, made or conceived in whole or in part by the Executive within the scope of the Executive's employment by Parent or within six (6) months thereafter, or that relate directly to or involve the use of Confidential Information ("Work Product"). The Executive further acknowledges and agrees that all copyrightable Work Product prepared by the Executive within the scope of the Executive's employment with Parent are "works made for hire" and, consequently, that Parent owns all copyrights thereto. The Executive agrees to execute any and all applications for domestic and foreign patents, copyrights or other proprietary rights and to do such other acts (including without limitation the execution and delivery of instruments of further assurance or confirmation) requested by Parent to assign the Work Product to Parent and to permit Parent to enforce any patents, copyrights or other proprietary rights to the Work Product. The Executive will not charge Parent for time spent in complying with these obligations. Notwithstanding the foregoing, any provision in this Agreement which provides that the Executive shall assign, offer to assign, any of his rights in an invention to Parent shall not apply to an invention that the Executive developed entirely on his own time without using Parent's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(i) relate at the time of conception or reduction to practice of the invention to Parent's or the Company's business or actual demonstrably anticipated research or development of Parent, the Company or any of their respective Affiliates; or

(ii) result from any work performed by the Executive for Parent, the Company or any of their respective Affiliates.

(e) Acknowledgement Regarding Restrictions. Parent and the Company have expended a great deal of time, money and effort to develop and maintain its confidential business information which, if misused or disclosed, could be very harmful to its business and could cause Parent to be at a competitive disadvantage in the marketplace. Parent and the Company would not be willing to proceed with the execution of this Agreement but for the Executive's signing and agreeing to abide by the terms of this Agreement. The Executive recognizes and acknowledges that he has and will have access to

Confidential Information of Parent, and that Parent, in all fairness, needs certain protection in order to ensure that the Executive does not misappropriate or misuse any trade secret or other Confidential Information or take any other action which could result in a loss of the goodwill of Parent and, more generally, to prevent the Executive from having or providing others with an unfair competitive advantage over Parent. To that end, Parent acknowledges that the foregoing restrictions, both separately and in total, are reasonable and enforceable in view of Parent's legitimate interests in protecting the goodwill, confidential information and customer loyalty of its business. To the extent that any provision of this Agreement is adjudicated to be invalid or unenforceable because it is somehow overbroad or otherwise unreasonable, that provision shall not be void but rather shall be limited only to the extent required by applicable law and enforced as so limited to the greatest extent allowed by law, and the validity or enforceability of the remaining provisions of this Agreement shall be unaffected and such adjudication shall not affect the validity or enforceability of such remaining provisions.

(f) Right to Injunctive Relief. The Executive further agrees that in the event of any breach hereof the harm to Parent and its Affiliates will be irreparable and without adequate remedy at law and, therefore, that injunctive relief with respect thereto will be appropriate. In the event of a breach or threatened breach of any of the Executive's obligations under the terms of Sections 5 or 6 hereof, Parent shall be entitled, in addition to any other legal or equitable remedies it may have in connection therewith (including any right to damages that it may suffer), to temporary, preliminary and permanent injunctive relief restraining such breach or threatened breach (without the obligation to post bond), together with reasonable attorney's fees incurred in preliminarily enforcing its rights hereunder. The Executive specifically agrees that if there is a question as to the enforceability of any of the provisions of Sections 5 or



6 hereof, the Executive will not engage in any conduct inconsistent with or contrary to the applicable Section until after the question has been resolved by a final judgement of a court of competent jurisdiction.

7. **Definitions.**

(a) **“Affiliate.”** As used in this Agreement, “Affiliate” shall mean, with respect to any Person, all Persons directly or indirectly controlling, controlled by or under common control with such Person, where control may be by either management authority, contract or equity interest. As used in this definition, “control” and correlative terms have the meanings ascribed to such words in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). For example, Savvis is an “Affiliate” of Parent.

(b) **“Cause.”** As used in this Agreement, “Cause” shall mean any of the following (i) the Executive’s willful and continued failure to perform substantially the duties of his responsibilities (other than due to physical or mental incapacity) , (ii) the Executive’s unauthorized use or disclosure of trade secrets which causes substantial harm to Parent or any of its Affiliates; (iii) the Executive’s engaging in illegal conduct that is likely to be injurious to Parent or any of its Affiliates; (iv) the Executive’s acts of fraud, dishonesty, or gross misconduct, or gross negligence in connection with the business of Parent or any of its Affiliates; (v) the Executive’s conviction of a felony; (vi) the Executive’s engaging in any act of moral turpitude reasonably likely to substantially and adversely affect Parent or its business or the business of any of Parent’s Affiliates; (vii) the Executive engaging in the illegal use of a controlled substance or using prescription medications unlawfully; (viii) the Executive’s abuse of alcohol; or (ix) the breach by the Executive of a material term of this Agreement, including, without limitation, his obligations under Sections 5 or 6.

(c) **“Change in Control.”** As used in this Agreement, “Change in Control” means the occurrence of any of the following subsequent to the Effective Date hereof:

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(A) any Person (as defined herein) becomes the beneficial owner directly or indirectly (within the meaning of Rule 13d-3 under the Exchange Act) of more than 50% of Parent’s then outstanding voting securities (measured on the basis of voting power); or

(B) Individuals who, as of the date hereof, constitute the Parent Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Parent Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by Parent’s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened 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 other than the Parent Board; or

(C) the closing of an agreement of merger or consolidation with any other corporation or business entity, other than (x) a merger or consolidation which would result in the voting securities of Parent outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of Parent, at least 50% of the combined voting power of the voting securities of Parent or such surviving entity outstanding immediately after such merger or consolidation, or (y) a merger or consolidation effected to implement a recapitalization of Parent (or similar transaction) in which no Person acquires more than 50% of the combined voting power of Parent’s then outstanding securities;

(D) the liquidation or dissolution of Parent or the closing of a sale or disposition by Parent of all or substantially all of its assets.

For purposes of this paragraph, “*Person*” means any individual, entity or group within the meaning of Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof; however, a Person shall not include (aa) Parent or any of its subsidiaries, (bb) a trustee or other fiduciary holding securities under an employee benefit plan of Parent, (cc) an underwriter temporarily holding securities pursuant to an offering of such securities, (dd) a corporation owned, directly or indirectly, by the shareholders of Parent in substantially the same proportions as their ownership of Parent common stock, or (ee) any person or entity or group acquiring securities of Parent pursuant to an issuance of securities approved by the Board.

(d) “Code.” As used in this Agreement, “Code” shall mean the Internal Revenue Code of 1986, as amended.

(e) “Confidential Information.” As used in this Agreement, “Confidential Information” shall mean any and all information of Parent, the Company and any of their respective Affiliates that is not generally known by others with whom they compete or do business, or with whom any of them plans to compete or do business and any and all information, publicly known in part or not, which, if disclosed by Parent, the Company or their respective Affiliates would assist in competition against them. Confidential Information includes without limitation such information relating to (i) trade secrets, the development, research, testing, manufacturing, marketing and financial activities of Parent, the Company and their respective Affiliates, (ii) the Products, (iii) the costs, sources of supply, financial performance and strategic plans of Parent, the Company and their respective Affiliates, (iv) the identity and special needs of the customers of Parent, the Company and their respective Affiliates and (v) client lists and the people and organizations with whom Parent, the Company and their respective Affiliates have business relationships and the substance of those relationships. Confidential information also

includes any information that Parent, the Company or any of their respective Affiliates have received, or may receive hereafter, belonging to customers or others with any understanding, express or implied, that the information would not be disclosed.

(f) “Disability.” As used in this Agreement, “Disability” shall mean the Executive becoming disabled during his employment hereunder through any illness, injury, accident or condition of either a physical or psychological nature and, as a result, is unable to perform substantially all of his duties and responsibilities hereunder, notwithstanding the provision of any reasonable accommodation, for one hundred and eighty (180) days during any period of three hundred and sixty-five (365) consecutive calendar days.

(g) “Good Reason.” As used in this Agreement, “Good Reason” shall mean the occurrence of any of the following events following the Effective Date: (i) a change in the Executive’s position that materially reduces his authority and level of responsibility, as compared to his authority and level responsibility as of the Effective Date, as an executive of Parent or Company, (ii) a material reduction in his level of compensation (including base salary and target bonus), as compared to his level of compensation as of the Effective Date, or (iii) relocation of his employment more than fifty (50) miles from the metropolitan area in which the Executive’s office is located at the Effective Date; provided, however, that in the case of the preceding clauses (i), (ii) and (iii), Good Reason shall only exist if effected without the Executive’s consent. Notwithstanding the foregoing, Good Reason shall only exist if (A) the Executive provides written notice to Parent within ninety (90) days of the occurrence of the event or condition constituting Good Reason, (B) Parent is provided a period of thirty (30) days to cure the event or condition giving rise to Good Reason (the “Cure Period”) and fails to do so prior to the end of the Cure Period, and (C) the Executive terminates employment within thirty (30) days after the end of the Cure Period.

(h) “Intellectual Property.” As used in this Agreement, “Intellectual Property” shall mean inventions, discoveries, developments, methods, processes, compositions, works, concepts and ideas (whether or not patentable or copyrightable or constituting trade secrets) conceived, made, created, developed or reduced to practice by the Executive (whether alone or with others, whether or not during normal business hours or on or off Parent premises) during the Executive’s employment and during the period of



six (6) months immediately following termination of his employment that relate to either the Products or any prospective activity of Parent, the Company or any of their respective Affiliates or that make use of Confidential Information or any of the equipment or facilities of Parent, the Company or any of their respective Affiliates.

(i) “Involuntary Termination.” As used in this Agreement, “Involuntary Termination” shall mean termination of employment under Section 4(a)(ii) or Section 4(a)(iv).

(j) “Parent’ s EMG.” As used in this Agreement, “Parent’ s EMG” shall mean the Enterprise Markets Group of the Parent, including all business activities and functions performed by that Group as of the date this Agreement is entered into. “Parent’ s EMG” shall include any successor business group(s) of Parent.

(k) “Person.” As used in this Agreement, “Person” shall mean an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization.

(l) “Products.” As used in this Agreement, “Products” shall mean all products planned, researched, developed, tested, manufactured, sold, licensed, leased or otherwise distributed or put into use by Parent, the Company or any of their respective Affiliates, together with all services

provided or planned by Parent, the Company or any of their respective Affiliates, during the Executive’ s employment.

## 8. Miscellaneous Provisions.

(a) Conflicts. If any provision of this Agreement conflicts with any other agreement, policy, plan, practice or other Company or Parent document, then the provisions of this Agreement will control. When it becomes effective, this Agreement will supersede any prior agreement between the Executive and Parent or the Company with respect to the subject matters contained herein, including without limitation the Prior Agreement, and may be amended only by a writing signed by an officer of Parent (other than the Executive).

(b) Notice. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid or deposited with an overnight courier, with shipping charges prepared. In the case of the Executive, mailed notices shall be addressed to him or her at the home address which he most recently communicated to Parent in writing. In the case of Parent or the Company, mailed notices shall be addressed to Parent’ s corporate headquarters, and all notices shall be directed to the attention of Parent’ s Senior Vice President and General Counsel.

(c) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of Parent (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(d) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(e) No Retention Rights. Nothing in this Agreement shall confer upon the Executive any right to continue in service for any period of specific duration or to interfere with or otherwise restrict in any way the rights of Parent or any subsidiary of

Parent or of the Executive, which rights are hereby expressly reserved by each, to terminate his service at any time and for any reason, with or without Cause and with or without notice.

(f) Governing Law. This Agreement shall be construed and enforced in accordance with and governed by the internal laws of the State of Missouri without regard to principles of conflict of laws.

(g) Attorney's Fees. In the event of any action by either party to enforce or interpret the terms of this Agreement, the prevailing party with respect to any particular claim shall (in addition to other relief to which it or he may be awarded) be entitled to recover his or its attorney's fees in a reasonable amount incurred in connection with such claim.

(h) Successors. This Agreement and all rights of the parties hereunder shall inure to the benefit of, and be enforceable by, such parties' personal or legal representatives, executors, administrators, successors, heirs and assigns, as applicable.

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(i) Entire Agreement. This Agreement, together with the other agreements and any documents, instruments and certificates referred to herein, constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes any and all prior discussions, negotiations, proposals, undertakings, understandings and agreements, whether written or oral, with respect to the subject matter contained herein.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of Parent and the Company, by their respective duly authorized officers, as of the day and year first above written.

**PARENT**

By: /s/ Stacey W. Goff  
Stacey W. Goff  
Executive Vice President

**EXECUTIVE**

By: /s/ James E. Ousley  
James E. Ousley

**COMPANY**

By: /s/ Stacey W. Goff  
Stacey W. Goff  
Executive Vice President

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CENTURYLINK, INC.

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(UNAUDITED)

	<b>Years Ended December 31,</b>				
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(Dollars in millions)</b>				
Income before income tax expense	\$1,250	948	1,531	813	561
Less: Income from equity investee	(15)	(13)	(16)	(19)	(13)
Add: estimated fixed charges	1,504	1,223	615	418	229
Add: estimated amortization of capitalized interest	15	12	2	2	1
Add: distributed income of equity investee	12	14	16	20	16
Less: interest capitalized	(43)	(25)	(13)	(3)	(2)
<b>Total earnings available for fixed charges</b>	<b>\$2,723</b>	<b>2,159</b>	<b>2,135</b>	<b>1,231</b>	<b>792</b>
Estimate of interest factor on rentals	142	126	57	48	27
Interest expense, including amortization of premiums, discounts and debt issuance costs	1,319	1,072	545	367	200
Interest capitalized	43	25	13	3	2
<b>Total fixed charges</b>	<b>\$1,504</b>	<b>1,223</b>	<b>615</b>	<b>418</b>	<b>229</b>
Ratio of earnings to fixed charges	1.81	1.77	3.47	2.94	3.46

QuickLinks

[Exhibit 12](#)

[CENTURYLINK, INC. CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES \(UNAUDITED\)](#)

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Exhibit 21

**CENTURYLINK, INC.  
SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 2012**

<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 Interactive Fax, Inc.	Louisiana
Century Telephone of West Virginia, Inc.	West Virginia
CenturyLink-Clarke M. Williams Foundation	Colorado
CenturyTel Acquisition LLC	Louisiana
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
CenturyTel of Evangeline, LLC	Louisiana
CenturyTel Fiber Company II, 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

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<u>Subsidiary</u>	<u>State of incorporation or formation</u>
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
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 Long Distance, 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

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<u>Subsidiary</u>	<u>State of incorporation or formation</u>
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 Solutions, 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
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 Sales Solutions, Inc.	Delaware
Embarq, Inc.	Kansas
Embarq Capital Corporation	Delaware
SC Seven Company	Kansas
Embarq Communications, Inc.	Delaware
Embarq Communications of Virginia, Inc.	Virginia
CenturyLink Intellectual Property LLC	Delaware
Embarq Directory Trademark Company, LLC	Delaware
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
Embarq Payphone Services, Inc.	Florida
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
Vista-United Telecommunications (49%)	Florida

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<u>Subsidiary</u>	<u>State of incorporation or formation</u>
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 Communications, LLC	Delaware
Gulf Communications, LLC	Delaware
Savannah River Communications, LLC	Delaware
Madison River Finance Corp.	Delaware
Madison River Holdings LLC	Delaware
Madison River LTD Funding LLC	Delaware
Coastal Communications, Inc.	Delaware
Coastal Utilities, Inc.	Georgia
Coastal Long Distance Services LLC	Georgia
Gulf Coast Services, Inc.	Alabama
Gulf Long Distance LLC	Alabama
Gulf Telephone Company	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 Communications Company, LLC	Delaware
Qwest Communications Corporation of Virginia	Virginia
Qwest International Services Corporation	Delaware
Qwest N Limited Partnership (98.5%)	Delaware

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<u>Subsidiary</u>	<u>State of incorporation or formation</u>
Qwest Transoceanic, Inc.	Delaware
Qwest Communications International Ltd.	United Kingdom
Qwest Holdings, BV	Netherlands
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
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 LD Corp.	Delaware
Qwest Wireless, L.L.C.	Delaware
SAVVIS, Inc.	Delaware
SAVVIS Argentina S.A.	Argentina
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 Australia Pty. Ltd.	Australia
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
SAVVIS Communications Private Limited	India
SAVVIS Korea Limited	Korea
SAVVIS Communications K.K.	Japan
SAVVIS do Brasil Ltda.	Brazil
SAVVIS Telecomunicações Ltda.	Brazil

SAVVIS do Brasil Participacoes Ltda.	Brazil
SAVVIS Comunicacoes Ltda.	Brazil
SAVVIS Europe B.V.	Netherlands
SAVVIS Europe BV Sucursal en España	Spain
SAVVIS Europe B.V., The Netherlands, filial Sweden	Sweden

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<u>Subsidiary</u>	<u>State of incorporation or formation</u>
SAVVIS France S.A.S.	France
SAVVIS Germany GmbH	Germany
SAVVIS Hong Kong Ltd.	Hong Kong
SAVVIS Hungary Telecommunications KFT	Hungary
SAVVIS Italia S.r.l.	Italy
SAVVIS Malaysia Sd. Ltd.	Malaysia
SAVVIS Mexico, S.A. de C.V.	Mexico
SAVVIS New Zealand Limited	New Zealand
SAVVIS Philippines, Inc.	Philippines
SAVVIS Poland Sp Zo.o.	Poland
SAVVIS Singapore Company Pte. Ltd.	Singapore
SAVVIS Switzerland A.G.	Switzerland
SAVVIS Taiwan Limited	Taiwan
SAVVIS (Thailand) Limited	Thailand
SAVVIS U.K. Limited	United Kingdom
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.	Vermont

QuickLinks

[Exhibit 21](#)



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**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. 333-165607 and 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 March 1, 2013, with respect to the consolidated balance sheets of CenturyLink, Inc. and subsidiaries as of December 31, 2012 and 2011, 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, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which reports appear in the December 31, 2012 annual report on Form 10-K of CenturyLink, Inc.

/s/ KPMG LLP

Shreveport, Louisiana

March 1, 2013

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[Exhibit 23](#)

[Consent of Independent Registered Public Accounting Firm](#)

**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: March 1, 2013

/s/ Glen F. Post, III

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Glen F. Post, III

Chief Executive Officer and President

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QuickLinks

[Exhibit 31.1](#)

[CERTIFICATION](#)

**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.

/s/ R. Stewart Ewing, Jr. \_\_\_\_\_

R. Stewart Ewing, Jr.

Date: March 1, 2013

Executive Vice President, Chief  
Financial Officer and Assistant  
Secretary

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QuickLinks

[Exhibit 31.2](#)

[CERTIFICATION](#)



[QuickLinks](#) -- Click here to rapidly navigate through this document

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, 2012 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: March 1, 2013

/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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## QuickLinks

### [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](#)

## Income Taxes (Tables)

12 Months Ended  
Dec. 31, 2012

### Income Taxes

#### Schedule of components of provision for income tax

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Income tax expense was as follows:			
Federal			
Current	\$57	(49 )	384
Deferred	361	401	145
State			
Current	15	25	67
Deferred	33	(6 )	(13 )
Foreign			
Current	7	4	—
Deferred	—	—	—
Total income tax expense	\$473	375	583

#### Schedule of income tax expense allocation

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Income tax expense was allocated as follows:			
Income tax expense in the consolidated statements of income:			
Attributable to income	\$473	375	583
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(18 )	(13 )	(12 )
Tax effect of the change in accumulated other comprehensive loss	(434 )	(535 )	(34 )

[Schedule of reconciliation of the statutory federal income tax rate to effective income tax rate](#)

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Percentage of pre-tax income)</b>		
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5%	1.3%	1.9%
Change in tax treatment of Medicare subsidy	—	—	0.3%
Nondeductible acquisition related costs	—	0.9%	0.2%
Nondeductible compensation pursuant to executive compensation limitations	0.5%	0.4%	0.2%
Reversal of valuation allowance on auction rate securities	(1.2)%	—	—
Foreign income taxes	0.3%	0.4%	—
Foreign valuation allowance	—	0.8%	—
Other, net	0.7%	0.8%	0.5%
Effective income tax rate	<u>37.8%</u>	<u>39.6%</u>	<u>38.1%</u>

[Schedule of components of deferred tax assets and deferred tax liabilities](#)

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Deferred tax assets		
Post-retirement and pension benefit costs	\$2,327	2,040
Net operating loss carryforwards	1,764	2,492
Other employee benefits	193	122
Other	754	802
Gross deferred tax assets	<u>5,038</u>	<u>5,456</u>
Less valuation allowance	<u>(281)</u>	<u>(293)</u>

Net deferred tax assets	4,757	5,163
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(3,983)	(3,638)
Goodwill and other intangible assets	(3,316)	(4,144)
Other	(211)	(162)
Gross deferred tax liabilities	(7,510)	(7,944)
Net deferred tax liability	\$(2,753)	(2,781)

[Summary of the reconciliation of the change in gross unrecognized tax benefits](#)

	2012	2011
	(Dollars in millions)	
Unrecognized tax benefits at beginning of year	\$111	311
Assumed in Qwest and Savvis acquisitions	—	206
Increase in tax positions taken in the current year	3	—
Decrease due to the reversal of tax positions taken in a prior year	(34)	(13)
Decrease from the lapse of statute of limitations	(2)	(1)
Settlements	—	(392)
Unrecognized tax benefits at end of year	\$78	111

[Schedule of open income tax years by major jurisdiction](#)

Jurisdiction	Open Tax Years
Federal	2008—current
State	
Florida	2006—current
Louisiana	2009—current
Minnesota	1996—1999 and 2002—current
New York	2001—2006 and 2009—current
North Carolina	2004—2006 and 2009—current
Oregon	2002—2003 and 2009—current
Texas	2008—current
Other states	2006—current

**Accounts Receivable  
(Details) (USD \$)**

**12 Months Ended**

**In Millions, unless otherwise specified**      **Dec. 31, 2012** **Dec. 31, 2011** **Dec. 31, 2010**

**Accounts receivable**

Trade and purchased receivables      \$ 1,782      \$ 1,768

Earned and unbilled receivables      274      296

Other      19      31

Total accounts receivable      2,075      2,095

Less allowance for doubtful accounts      (158)      (145)

Accounts receivable, less allowance      1,917      1,950

Allowance for doubtful accounts

**Accounts receivable**

Balance at the beginning of the period      145      60      48

Additions      187      153      91

Deductions      (174)      (68)      (79)

Balance at the end of the period      \$ 158      \$ 145      \$ 60

Basis of Presentation and Summary of Significant Accounting Policies (Details 4)	1 Months Ended	12 Months Ended
	Jan. 31, 2013 segment	Dec. 31, 2012 segment
<b><u>Goodwill, Customer Relationships and Other Intangible Assets</u></b>		
<u>Number of operating segments</u>	4	4
Customer relationship   Minimum		
<b><u>Goodwill, Customer Relationships and Other Intangible Assets</u></b>		
<u>Estimated useful life</u>		10 years
Customer relationship   Maximum		
<b><u>Goodwill, Customer Relationships and Other Intangible Assets</u></b>		
<u>Estimated useful life</u>		12 years 6 months
Capitalized software   Maximum		
<b><u>Goodwill, Customer Relationships and Other Intangible Assets</u></b>		
<u>Estimated useful life</u>		7 years
Other Intangible assets		
<b><u>Goodwill, Customer Relationships and Other Intangible Assets</u></b>		
<u>Estimated useful life</u>		4 years

Commitments and Contingencies (Details) In Millions, unless otherwise specified	12 Months Ended			24 Months Ended	1 Months Ended	12 Months Ended	1 Months Ended	12 Months Ended			1 Months Ended	12 Months Ended		
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2007	Aug. 31, 2010	Dec. 31, 2009	Sep. 30, 2010	Dec. 31, 2012	Dec. 31, 2009	Sep. 30, 2006	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2012
	USD	USD	USD	William Douglas Fulghum, et al. v. Embarq Corporation	litigation related to Federal Communications Act lawsuit	litigation related to Federal Communications Act lawsuit	EUR (€)	USD (\$)	USD (\$)	Plc and Citibank, N.A.	Plc and Citibank, N.A.	Abbott et al. v. Sprint Nextel et al. plaintiff	Fiber-optic cable installation Qwest state item	
<b>Commitments and Contingencies</b>														
Number of lawsuits filed						2					2			
Charges claimed against Sprint Nextel						\$ 34								
Number of claims with favorable ruling					1									
Effect of modifications made to Embarq's benefits program, greater than			300											
Number of plaintiffs have alleged breach of fiduciary duty													1,500	
<b>Litigation Matters Assumed in Qwest Acquisition</b>														
Damages sought by plaintiff							4,200	5,600		219	289			
Number of states in which service is provided														34
Number of action pending before the Illinois Court of Appeals to be brought on behalf of landowner in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin														1
Number of states in which final approval of settlements received														22
Number of states in which preliminary approval of settlements were received														8
Number of states in which preliminary or final approval of settlements have not yet been received														4
<b>Capital lease activity</b>														
Assets acquired through capital leases	209	696												
Depreciation expense	150	89												
Cash payments towards capital leases	113	76												
Assets included in property, plant and equipment	893	698												
Accumulated depreciation	229	91												
<b>Future annual minimum payments under capital lease arrangements</b>														
2013	155													
2014	143													
2015	107													
2016	72													
2017	68													
2018 and thereafter	381													
Total minimum payments	926													
Less: amount representing interest and executory costs	(245)													
Present value of minimum payments	681													
Less: current portion	(117)													
Long-term portion	564													
<b>Operating Leases</b>														



<u>Rent expense</u>	445	401	174
<u>Sublease rental income</u>	18	17	
<b><u>Future rental commitments</u></b>			
<u>2013</u>	297		
<u>2014</u>	252		
<u>2015</u>	219		
<u>2016</u>	183		
<u>2017</u>	156		
<u>2018 and thereafter</u>	964		
<u>Total future minimum payments</u>	2,071		
<u>Minimum sublease rentals due in the future under non-cancelable subleases</u>	115		
<b><u>Purchase obligations</u></b>			
<u>Total purchase commitments</u>	524		
<u>2013</u>	213		
<u>2014 and 2015</u>	129		
<u>2016 and 2017</u>	86		
<u>2018 and thereafter</u>	\$ 96		

Property, Plant and Equipment (Details) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended						6 Months Ended			12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Jun. 30, 2012	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>Property, plant and equipment</b>												
Gross property, plant and equipment	\$ 32,086				\$ 29,585				\$ 32,086	\$ 29,585		
Accumulated depreciation	(13,054)				(10,141)				(13,054)	(10,141)		
Net property, plant and equipment	19,032				19,444				19,032	19,444		
Depreciation expense								(15)	(3,098)	(2,601)	(1,228)	
Operating expense									(15,663)	(13,326)	(4,982)	
Net income	233	270	74	200	109	138	115	211	777	573	948	
Basic earnings per common share (in dollars per share)	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	
Diluted earnings per common share (in dollars per share)	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	
<b>Asset retirement obligation activity</b>												
Balance at beginning of year				109		41	109	109	41	39		
Accretion expense								7	9	2		
Liabilities incurred								1				
Liabilities assumed in Qwest and Savvis acquisitions										124		
Liabilities settled and other								(1)	(3)			
Change in estimate								(10)	(62)			
Balance at end of year	106				109			106	109	41		
Correction of Immaterial Error												
<b>Property, plant and equipment</b>												
Depreciation expense		45						(15)		(30)		
Retrospective adjustments   Correction of Immaterial Error												
<b>Property, plant and equipment</b>												
Depreciation expense									30			
Net income									19			
Basic earnings per common share (in dollars per share)									\$ 0.03			
Diluted earnings per common share (in dollars per share)									\$ 0.03			

Change in estimates of economic lives and net salvage value | Retrospective adjustments

**Property, plant and equipment**

<u>Depreciation expense</u>					(26)
<u>Net income</u>					(16)
<u>Basic earnings per common share (in dollars per share)</u>					\$ (0.03)
<u>Diluted earnings per common share (in dollars per share)</u>					\$ (0.03)

Minimum | Change in estimates of capitalized labor | Retrospective adjustments

**Property, plant and equipment**

<u>Labor capitalized as an asset</u>					40
<u>Operating expense</u>					40
<u>Net income</u>					25
<u>Basic earnings per common share (in dollars per share)</u>					\$ 0.04
<u>Diluted earnings per common share (in dollars per share)</u>					\$ 0.04

Maximum | Change in estimates of capitalized labor | Retrospective adjustments

**Property, plant and equipment**

<u>Labor capitalized as an asset</u>					55
<u>Operating expense</u>					55
<u>Net income</u>					34
<u>Basic earnings per common share (in dollars per share)</u>					\$ 0.05
<u>Diluted earnings per common share (in dollars per share)</u>					\$ 0.05

Land

**Property, plant and equipment**

<u>Gross property, plant and equipment</u>	579	590	579	590
--	-----	-----	-----	-----

Fiber, conduit and other outside plant

**Property, plant and equipment**

<u>Gross property, plant and equipment</u>	13,030	12,415	13,030	12,415
--	--------	--------	--------	--------

Fiber, conduit and other  
outside plant | Retrospective  
adjustments

**Property, plant and  
equipment**

Net property, plant and  
equipment

(8)

(8)

Fiber, conduit and other  
outside plant | Minimum

**Property, plant and  
equipment**

Depreciable life

15 years

Fiber, conduit and other  
outside plant | Maximum

**Property, plant and  
equipment**

Depreciable life

45 years

Central office and other  
network electronics

**Property, plant and  
equipment**

Gross property, plant and  
equipment

11,395

9,683

11,395 9,683

Central office and other  
network electronics |  
Retrospective adjustments

**Property, plant and  
equipment**

Net property, plant and  
equipment

(47)

(47)

Central office and other  
network electronics |  
Minimum

**Property, plant and  
equipment**

Depreciable life

3 years

Central office and other  
network electronics |  
Maximum

**Property, plant and  
equipment**

Depreciable life

10 years

Support assets

**Property, plant and  
equipment**

Gross property, plant and  
equipment

6,235

6,098

6,235 6,098

Support assets   Qwest and Savvis acquisitions   Retrospective adjustments					
<b><u>Property, plant and equipment</u></b>					
<u>Net property, plant and equipment</u>		8		8	
Support assets   Minimum					
<b><u>Property, plant and equipment</u></b>					
<u>Depreciable life</u>				3 years	
Support assets   Maximum					
<b><u>Property, plant and equipment</u></b>					
<u>Depreciable life</u>				30 years	
Construction in progress					
<b><u>Property, plant and equipment</u></b>					
<u>Gross property, plant and equipment</u>	847	799		847	799
Construction in progress   Retrospective adjustments					
<b><u>Property, plant and equipment</u></b>					
<u>Net property, plant and equipment</u>		\$ 55		\$ 55	

**Basis of Presentation and  
Summary of Significant  
Accounting Policies (Details  
2) (Qwest Corporation,  
Office building, USD \$)  
In Millions, unless otherwise  
specified**

**0 Months Ended**

**Apr. 02, 2012**

Qwest Corporation | Office building

**Basis of Presentation**

Proceeds from sale of administrative building \$ 133

Amount of gain from sale of office building deferred \$ 16

Lease term 10 years

**Property, Plant and  
Equipment (Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Property, Plant and  
Equipment**

**Schedule of net property, plant  
and equipment**

	Depreciable Lives	December 31,	
		2012	2011
		(Dollars in millions)	
Land	N/A	\$579	590
Fiber, conduit and other outside plant <sup>(1)</sup>	15-45 years	13,030	12,415
Central office and other network electronics <sup>(2)</sup>	3-10 years	11,395	9,683
Support assets <sup>(3)</sup>	3-30 years	6,235	6,098
Construction in progress <sup>(4)</sup>	N/A	847	799
Gross property, plant and equipment		32,086	29,585
Accumulated depreciation		(13,054)	(10,141)
Net property, plant and equipment		\$19,032	19,444

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

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

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

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

**Schedule of changes to asset  
retirement obligations**

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Balance at beginning of year	\$109	41	39
Accretion expense	7	9	2
Liabilities incurred	1	—	—
Liabilities assumed in Qwest and Savvis acquisitions	—	124	—
Liabilities settled and other	(1)	(3)	—
Change in estimate	(10)	(62)	—
Balance at end of year	\$106	109	41

Dividends (Details) (USD \$) In Thousands, except Per Share data, unless otherwise specified	0 Months Ended															
	Dec. 21, 2012	Nov. 13, 2012	Sep. 21, 2012	Aug. 21, 2012	Jun. 15, 2012	May 24, 2012	Mar. 16, 2012	Feb. 12, 2012	Dec. 16, 2011	Nov. 15, 2011	Sep. 16, 2011	Aug. 23, 2011	Jun. 16, 2011	May 18, 2011	Feb. 25, 2011	Jan. 24, 2011
<u>Dividends</u>																
<u>DIVIDENDS DECLARED</u>																
<u>PER COMMON SHARE (in dollars per share)</u>		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725
<u>Total amount declared</u>		\$ 454,000		\$ 452,000		\$ 453,000		\$ 452,000		\$ 449,000		\$ 449,000		\$ 436,000		\$ 222,000
<u>Dividend per share paid (in dollars per share)</u>	\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725		\$ 0.725	
<u>Total Amount Paid</u>	\$ 454,000		\$ 452,000		\$ 453,000		\$ 452,000		\$ 449,000		\$ 449,000		\$ 436,000		\$ 222,000	





<b>Other Financial Information (Details) (USD \$) In Millions, unless otherwise specified</b>	<b>1 Months Ended Jan. 31, 2013</b>	<b>3 Months Ended Dec. 31, 2012</b>	<b>Jun. 30, 2012</b>	<b>Dec. 31, 2011</b>
<b><u>Other Current Assets</u></b>				
<u>Prepaid expenses</u>		\$ 257		\$ 240
<u>Materials, supplies and inventory</u>		125		107
<u>Assets held for sale</u>		96		
<u>Deferred activation and installation charges current</u>		53		25
<u>Other</u>		21		21
<u>Total other current assets</u>		552		393
<u>Reclassification from other intangible assets, net to current assets other</u>			154	
<u>Sale of wireless spectrum assets</u>	43	58		
<u>Gain on sale of wireless spectrum assets</u>	32			
<u>Accounts payable</u>		1,207		1,400
<b><u>Other Current Liabilities</u></b>				
<u>Accrued rent</u>		48		44
<u>Legal reserves</u>		39		44
<u>Other</u>		147		167
<u>Total other current liabilities</u>		234		255
<b><u>Current liabilities</u></b>				
<u>Book overdraft balance</u>		\$ 132		\$ 61

## Other Financial Information

12 Months Ended  
Dec. 31, 2012

### Other Financial Information

#### Other Financial Information

#### (16) Other Financial Information

##### *Other Current Assets*

The following table presents details of our other current assets:

	December 31,	
	2012	2011
	(Dollars in millions)	
Prepaid expenses	\$257	240
Materials, supplies and inventory	125	107
Assets held for sale	96	—
Deferred activation and installation charges	53	25
Other	21	21
Total other current assets	\$552	393

During the second quarter of 2012, we reclassified \$154 million related to our wireless spectrum assets from "Other intangible assets, net" to "current assets—other" in the consolidated balance sheet. We sold \$58 million of our wireless spectrum assets during the fourth quarter of 2012, and we sold another \$43 million of our wireless spectrum assets in January 2013. In the aggregate, these transactions resulted in a gain of \$32 million. We expect to reach agreements with various other purchasers for the remaining spectrum, and the consummation of which will be subject to regulatory approval.

##### *Selected Current Liabilities*

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

	December 31	
	2012	2011
	(Dollars in millions)	
Accounts payable	\$1,207	1,400
Other current liabilities:		
Accrued rent	\$48	44
Legal reserves	39	44
Other	147	167
Total other current liabilities	\$234	255

Included in accounts payable at December 31, 2012 and December 31, 2011 were \$132 million and \$61 million, respectively, representing book overdrafts.

Basis of Presentation and Summary of Significant Accounting Policies (Details 6) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended				6 Months Ended				12 Months Ended			24 Months Ended	
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Jun. 30, 2012	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2012 Restatement Adjustment
<u>Depreciation expense</u>								\$ 15	\$ 3,098	\$ 2,601	\$ 1,228		\$ (30)
<u>Net income</u>	\$ 233	\$ 270	\$ 74	\$ 200	\$ 109	\$ 138	\$ 115	\$ 211	\$ 777	\$ 573	\$ 948	\$ 19	
<u>Net income per share</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	\$ 0.03	
<u>Diluted earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	\$ 0.03	

**Commitments and  
Contingencies (Tables)**

**Commitments and Contingencies**  
Schedule of capital lease activity

**12 Months Ended  
Dec. 31, 2012**

	<u>Years Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
<b>(Dollars in millions)</b>		
Assets acquired through capital leases	\$209	696
Depreciation expense	150	89
Cash payments towards capital leases	113	76
<b>December 31, 2012      December 31, 2011</b>		
<b>(Dollars in millions)</b>		
Assets included in property, plant and equipment	\$893	698
Accumulated depreciation	229	91

Schedule of future annual minimum payments under capital lease arrangements

	<b>Future Minimum Payments (Dollars in millions)</b>
Capital lease obligations:	
2013	\$155
2014	143
2015	107
2016	72
2017	68
2018 and thereafter	381
Total minimum payments	926
Less: amount representing interest and executory costs	(245 )
Present value of minimum payments	681
Less: current portion	(117 )
Long-term portion	\$564

Schedule of future rental commitments for operating leases

	<b>Future Minimum Payments (Dollars in millions)</b>
2013	\$297

2014	252
2015	219
2016	183
2017	156
2018 and thereafter	964
<b>Total future minimum payments<sup>(1)</sup></b>	<b>\$2,071</b>

(1) Minimum payments have not been reduced by minimum sublease rentals of \$115 million due in the future under non-cancelable subleases.

**Earnings Per Common  
Share (Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Earnings Per Common Share**  
**Schedule of basic and diluted**  
**earnings per common share**

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions, except per share amounts, shares in thousands)		
<b>Income (Numerator):</b>			
Net income	\$777	573	948
Earnings applicable to non-vested restricted stock	(1 )	(2 )	(6 )
Net income applicable to common stock for computing basic earnings per common share	776	571	942
Net income as adjusted for purposes of computing diluted earnings per common share	\$776	571	942
<b>Shares (Denominator):</b>			
Weighted average number of shares:			
Outstanding during period	622,139	534,320	301,428
Non-vested restricted stock	(2,796 )	(2,209 )	(1,756 )
Non-vested restricted stock units	862	669	947
Weighted average shares outstanding for computing basic earnings per common share	620,205	532,780	300,619
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	12	13	13
Shares issuable under incentive compensation plans	2,068	1,328	665
Number of shares as adjusted for purposes of computing diluted earnings per common share	622,285	534,121	301,297
Basic earnings per common share	\$1.25	1.07	3.13
Diluted earnings per common share	\$1.25	1.07	3.13

**Goodwill, Customer  
Relationships and Other  
Intangible Assets (Details)  
(USD \$)  
In Millions, unless otherwise  
specified**

1 Months Ended	3 Months Ended	12 Months Ended			
Jan. 31, 2013 segment	Dec. 31, 2012	Dec. 31, 2012 segment	Dec. 31, 2011	Dec. 31, 2010	Jun. 30, 2012

**Intangible assets**

**Goodwill**

	\$	\$			
	21,732	21,732	21,732		

**Total other intangible assets, net**

	1,795	1,795	2,243		
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**Amortization expense related to intangible assets**

	1,682	1,425	206		
--	-------	-------	-----	--	--

**Indefinite-lived intangible assets**

**Indefinite-life intangible assets**

	268	268	422		
--	-----	-----	-----	--	--

**Discrete projection period**

		9 years			
--	--	---------	--	--	--

**Weighted average cost of capital to calculate discount rate as of the measurement date (as a percent)**

		6.00%			
--	--	-------	--	--	--

**After-tax cost component of weighted average cost of capital, cost of debt (as a percent)**

	3.20%	3.20%			
--	-------	-------	--	--	--

**Cost of debt component of weighted average cost of capital, cost of equity (as a percent)**

	8.40%	8.40%			
--	-------	-------	--	--	--

**Percentage of reasonable implied control premium**

	14.00%	14.00%			
--	--------	--------	--	--	--

**Number of operating segments**

	4		4		
--	---	--	---	--	--

**Expected amortization expense**

**2013**

	1,493	1,493			
--	-------	-------	--	--	--

**2014**

	1,369	1,369			
--	-------	-------	--	--	--

**2015**

	1,232	1,232			
--	-------	-------	--	--	--

**2016**

	1,104	1,104			
--	-------	-------	--	--	--

**2017**

	983	983			
--	-----	-----	--	--	--

**Reclassification from other intangible assets, net to current assets other**

					154
--	--	--	--	--	-----

**Sale of wireless spectrum assets**

	43	58			
--	----	----	--	--	--

**Gain on sale of wireless spectrum assets**

	32				
--	----	--	--	--	--

**Retrospective adjustments | Change in purchase price allocation**

**Intangible assets**

**Goodwill**

	8	8			
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**Regional markets**

**Intangible assets**

**Goodwill**

	15,170	15,170			
--	--------	--------	--	--	--

**Wholesale markets**

**Intangible assets**

**Goodwill**

	3,283	3,283			
--	-------	-------	--	--	--

**Enterprise markets - network**

**Intangible assets**



<u>Goodwill</u>	1,788	1,788	
Enterprise markets - data hosting			
<b><u>Intangible assets</u></b>			
<u>Goodwill</u>	1,491	1,491	
<b><u>Indefinite-lived intangible assets</u></b>			
<u>Weighted average cost of capital to calculate discount rate as of the measurement date (as a percent)</u>		11.00%	
<u>After-tax cost component of weighted average cost of capital, cost of debt (as a percent)</u>	3.20%	3.20%	
<u>Cost of debt component of weighted average cost of capital, cost of equity (as a percent)</u>	12.00%	12.00%	
Customer relationships			
<b><u>Intangible assets</u></b>			
<u>Finite-life intangible assets, less accumulated amortization</u>	7,052	7,052	8,239
<u>Accumulated amortization</u>	2,524	2,524	1,337
Capitalized software			
<b><u>Intangible assets</u></b>			
<u>Finite-life intangible assets, less accumulated amortization</u>	1,399	1,399	1,622
<u>Accumulated amortization</u>	814	814	441
Tradenames and patents			
<b><u>Intangible assets</u></b>			
<u>Finite-life intangible assets, less accumulated amortization</u>	128	128	199
<u>Accumulated amortization</u>	\$ 142	\$ 142	\$ 71

Segment Information (Details 2) (USD \$) In Millions, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2012 item	Dec. 31, 2011	Dec. 31, 2010
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>	\$ 4,583	\$ 4,571	\$ 4,612	\$ 4,610	\$ 4,653	\$ 4,596	\$ 4,406	\$ 1,696	\$ 18,376	\$ 15,351	\$ 17,042
<u>Surcharge amount on customers' bills</u>									531	392	115
<u>Number of groups of products and services</u>									4		
<u>Number of groups of products and services included in segment revenue</u>									3		
Strategic services											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>									8,361	6,262	2,049
Strategic services   Previously allocated amounts											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>										6,254	
Legacy services											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>									8,287	7,672	4,288
Legacy services   Previously allocated amounts											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>										7,680	
Data integration											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>									672	537	158
Other											
<b><u>Operating revenues by products and services</u></b>											
<u>Other operating revenue</u>									\$ 1,056	\$ 880	\$ 547

Earnings Per Common Share (Details) (USD \$) In Millions, except Share data, unless otherwise specified	3 Months Ended				12 Months Ended						
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>Income (Numerator):</b>											
<u>Net income</u>									\$ 777	\$ 573	\$ 948
<u>Earnings applicable to non-vested restricted stock</u>									(1)	(2)	(6)
<u>Net income applicable to common stock for computing basic earnings per common share</u>									776	571	942
<u>Net income as adjusted for purposes of computing diluted earnings per common share</u>									\$ 776	\$ 571	\$ 942
<b>Weighted average number of shares:</b>											
<u>Outstanding during period (in shares)</u>									622,139,000	534,320,000	301,428,000
<u>Non-vested restricted stock (in shares)</u>									(2,796,000)	(2,209,000)	(1,756,000)
<u>Non-vested restricted stock units (in shares)</u>									862,000	669,000	947,000
<u>Weighted average shares outstanding for computing basic earnings per common share</u>									620,205,000	532,780,000	300,619,000
<b>Incremental common shares attributable to dilutive securities:</b>											
<u>Shares issuable under convertible securities</u>									12,000	13,000	13,000
<u>Shares issuable under incentive compensation plans</u>									2,068,000	1,328,000	665,000
<u>Number of shares as adjusted for purposes of computing diluted earnings per common share</u>									622,285,000	534,121,000	301,297,000
<b>Basic earnings per common share:</b>											
<u>Basic earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13
<b>Diluted earnings per common share:</b>											
<u>Diluted earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13

Stock option awards

**Antidilutive securities  
excluded from computation of  
earnings per share**

Number of shares of common  
stock excluded from the  
computation of diluted earnings  
per share

2,200,000 2,400,000 2,900,000

Basis of Presentation and Summary of Significant Accounting Policies (Details 3) (USD \$) In Millions, except Per Share data, unless otherwise specified	3 Months Ended								6 Months Ended	12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Jun. 30, 2012	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>Change in accounting estimates</b>												
<u>Depreciation expense</u>									\$ 15	\$ 3,098	\$ 2,601	\$ 1,228
<u>Operating expense</u>										(15,663)	(13,326)	(4,982)
<u>Net income</u>	233	270	74	200	109	138	115	211		777	573	948
<u>Basic earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69		\$ 1.25	\$ 1.07	\$ 3.13
<u>Diluted earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69		\$ 1.25	\$ 1.07	\$ 3.13
Change in estimates of capitalized labor   Adjustments   Minimum												
<b>Change in accounting estimates</b>												
<u>Labor capitalized as an asset</u>										40		
<u>Operating expense</u>										40		
<u>Net income</u>										25		
<u>Basic earnings per common share (in dollars per share)</u>										\$ 0.04		
<u>Diluted earnings per common share (in dollars per share)</u>										\$ 0.04		
Change in estimates of capitalized labor   Adjustments   Maximum												
<b>Change in accounting estimates</b>												
<u>Labor capitalized as an asset</u>										55		
<u>Operating expense</u>										55		
<u>Net income</u>										34		
<u>Basic earnings per common share (in dollars per share)</u>										\$ 0.05		
<u>Diluted earnings per common share (in dollars per share)</u>										\$ 0.05		
Change in estimates of economic lives and net salvage value   Adjustments												

**Change in accounting estimates**

<u>Depreciation expense</u>	26
<u>Net income</u>	\$ (16)
<u>Basic earnings per common share (in dollars per share)</u>	\$ (0.03)
<u>Diluted earnings per common share (in dollars per share)</u>	\$ (0.03)

<b>CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (USD \$)</b> In Millions, except Share data, unless otherwise specified	<b>Total</b>	<b>COMMON STOCK</b>	<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME</b>	<b>RETAINED EARNINGS</b>
<a href="#">Balance at Dec. 31, 2009</a>		\$ 299	\$ 6,020	\$ (85)	\$ 3,233
<a href="#">Balance (in shares) at Dec. 31, 2009</a>		299,000,000			
<b><a href="#">Increase (Decrease) in Stockholders' Equity</a></b>					
<a href="#">Issuance of common stock through dividend reinvestment, incentive and benefit plans</a>		6	124		
<a href="#">Issuance of common stock through dividend reinvestment, incentive and benefit plans (in shares)</a>		6,000,000			
<a href="#">Shares withheld to satisfy tax withholdings</a>			(16)		
<a href="#">Share-based compensation and other, net</a>			53		
<a href="#">Other comprehensive (loss) income</a>	(56)			(56)	
<a href="#">Net income</a>	948				948
<a href="#">Dividends declared</a>					(879)
<a href="#">Balance at Dec. 31, 2010</a>	9,647	305	6,181	(141)	3,302
<a href="#">Balance (in shares) at Dec. 31, 2010</a>		305,000,000			
<b><a href="#">Increase (Decrease) in Stockholders' Equity</a></b>					
<a href="#">Issuance of common stock to acquire Qwest, including shares issued in connection with share- based compensation awards</a>		294	11,974		
<a href="#">Issuance of common stock to acquire Qwest, including shares issued in connection with share- based compensation awards (in shares)</a>		294,000,000			
<a href="#">Issuance of common stock to acquire Savvis, including shares issued in connection with share- based compensation awards</a>		14	601		

<u>Issuance of common stock to acquire Savvis, including shares issued in connection with share-based compensation awards (in shares)</u>			14,000,000		
<u>Issuance of common stock through dividend reinvestment, incentive and benefit plans</u>		6		97	
<u>Issuance of common stock through dividend reinvestment, incentive and benefit plans (in shares)</u>			6,000,000		
<u>Shares withheld to satisfy tax withholdings</u>				(30)	
<u>Share-based compensation and other, net</u>				78	
<u>Other comprehensive (loss) income</u>	(871)				(871)
<u>Net income</u>	573				573
<u>Dividends declared</u>					(1,556)
<u>Balance at Dec. 31, 2011</u>	20,827	619	18,901	(1,012)	2,319
<u>Balance (in shares) at Dec. 31, 2011</u>	618,514,000	619,000,000			
<b><u>Increase (Decrease) in Stockholders' Equity</u></b>					
<u>Issuance of common stock through dividend reinvestment, incentive and benefit plans</u>		8		102	
<u>Issuance of common stock through dividend reinvestment, incentive and benefit plans (in shares)</u>			8,000,000		
<u>Shares withheld to satisfy tax withholdings</u>		(1)		(34)	
<u>Shares withheld to satisfy tax withholdings (in shares)</u>			(1,000,000)		
<u>Share-based compensation and other, net</u>				110	
<u>Other comprehensive (loss) income</u>	(689)				(689)
<u>Net income</u>	777				777
<u>Dividends declared</u>					(1,811)
<u>Balance at Dec. 31, 2012</u>	\$ 19,289	\$ 626	\$ 19,079	\$ (1,701)	\$ 1,285
<u>Balance (in shares) at Dec. 31, 2012</u>	625,658,000	626,000,000			



**Fair Value Disclosure  
(Details) (Fair Value  
Measurements valued on  
recurring basis, USD \$)  
In Millions, unless otherwise  
specified**

**Dec. 31, 2012 Dec. 31, 2011**

Fair value, Level 2 | Carrying Amount

**Liabilities**

Liabilities - Long-term debt, excluding capital lease obligations \$ 19,871      \$ 21,124

Fair value, Level 2 | Fair Value

**Liabilities**

Liabilities - Long-term debt, excluding capital lease obligations 21,457      22,052

Fair value, Level 3 | Carrying Amount

**Assets**

Assets - Investment securities      73

Fair value, Level 3 | Fair Value

**Assets**

Assets - Investment securities      \$ 73

**Other Financial Information  
(Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Other Financial Information**

Schedule of components of other current assets

Schedule of current liabilities included accounts payable  
and other current liabilities

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
	<b>(Dollars in millions)</b>	
Prepaid expenses	\$257	240
Materials, supplies and inventory	125	107
Assets held for sale	96	—
Deferred activation and installation charges	53	25
Other	21	21
Total other current assets	<u>\$552</u>	<u>493</u>
	<b>December 31</b>	
	<u>2012</u>	<u>2011</u>
	<b>(Dollars in millions)</b>	
Accounts payable	<u>\$1,207</u>	<u>1,400</u>
Other current liabilities:		
Accrued rent	\$48	44
Legal reserves	39	44
Other	147	167
Total other current liabilities	<u>\$234</u>	<u>255</u>

## Acquisitions (Tables)

### 12 Months Ended Dec. 31, 2012

#### Acquisitions

Schedule of acquisition related expenses, consisting primarily of integration and severance

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Acquisition-related expenses	\$83	467	145

Combined pro forma financial information results of CenturyLink related to Qwest and Savvis acquisitions

	Years Ended December 31,	
	2011	2010
	(Dollars in millions)	
Operating revenues	\$18,692	19,431
Net income	601	293
Basic earnings per common share	.97	.48
Diluted earnings per common share	.97	.48

Savvis

#### Acquisitions

Preliminary assignment of the aggregate consideration

	July 15, 2011
	(Dollars in millions)
Cash, accounts receivable and other current assets*	\$214
Property, plant and equipment	1,367
Identifiable intangible assets	
Customer relationships	739
Other	51
Other noncurrent assets	27
Current liabilities, excluding current maturities of long-term debt	(129)
Current maturities of long-term debt	(38)
Long-term debt	(840)
Deferred credits and other liabilities	(358)
Goodwill	1,349
Aggregate consideration	\$2,382

\* Includes estimated fair value of \$90 million for accounts receivable which had gross contractual value of \$101 million on July 15, 2011. The \$11 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of July 15, 2011 of contractual cash flows that would not be collected.

Qwest

#### Acquisitions

Preliminary assignment of the aggregate consideration

April 1, 2011  
(Dollars in millions)

Cash, accounts receivable and other current assets*	\$2,121	
Property, plant and equipment	9,529	
Identifiable intangible assets		
Customer relationships	7,558	
Capitalized software	1,702	
Other	189	
Other noncurrent assets	390	
Current liabilities, excluding current maturities of long-term debt	(2,426)	)
Current maturities of long-term debt	(2,422)	)
Long-term debt	(10,253)	)
Deferred credits and other liabilities	(4,238)	)
Goodwill	10,123	
<b>Aggregate consideration</b>	<b>\$12,273</b>	

\* Includes estimated fair value of \$1.194 billion for accounts receivable which had gross contractual value of \$1.274 billion on April 1, 2011. The \$80 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of April 1, 2011 of contractual cash flows that would not be collected.

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

**12 Months Ended**

**Dec. 31, 2012**

**Basis of Presentation and  
Summary of Significant  
Accounting Policies**

**Use of Estimates**

**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 made 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 revenue, 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 12—Income Taxes and Note 15—Commitments and Contingencies for additional information.

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

For matters related to income taxes, if 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**

**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 revenues 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 each element 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 have periodically transferred 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.

We offer some products and services that are 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 data 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 revenue, with a corresponding increase in the credit reserve.

## [USF, Gross Receipts Taxes and Other Surcharges](#)

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

In determining whether to include in our revenue and expenses the taxes and surcharges collected from customers and remitted to governmental 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 revenue 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 revenue and costs of services and products.

## [Advertising Costs](#)

### **Advertising Costs**

Costs related to advertising are expensed as incurred and included in selling, general and administrative expenses in our consolidated statements of operations. For the years ended December 31, 2012, 2011 and 2010, our advertising expense was \$189 million, \$275 million and \$49 million, respectively.

## [Legal Costs](#)

### **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](#)

### **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. At

December 31, 2012, we had established a \$281 million valuation allowance, primarily related to state NOLs, as it is more likely than not that this amount will not be utilized prior to expiration. See Note 12—Income Taxes for additional information.

## Cash and Cash Equivalents

### **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 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**

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. Property, plant and equipment purchased subsequent to our acquisitions 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 categorized in the year acquired on the basis of equal life groups for purposes of depreciation and tracking. 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 life of our asset base.

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 assets, other than goodwill and other intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For measurement 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 measured 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 years to 12.5 years, using either the sum-of-the-years-digits or straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years and amortize our other intangible assets predominantly using the sum-of-the-years digits method over an estimated life of four 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 group 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 with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of Accounting Standards Update ("ASU") 2012-2, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we are required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and

#### [Goodwill, Customer Relationships and Other Intangible Assets](#)



concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

We are required to test 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 fair value. Our reporting units, which we refer to as our segments, 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 analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are allocated to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these allocations. 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 measurement date for testing goodwill impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units, which are our four operating segments (regional markets, wholesale markets, enterprise markets—network and enterprise markets—data hosting) that we recognized following our internal reorganization effective April 1, 2012. In the fourth quarter of 2012, we completed our annual impairment testing and concluded that our goodwill was not impaired as of September 30, 2012. See Note 3—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

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

We periodically 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 periodic reviews.

## [Pension and Post-Retirement Benefits](#)

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

We recognize the overfunded or underfunded status of our defined benefit and post-retirement plans as an asset or a liability on our 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) income. 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 and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 8—Employee Benefits for additional information.

## [Foreign Currency](#)

### **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. Resulting gains or losses from translating foreign currency are a component of our other comprehensive (loss) income, which is then included in our accumulated other comprehensive (loss) income. For the years ended December 31, 2012, 2011 and 2010, our foreign currency translation gain (loss), net of tax, was \$6 million, \$(15) million and \$-0- million, respectively.

## [Common Stock](#)

### **Common Stock**

At December 31, 2012, we had unissued shares of CenturyLink common stock reserved of 34 million shares for incentive compensation, 4 million shares for acquisitions and 3 million shares for our employee stock purchase plan ("ESPP").

### **Preferred stock**

Holder 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.

## [Out-of-Period Adjustment](#)

### ***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.

**Severance and Leased Real  
Estate (Details) (USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended**  
**Dec. 31, 2012**      **Dec. 31,  
2011**

Severance

**Restructuring reserve**

<u>Balance at the beginning of the period</u>	\$ 37	\$ 18
<u>Accrued to expense</u>	96	132
<u>Liabilities assumed in Qwest acquisition</u>		20
<u>Payments, net</u>	(113)	(133)
<u>Reversals and adjustments</u>	(3)	
<u>Balance at the end of the period</u>	17	37

Qwest | Severance

**Restructuring reserve**

<u>Share-based compensation associated with accelerated vesting of stock awards</u>		12
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Qwest | Leased real estate

**Restructuring reserve**

<u>Balance at the beginning of the period</u>	153	
<u>Accrued to expense</u>	2	6
<u>Liabilities assumed in Qwest acquisition</u>		168
<u>Payments, net</u>	(24)	(21)
<u>Balance at the end of the period</u>	131	153
<u>Current portion of leased real estate accrual</u>	19	
<u>Noncurrent portion of leased real estate accrual</u>	\$ 112	

Qwest | Ceased-use leased real estate accrual | Leased real estate | Minimum

**Restructuring reserve**

<u>Remaining lease terms</u>	1 month 6 days	
------------------------------	-------------------	--

Qwest | Ceased-use leased real estate accrual | Leased real estate | Maximum

**Restructuring reserve**

<u>Remaining lease terms</u>	13 years	
------------------------------	----------	--

Qwest | Ceased-use leased real estate accrual | Leased real estate | Weighted  
average

**Restructuring reserve**

<u>Weighted average lease terms (in years)</u>	9	
--	---	--

**Dividends (Tables)****12 Months Ended  
Dec. 31, 2012****Dividends****Schedule of cash and non-cash dividends  
declared**

<u>Date Declared</u>	<u>Record Date</u>	<u>Dividend Per Share</u>	<u>Total Amount</u> (in millions)	<u>Payment Date</u>
November 13, 2012	December 11, 2012	.725	\$454	December 21, 2012
August 21, 2012	September 11, 2012	.725	\$452	September 21, 2012
May 24, 2012	June 5, 2012	.725	\$453	June 15, 2012
February 12, 2012	March 6, 2012	.725	\$452	March 16, 2012
November 15, 2011	December 6, 2011	.725	\$449	December 16, 2011
August 23, 2011	September 6, 2011	.725	\$449	September 16, 2011
May 18, 2011	June 6, 2011	.725	\$436	June 16, 2011
January 24, 2011	February 18, 2011	.725	\$222	February 25, 2011

**Goodwill, Customer Relationships and Other Intangible Assets (Tables)**

**12 Months Ended**

**Dec. 31, 2012**

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

**Schedule of goodwill and other intangible assets**

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
	<u>(Dollars in millions)</u>	
Goodwill	\$21,732	21,732
Customer relationships, less accumulated amortization of \$2,524 and \$1,337	7,052	8,239
Indefinite-life intangible assets	268	422
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$814 and \$441	1,399	1,622
Trade names and patents, less accumulated amortization of \$142 and \$71	128	199
<b>Total other intangible assets, net</b>	<b>\$1,795</b>	<b>2,243</b>

**Schedule of estimated amortization expense for intangible assets**

	<u>(Dollars in millions)</u>
2013	\$1,493
2014	1,369
2015	1,232
2016	1,104
2017	983

**Schedule of goodwill attributable to segments**

	<u>December 31, 2012</u>
	<u>(Dollars in millions)</u>
Regional markets	\$15,170
Wholesale markets	3,283
Enterprise markets—network	1,788
Enterprise markets—data hosting	1,491
<b>Total goodwill</b>	<b>\$21,732</b>

**Long-Term Debt and Credit  
Facilities (Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Long-Term Debt and Credit  
Facilities**

**Schedule of long-term debt  
including unamortized  
discounts and premiums**

	<u>Interest Rates</u>	<u>Maturities</u>	<u>December 31,</u>	
			<u>2012</u>	<u>2011</u>
<b>(Dollars in millions)</b>				
<b>CenturyLink, Inc.</b>				
Senior notes	5.000% - 7.650%	2013 - 2042	\$6,250	4,518
Credit facility <sup>(1)</sup>	1.960% - 4.000%	2017	820	277
Term loan	2.22%	2019	424	—
<b>Subsidiaries</b>				
Qwest				
Senior notes <sup>(2)</sup>	3.558% - 8.375%	2013 - 2052	9,168	11,460
Embarq				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	4,013
First mortgage bonds	6.875% - 8.770%	2013 - 2025	322	322
Other	6.750% - 9.000%	2013 - 2019	200	200
Other subsidiary notes				
First mortgage notes			—	65
Capital lease and other obligations	Various	Various	734	712
Unamortized premiums (discounts) and other, net			18	269
Total long-term debt			20,605	21,836
Less current maturities			(1,205 )	(480 )
Long-term debt, excluding current maturities			\$19,400	21,356

(1) The information presented here illustrates the interest rates and maturity on our credit facility as amended and restated on April 6, 2012. The outstanding amount of our Credit Facility borrowings at December 31, 2012 was \$820 million with a weighted average interest rate of 2.45%.

(2) The \$750 million of Qwest Corporation Notes due 2013 are floating rate notes, with a rate that resets every three months. As of the most recent measurement date of December 17, 2012, the rate for these notes was 3.558%.

**Schedule of maturities of long-  
term debt**

	<b>(Dollars in millions)</b>
2013	\$1,205
2014	781
2015	545
2016	1,488
2017	2,313

2018 and thereafter	14,255
Total long-term debt	<u>\$20,587</u>

[Schedule of amount of gross interest expense, net of capitalized interest](#)

	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Interest expense:			
Gross interest expense	\$1,362	1,097	557
Capitalized interest	(43 )	(25 )	(13 )
Total interest expense	<u>\$1,319</u>	<u>1,072</u>	<u>544</u>

**CONSOLIDATED  
STATEMENTS OF CASH  
FLOWS (Parenthetical)  
(USD \$)**

**12 Months Ended**

**Dec. 31, 2012 Dec. 31, 2011 Dec. 31, 2010**

**In Millions, unless otherwise  
specified**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<u>Cash paid for Savvis acquisition, cash acquired</u>		\$ 61	
<u>Cash acquired in Qwest acquisition, cash paid</u>		5	
<u>Interest (paid) capitalized interest</u>	\$ 43	\$ 25	\$ 13



## Accounts Receivable (Tables)

### [Accounts Receivable](#)

#### [Schedule of components of accounts receivable](#)

## 12 Months Ended Dec. 31, 2012

	December 31,	
	2012	2011 <sup>(1)</sup>
(Dollars in millions)		
Trade and purchased receivables	\$1,782	1,768
Earned and unbilled receivables	274	296
Other	19	31
Total accounts receivable	2,075	2,095
Less: allowance for doubtful accounts	(158)	(145)
Accounts receivable, less allowance	\$1,917	1,950

(1) We have reclassified prior period amounts to conform to the current period presentation.

#### [Schedule of details of allowance for doubtful accounts](#)

	Beginning Balance	Additions	Deductions	Other	Ending Balance
(Dollars in millions)					
2012	\$145	187	(174)	—	158
2011	\$60	153	(68)	—	145
2010	\$48	91	(79)	—	60

**Segment Information  
(Tables)**

**12 Months Ended  
Dec. 31, 2012**

[Segment information](#)

[Schedule of segment information](#)

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>		
Total segment revenues	\$17,320	14,471
Total segment expenses	8,094	6,513
Total segment income	\$9,226	7,958
Total margin percentage	53%	55%
Regional markets:		
Revenues	\$9,876	8,743
Expenses	4,218	3,673
Income	\$5,658	5,070
Margin percentage	57%	58%
Wholesale markets:		
Revenues	\$3,721	3,305
Expenses	1,117	1,021
Income	\$2,604	2,284
Margin percentage	70%	69%
Enterprise markets—network:		
Revenues	\$2,609	1,933
Expenses	1,891	1,450
Income	\$718	483
Margin percentage	28%	25%
Enterprise markets—data hosting:		
Revenues	\$1,114	490
Expenses	868	369
Income	\$246	121
Margin percentage	22%	25%

[Schedule of operating revenues by products and services](#)

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Strategic services	\$8,361	6,262
Legacy services	8,287	7,672
Data integration	672	537
Other	1,056	880
<b>Total operating revenues</b>	<b>\$18,376</b>	<b>15,351</b>

[Schedule of reconciliation from segment income to consolidated net income](#)

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Total segment income	\$9,226	7,958	4,092
Other operating revenues	1,056	880	547
Depreciation and amortization	(4,780 )	(4,026 )	(1,434 )
Other unassigned operating expenses	(2,789 )	(2,787 )	(1,145 )
Other income (expense), net	(1,463 )	(1,077 )	(529 )
Income tax expense	(473 )	(375 )	(583 )
<b>Net income</b>	<b>\$777</b>	<b>573</b>	<b>948</b>

Preliminary

[Segment information](#)

[Schedule of segment information](#)

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>	
Total segment revenues	\$14,471	6,495
Total segment expenses	6,535	2,403
<b>Total segment income</b>	<b>\$7,936</b>	<b>4,092</b>
Total margin percentage	55%	63%
Regional markets:		
Revenues	\$7,832	4,640
Expenses	3,398	1,783
<b>Income</b>	<b>\$4,434</b>	<b>2,857</b>

Margin percentage	57%	62%
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Business markets:

Revenues	\$2,861	266
Expenses	1,736	120
Income	\$1,125	146
Margin percentage	39%	55%

Wholesale markets:

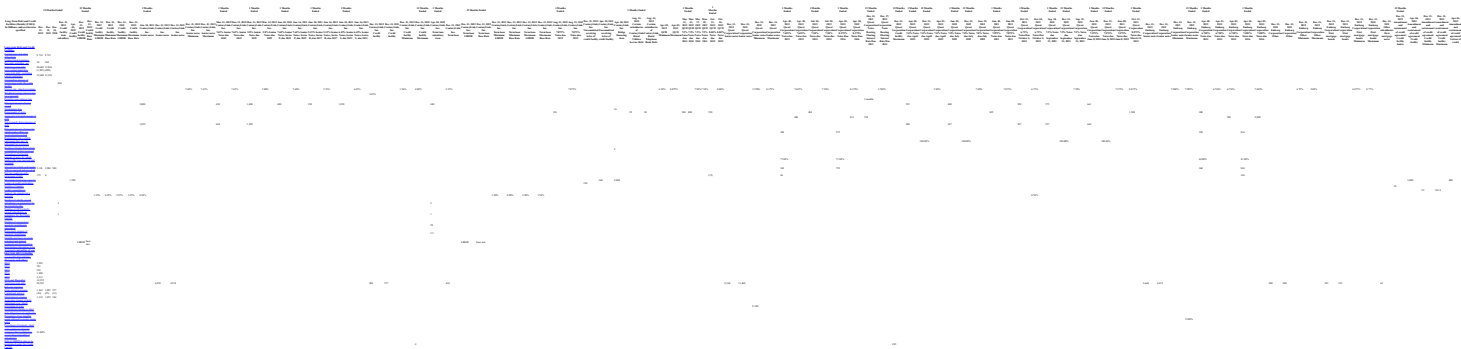
Revenues	\$3,295	1,589
Expenses	1,021	500
Income	\$2,274	1,089
Margin percentage	69%	69%

Savvis operations:

Revenues	\$483	—
Expenses	380	—
Income	\$103	—
Margin percentage	21%	—

[Schedule of operating revenues by products and services](#)

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>	
Strategic services	\$6,254	2,049
Legacy services	7,680	4,288
Data integration	537	158
Other	880	547
Total operating revenues	\$15,351	7,042



**Labor Union Contracts  
(Details)**

**12 Months Ended  
Dec. 31, 2012**

Minimum

**Labor Union Contracts**

Percentage of employees who are members of bargaining units 38.00%

Employees covered under collective bargaining agreements

**Labor Union Contracts**

Percentage of concentration risk 26.00%

Number of employees covered under the agreement 12,000

Minimum advance notice period 24 hours

**CONSOLIDATED  
STATEMENTS OF  
OPERATIONS (USD \$)  
In Millions, except Share  
data in Thousands, unless  
otherwise specified**

**12 Months Ended**

	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>CONSOLIDATED STATEMENTS OF OPERATIONS</u></b>			
<u>OPERATING REVENUES</u>	\$ 18,376	\$ 15,351	\$ 7,042
<b><u>OPERATING EXPENSES</u></b>			
<u>Cost of services and products (exclusive of depreciation and amortization)</u>	7,639	6,325	2,544
<u>Selling, general and administrative</u>	3,244	2,975	1,004
<u>Depreciation and amortization</u>	4,780	4,026	1,434
<u>Total operating expenses</u>	15,663	13,326	4,982
<u>OPERATING INCOME</u>	2,713	2,025	2,060
<b><u>OTHER INCOME (EXPENSE)</u></b>			
<u>Interest expense</u>	(1,319)	(1,072)	(544)
<u>Net loss on early retirement of debt</u>	(179)	(8)	
<u>Other income</u>	35	3	15
<u>Total other income (expense)</u>	(1,463)	(1,077)	(529)
<u>INCOME BEFORE INCOME TAX EXPENSE</u>	1,250	948	1,531
<u>Income tax expense</u>	473	375	583
<u>NET INCOME</u>	\$ 777	\$ 573	\$ 948
<b><u>BASIC AND DILUTED EARNINGS PER COMMON SHARE</u></b>			
<u>BASIC (in dollars per share)</u>	\$ 1.25	\$ 1.07	\$ 3.13
<u>DILUTED (in dollars per share)</u>	\$ 1.25	\$ 1.07	\$ 3.13
<b><u>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</u></b>			
<u>BASIC (in shares)</u>	620,205	532,780	300,619
<u>DILUTED (in shares)</u>	622,285	534,121	301,297

**Basis of Presentation and  
Summary of Significant  
Accounting Policies (Details)  
(USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended**

**Dec. 31,      Dec. 31,      Dec. 31,  
2012            2011            2010**

**Revenue Recognition**

Term of IRUs, which are the exclusive right to use a specified amount of capacity or fiber 20 years

**Advertising Costs**

Advertising expense \$ 189      \$ 275      \$ 49

**Income Taxes**

Valuation allowance, primarily related to state NOLs \$ 281

Minimum

**Revenue Recognition**

Customer relationship period over which revenue is recognized, low end of range 18 months

**Accounts Receivable and Allowance for Doubtful Accounts**

Period of accounts past due 30 days

Maximum

**Revenue Recognition**

Customer relationship period over which revenue is recognized, low end of range 10 years



**CONSOLIDATED  
BALANCE SHEETS  
(Parenthetical) (USD \$)  
In Millions, except Share  
data in Thousands, unless  
otherwise specified**

**Dec. 31, 2012 Dec. 31, 2011**

**CONSOLIDATED BALANCE SHEETS**

<u>Accounts receivable, allowance (in dollars)</u>	\$ 158	\$ 145
<u>Preferred stock- non-redeemable, par value (in dollars per share)</u>	\$ 25.00	\$ 25.00
<u>Preferred stock- non-redeemable, authorized shares</u>	2,000	2,000
<u>Preferred stock- non-redeemable, issued shares</u>	7	9
<u>Preferred stock- non-redeemable, outstanding shares</u>	7	9
<u>Common stock, par value (in dollars per share)</u>	\$ 1.00	\$ 1.00
<u>Common stock, authorized shares</u>	1,600,000	800,000
<u>Common stock, issued shares</u>	625,658	618,514
<u>Common stock, outstanding shares</u>	625,658	618,514

**Employee Benefits (Details  
3) (401(k) Plan, USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended**

	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
401(k) Plan			
<b><u>401(k) Plan</u></b>			
<u>Company common stock included in the assets of the 401(k) Plan (in shares)</u>	10	9	
<u>Expenses related to the 401(k) Plan</u>	\$ 76	\$ 70	\$ 17

Employee Benefits (Tables)

12 Months Ended  
Dec. 31, 2012

[Employee Benefits](#)

[Schedule of estimated future benefit payments](#)

	Pension Plans	Post-Retirement Benefit Plans	Medicare Part D Subsidy Receipts
	(Dollars in millions)		
Estimated future benefit payments:			
2013	\$1,051	377	(25)
2014	1,006	370	(26)
2015	996	358	(28)
2016	985	348	(29)
2017	972	338	(31)
2018 - 2022	4,626	1,511	(173)

[Schedule of actuarial assumptions used to compute net periodic benefit expense](#)

	Pension Plans			Post-Retirement Benefit Plans		
	2012	2011 <sup>(1)</sup>	2010	2012	2011 <sup>(2)</sup>	2010
Actuarial assumptions at beginning of year:						
Discount rate	4.25% - 5.10%	5.00% - 5.50%	5.50% - 6.00%	4.60% - 4.80%	5.30%	5.70% - 5.80%
Rate of compensation increase	3.25%	3.25%	3.50% - 4.00%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50% - 8.00%	8.25% - 8.50%	6.00% - 7.50%	7.25%	7.25%
Initial health care cost trend rate	N/A	N/A	N/A	8.00%	8.50%	8.00%
Ultimate health care cost trend rate	N/A	N/A	N/A	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	N/A	2018	2018	2014

N/A—Not applicable

(1) This column does not consider Qwest's actuarial assumptions for its pension plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.40%; expected long-term rate of return on plan assets 7.50%; and a rate of compensation increase of 3.50%.

(2) This column does not consider Qwest's actuarial assumptions for its post-retirement benefit plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.30%; expected long-term rate of return on plan assets of 7.50%; initial health care cost trend rate of 7.50% and ultimate health care trend rate of 5.00% to be reached in 2016.

[Schedule of actuarial assumptions used to compute the funded status for the plans](#)

	Pension Plans		Post-Retirement Benefit Plans	
	December 31,		December 31,	
	2012	2011	2012	2011
Actuarial assumptions at end of year:				
Discount rate	3.25% - 4.20%	4.25% - 5.10%	3.60%	4.60% - 4.80%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	6.75% / 7.50%	7.25% / 8.00%
Ultimate health care cost trend rate	N/A	N/A	4.50%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2022 / 2024	2018

N/A—Not applicable

[Schedule of gross notional exposure of the derivative instruments directly held by the plans](#)

	Gross Notional Exposure			
	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,			
	2012	2011	2012	2011
	(Dollars in millions)			
Derivative instruments:				
Exchange-traded U.S. equity futures	\$302	535	30	12
Exchange-traded non-U.S. equity futures	1	4	—	—
Exchange-traded Treasury futures	1,763	1,512	—	19
Interest rate swaps	1,471	635	—	—
Total return swaps	—	110	—	51
Credit default swaps	495	201	—	—
Foreign exchange forwards	726	635	21	23
Options	768	917	—	—

[Schedule of the unfunded status of the benefit plans](#)

	Pension Plans		Post-Retirement Benefit Plans	
	Years Ended December 31,		Years Ended December 31,	
	2012	2011	2012	2011
	(Dollars in millions)			
Benefit obligation	\$(14,881)	(13,596)	(4,075)	(3,930)
Fair value of plan assets	12,321	11,814	626	693
Unfunded status	(2,560)	(1,782)	(3,449)	(3,237)
Current portion of unfunded status	\$(6)	—	(160)	(164)
Non-current portion of unfunded status	\$(2,554)	(1,782)	(3,289)	(3,073)

[Schedule of items not recognized as a component of net periodic benefits expense](#)

As of and for the Years Ended December 31,				
2011	Recognition of Net Periodic	Deferrals	Net Change in AOCI	2012

	<b>Benefits Expense</b>				
	(Dollars in millions)				
Accumulated other comprehensive (loss) income:					
Pension plans:					
Net actuarial (loss) gain	\$ (1,335 )	35	(936 )	(901 )	(2,236 )
Prior service (cost) benefit	(29 )	4	(13 )	(9 )	(38 )
Deferred income tax benefit (expense)	526	(15 )	364	349	875
Total pension plans	(838 )	24	(585 )	(561 )	(1,399 )
Post-retirement benefit plans:					
Net actuarial loss	(221 )	—	(225 )	(225 )	(446 )
Prior service (cost) benefit	(21 )	—	(1 )	(1 )	(22 )
Deferred income tax benefit	92	—	87	87	179
Total post-retirement benefit plans	(150 )	—	(139 )	(139 )	(289 )
Total accumulated other comprehensive (loss) income	\$ (988 )	24	(724 )	(700 )	(1,688 )

[Schedule of estimated items to be recognized in 2013 as a component of net periodic benefit expense](#)

	Pension Plans	Post-Retirement Plans
	(Dollars in millions)	
Estimated recognition of net periodic benefit expense in 2013:		
Net actuarial loss	\$(81 )	(4 )
Prior service cost	(5 )	—
Deferred income tax benefit	33	2
Estimated net periodic benefit expense to be recorded in 2013 as a component of other comprehensive income (loss)	\$(53 )	(2 )

Pension Plans

[Employee Benefits](#)

[Schedule of components of net periodic pension income and post-retirement benefit expense](#)

	Pension Plans		
	Years Ended December 31,		
	2012	2011 <sup>(1)</sup>	2010
	(Dollars in millions)		
Service cost	\$87	70	61
Interest cost	625	560	246
Expected return on plan assets	(847 )	(709 )	(283 )
Curtailement gain	—	—	(21 )
Settlements	—	1	—
Amortization of unrecognized prior service cost	4	2	2
Amortization of unrecognized actuarial loss	35	13	17
Net periodic pension (income) expense	\$(96 )	(63 )	22

(1) Includes \$58 million of income related to the Qwest plans subsequent to the April 1, 2011 acquisition date.

[Schedule of change in benefit obligation](#)

	Pension Plans		
	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$13,596	4,534	4,182
Service cost	87	70	61
Interest cost	625	560	246
Plan amendments	14	12	4
Acquisitions	—	8,267	—
Actuarial loss	1,565	930	427
Curtailement gain	—	—	(110 )
Benefits paid by company	(5 )	(16 )	(5 )
Benefits paid from plan assets	(1,001 )	(761 )	(271 )
Benefit obligation at end of year	\$14,881	13,596	4,534

[Schedule of change in plan assets](#)

	Pension Plans		
	Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$11,814	3,732	3,220
Return on plan assets	1,476	479	483
Acquisitions	—	7,777	—
Employer contributions	32	587	300
Settlements	—	—	—
Benefits paid from plan assets	(1,001 )	(761 )	(271 )
Fair value of plan assets at end of year	\$12,321	11,814	3,732

[Schedule of fair value of the plans' assets by asset category](#)

**Fair Value of Pension Plan Assets at December 31, 2012**

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$830	1,555	—	\$2,385
High yield bonds (b)	—	1,303	59	1,362
Emerging market bonds (c)	199	396	—	595
Convertible bonds (d)	—	374	—	374
Diversified strategies (e)	—	655	—	655
U.S. stocks (f)	1,225	119	—	1,344
Non-U.S. stocks (g)	1,212	178	—	1,390
Emerging market stocks (h)	111	193	—	304
Private equity (i)	—	—	711	711
Private debt (j)	—	—	465	465
Market neutral hedge funds (k)	—	906	—	906
Directional hedge funds (k)	—	340	194	534
Real estate (l)	—	223	337	560
Derivatives (m)	(5)	3	—	(2)
Cash equivalents and short-term investments (n)	—	750	—	750
Total investments	\$3,572	6,995	1,766	12,333
Accrued expenses				(12)
Total pension plan assets				\$12,321

Fair Value of Pension Plan Assets at December 31, 2011				
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$694	2,206	—	\$2,900
High yield bonds (b)	—	541	79	620
Emerging market bonds (c)	—	295	—	295
Convertible bonds (d)	—	337	—	337
Diversified strategies (e)	—	489	—	489
U.S. stocks (f)	401	944	—	1,345
Non-U.S. stocks (g)	994	459	—	1,453
Emerging market stocks (h)	102	136	—	238
Private equity (i)	—	—	791	791
Private debt (j)	—	—	461	461
Market neutral hedge funds (k)	—	620	188	808
Directional hedge funds (k)	—	268	183	451
Real estate (l)	—	48	535	583
Derivatives (m)	12	(5)	—	7
Cash equivalents and short-term investments (n)	13	1,183	—	1,196
Total investments	\$2,216	7,521	2,237	11,974
Dividends and interest receivable				32
Pending trades receivable				436
Accrued expenses				(8)
Pending trades payable				(620)
Total pension plan assets				\$11,814

[Summary of changes in fair value of defined benefit plans' Level 3 assets](#)

Pension Plan Assets Valued Using Level 3 Inputs								
	High Yield Bonds	Private Equity	Private Debt	Market Neutral Hedge Fund	Directional Hedge Funds	Real Estate	Other	Total
	(Dollars in millions)							
Balance at December 31, 2010	\$—	1	3	—	161	182	3	350
Net acquisitions (dispositions)	96	795	453	185	30	318	(3)	1,874
Actual return on plan assets:								
(Losses) gains relating to assets sold during the year	(12)	197	13	3	(1)	9	—	209
(Losses) gains relating to assets still held at year-end	(5)	(202)	(8)	—	(7)	26	—	(196)
Balance at December 31, 2011	79	791	461	188	183	535	—	2,237
Net transfers	(12)	—	—	(188)	—	(105)	—	(305)
Acquisitions	1	70	120	—	—	18	—	209
Dispositions	(11)	(109)	(102)	—	—	(121)	—	(343)
Actual return on plan assets:								
Gains relating to assets sold during the year	—	3	1	—	—	—	—	4

Gains (losses) relating to assets still held at year-end	2	(44)	(15)	—	11	10	—	(36)
Balance at December 31, 2012	\$59	711	465	—	194	337	—	1,766

Post-Retirement Plans

[Employee Benefits](#)

[Schedule of effects of a 100 basis point change in assumed health care cost rates](#)

	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 (statement of operations)	\$3	(3)
Effect on benefit obligation (balance sheet)	77	(70)

[Schedule of components of net periodic pension income and post-retirement benefit expense](#)

	Post-Retirement Plans Years Ended December 31,		
	2012	2011 <sup>(1)</sup>	2010
	(Dollars in millions)		
Service cost	\$22	18	15
Interest cost	173	152	32
Expected return on plan assets	(45)	(41)	(4)
Amortization of unrecognized prior service cost	—	(2)	(3)
Amortization of unrecognized actuarial loss	—	—	1
Net periodic post-retirement benefit expense	\$150	127	41

(1) Includes \$92 million related to the Qwest plans subsequent to the April 1, 2011 acquisition date.

[Schedule of change in benefit obligation](#)

	Post-Retirement Benefit Plans Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$3,930	558	582
Service cost	22	18	15
Interest cost	173	152	32
Participant contributions	86	64	14
Plan amendments	—	31	—
Acquisitions	—	3,284	—
Direct subsidy receipts	19	22	1
Actuarial loss (gain)	260	153	(32)
Benefits paid by company	(268)	(219)	(45)
Benefits paid from plan assets	(147)	(133)	(9)
Benefit obligation at end of year	\$4,075	3,930	558

[Schedule of change in plan assets](#)

	Post-Retirement Benefit Plans Years Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Change in plan assets			
Fair value of plan assets at beginning of year	\$693	54	57
Actual gain on plan assets	80	4	6
Acquisitions	—	768	—
Employer contributions	—	—	—
Participant contributions	—	—	—
Benefits paid from plan assets	(147)	(133)	(9)
Fair value of plan assets at end of year	\$626	693	54

[Schedule of fair value of the plans' assets by asset category](#)

	Fair Value of Post-Retirement Plan Assets at December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$22	86	—	\$108
High yield bonds (b)	—	90	—	90
Emerging market bonds (c)	—	40	—	40
Convertible bonds (d)	—	2	—	2
Diversified strategies (e)	—	72	—	72
U.S. stocks (f)	55	—	—	55
Non-U.S. stocks (g)	58	1	—	59
Emerging market stocks (h)	—	20	—	20
Private equity (i)	—	—	45	45
Private debt (j)	—	—	6	6
Market neutral hedge funds (k)	—	41	—	41
Directional hedge funds (k)	—	24	—	24

Real estate (l)	—	21	28	49
Cash equivalents and short-term investments (n)	5	21	—	26
<b>Total investments</b>	<b>\$140</b>	<b>418</b>	<b>79</b>	<b>637</b>
Accrued expenses				(1 )
Reimbursement accrual				(10 )
<b>Total post-retirement plan assets</b>				<b>\$626</b>

**Fair Value of Post-Retirement Plan Assets  
at December 31, 2011**

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$45	100	—	\$145
High yield bonds (b)	—	61	—	61
Emerging market bonds (c)	—	33	—	33
Convertible bonds (d)	—	30	—	30
Diversified strategies (e)	—	62	—	62
U.S. stocks (f)	64	4	—	68
Non-U.S. stocks (g)	62	2	—	64
Emerging market stocks (h)	—	17	—	17
Private equity (i)	—	—	60	60
Private debt (j)	—	—	8	8
Market neutral hedge funds (k)	—	67	—	67
Directional hedge funds (k)	—	20	—	20
Real estate (l)	—	19	26	45
Cash equivalents and short-term investments (n)	5	20	—	25
<b>Total investments</b>	<b>\$176</b>	<b>435</b>	<b>94</b>	<b>705</b>
Dividends and interest receivable				3
Pending trades receivable				23
Accrued expenses				(15 )
Pending trades payable				(23 )
<b>Total post-retirement plan assets</b>				<b>\$693</b>

[Summary of changes in fair value of defined benefit plans' Level 3 assets](#)

**Post-Retirement Plan Assets Valued Using Level 3 Inputs**

	Private Equity	Private Debt	Real Estate	Total
	(Dollars in millions)			
Balance at December 31, 2010	\$—	—	—	—
Net acquisitions	55	8	24	87
Actual return on plan assets:				
Gains relating to assets sold during the year	33	1	—	34
(Losses) gains relating to assets still held at year-end	(28 )	(1 )	2	(27 )
Balance at December 31, 2011	60	8	26	94
Acquisitions	1	—	—	1
Dispositions	(15 )	(3 )	(1 )	(19 )
Gains (losses) relating to assets sold during the year	4	2	(1 )	5
(Losses) gains relating to assets still held at year-end	(5 )	(1 )	4	(2 )
<b>Balance at December 31, 2012</b>	<b>\$45</b>	<b>6</b>	<b>28</b>	<b>79</b>

Income Taxes (Details 2) (USD \$) In Millions, unless otherwise specified	12 Months Ended		12 Months Ended			1 Months Ended		Dec. 31, 2012 Investment tax credits State Jurisdiction	Dec. 31, 2012 Alternative minimum tax credits
	Dec. 31, 2012	Dec. 31, 2012	Jul. 15, 2011	Dec. 31, 2012	Dec. 31, 2011	Apr. 02, 2011	Oct. 31, 2011 Embarq Corporation		
<u>Income taxes</u>									
<u>Net current deferred tax asset recognized in connection with Qwest acquisition</u>						\$ 271			
<u>Tax credit carryforwards</u>								72	62
<u>Tax credit carryforwards, net of federal income tax</u>							47		
<u>Deferred tax asset valuation allowance adjustment</u>	(12)	10		248					
<u>Net noncurrent deferred tax liabilities</u>			320			595			
<u>Settlement recorded upon dismissal of refund appeal</u>							242		
<u>Settlement decrease in unrecognized tax benefits due to withdrawal of Qwest's claims associated with the treatment of universal services fund receipts</u>						\$ 141			



## Segment Information

12 Months Ended  
Dec. 31, 2012

### Segment Information

#### Segment Information

#### (13) Segment Information

For several years prior to 2011, we reported our operations as a single segment. However, in 2011, after our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011, we reorganized our business into the following operating segments:

- *Regional markets.* Consisted generally of providing strategic and legacy products and services to residential consumers, small to medium-sized businesses and regional enterprise customers. Our strategic products and services offered to these customers include our private line, broadband, Multi-Protocol Label Switching ("MPLS"), hosting and video services. Our legacy services offered to these customers include local and long-distance service;
- *Business markets.* Consisted generally of providing strategic and legacy products and services to enterprise and government customers. Our strategic products and services offered to these customers include our private line, broadband, MPLS, hosting and video services. Our legacy services offered to these customers include local and long-distance service;
- *Wholesale markets.* Consisted generally of providing strategic and legacy products and services to other communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include unbundled network elements ("UNEs") which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services; and
- *Savvis operations.* Consisted of the entire centrally-managed operations of our Savvis subsidiaries, which provides hosting and network services primarily to business customers when provided by Legacy Savvis.

Effective April 1, 2012, in order to more effectively leverage the strategic assets from our acquisitions of Qwest and Savvis and to better serve our business and government customers, we restructured our business into the following operating segments:

- *Regional markets.* Consists generally of providing strategic and legacy products and services to residential consumers, state and local governments, small to medium-sized businesses and enterprise customers that in each case are located mainly within one of our six regions. Our strategic products and services offered to these customers include our private line, broadband, MPLS, hosting, video and wireless services. Our legacy services offered to these customers include local and long-distance service;
- *Wholesale markets.* Consists generally of providing strategic and legacy products and services to other domestic and international communications providers. Our strategic products and services offered to these customers are mainly private line (including special access) and MPLS. Our legacy services offered to these customers include UNEs which allow our wholesale customers the use of our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services;

- *Enterprise markets—network.* Consists generally of providing strategic and legacy network communications products and services to national and international enterprise and government customers. Our strategic products and services offered to these customers include our private line, broadband, MPLS and hosting services. Our legacy services offered to these customers include local and long-distance services;
- *Enterprise markets—data hosting.* Consists generally of providing colocation, managed hosting and cloud hosting services to national and international enterprise and government customers.

On January 3, 2013, we announced a reorganization of our operating segments. Consequently, beginning with the first quarter of 2013, we will report the following four segments in our consolidated financial statements: consumer, business, wholesale and data hosting. The primary purpose of the reorganization is to strengthen our focus on the enterprise business market while continuing our commitment to our hosting and consumer customers. The reorganization combines business sales and operations functions that resided in the enterprise markets—network segment and the regional markets segment into the new business segment. The remaining customers serviced by the regional markets segment will become the new consumer segment. Our wholesale markets and enterprises markets—data hosting segments will not be impacted by this reorganization.

We have restated previously reported segment results for the year ended December 31, 2011 due to the above-described restructuring of our business on April 1, 2012. The following table summarizes our segment results for 2012 and 2011 based on the segment categorization we were operating under on December 31, 2012.

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>		
Total segment revenues	\$17,320	14,471
Total segment expenses	8,094	6,513
Total segment income	<u>\$9,226</u>	<u>7,958</u>
Total margin percentage	53%	55%
<b>Regional markets:</b>		
Revenues	\$9,876	8,743
Expenses	4,218	3,673
Income	<u>\$5,658</u>	<u>5,070</u>
Margin percentage	57%	58%
<b>Wholesale markets:</b>		
Revenues	\$3,721	3,305
Expenses	1,117	1,021
Income	<u>\$2,604</u>	<u>2,284</u>
Margin percentage	70%	69%
<b>Enterprise markets—network:</b>		
Revenues	\$2,609	1,933
Expenses	1,891	1,450
Income	<u>\$718</u>	<u>483</u>
Margin percentage	28%	25%
<b>Enterprise markets—data hosting:</b>		
Revenues	\$1,114	490
Expenses	868	369
Income	<u>\$246</u>	<u>121</u>

Margin percentage 22% 25%

Due to system limitations, we have determined that is impracticable to restate 2010's reportable segments to conform to our current segment categorization. For comparability purposes, we have included our segment information for the years ended December 31, 2011 and 2010 based on the segment categorization we were operating under on December 31, 2011:

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>	
Total segment revenues	\$14,471	6,495
Total segment expenses	6,535	2,403
Total segment income	<u>\$7,936</u>	<u>4,092</u>
Total margin percentage	<u>55%</u>	<u>63%</u>
<b>Regional markets:</b>		
Revenues	\$7,832	4,640
Expenses	3,398	1,783
Income	<u>\$4,434</u>	<u>2,857</u>
Margin percentage	<u>57%</u>	<u>62%</u>
<b>Business markets:</b>		
Revenues	\$2,861	266
Expenses	1,736	120
Income	<u>\$1,125</u>	<u>146</u>
Margin percentage	<u>39%</u>	<u>55%</u>
<b>Wholesale markets:</b>		
Revenues	\$3,295	1,589
Expenses	1,021	500
Income	<u>\$2,274</u>	<u>1,089</u>
Margin percentage	<u>69%</u>	<u>69%</u>
<b>Savvis operations:</b>		
Revenues	\$483	—
Expenses	380	—
Income	<u>\$103</u>	<u>—</u>
Margin percentage	<u>21%</u>	<u>—</u>

We categorize our products and services related to revenues into the following four categories:

- *Strategic services*, which include primarily broadband, private line (including special access which we market to wholesale and business customers), 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), voice over Internet Protocol ("VoIP") and Verizon Wireless services;
- *Legacy services*, which include primarily local, long-distance, switched access, public 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 allows 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 networks for our government and business customers; and
- *Other revenues*, which consists primarily of 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, 2012 and 2011:

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>		
Strategic services	\$8,361	6,262
Legacy services	8,287	7,672
Data integration	672	537
Other	1,056	880
<b>Total operating revenues</b>	<b>\$18,376</b>	<b>15,351</b>

During 2012, operating revenues attributable to certain products and services were reclassified from legacy services to strategic services. Due to system limitations, we have determined that is impracticable to restate 2010's operating revenues to conform to our current revenue categorization. For comparability purposes, we have included our operating revenues for the years ended December 31, 2011 and 2010 under our prior revenue categorization:

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>		
Strategic services	\$6,254	2,049
Legacy services	7,680	4,288
Data integration	537	158
Other	880	547
<b>Total operating revenues</b>	<b>\$15,351</b>	<b>7,042</b>

Other operating revenues include revenue from universal service funds, which allows 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. These surcharge billings to our customers are reflected on a gross basis in our statements of operations (included in both operating revenues and expenses) and aggregated approximately \$531 million, \$392 million and \$115 million for the years ended December 31, 2012, 2011 and 2010, respectively. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. We centrally-manage the activities that generate these other operating revenues and consequently these revenues are not included in any of our four segments presented above.

Our segment revenues include all revenues from our strategic, legacy 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. We report our segment expenses for our four segments as follows:

- *Direct expenses*, which primarily are 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.

During the first quarter of 2012, as we transitioned certain of Qwest's legacy systems to our historical company systems, we updated our methodologies for reporting our direct expenses and for allocating our expenses to our segments. Specifically, we no longer include certain fleet expenses for our regional markets segment in direct expenses; they are now expenses allocated to our segments, with the exception of enterprise markets—data hosting. In addition, we now more fully allocate network building rent and power expenses to our regional markets, wholesale markets and enterprise markets—network segments. We determined that it was impracticable to recast our segment results for the prior period to reflect these changes in methodology.

During the second quarter of 2012, as we reorganized our business into our four segments as indicated above, we further revised our methodology for how we allocate our expenses to our segments to better align segment expenses with related revenues. Under our revised methodology, we no longer allocate certain product development costs to our segments, but we do now allocate certain expenses from our enterprise markets—data hosting segment to our other three segments. We have restated prior periods to reflect these changes in our methodology.

We do not assign depreciation and amortization expense to our segments, as the related assets and capital expenditures are centrally managed. Similarly, severance expenses, restructuring expenses and, subject to an exception for our enterprise markets—data hosting segment, 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. In addition, other income (expense) does not relate to 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, 2012, 2011 and 2010:

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Total segment income	\$9,226	7,958	4,092
Other operating revenues	1,056	880	547
Depreciation and amortization	(4,780)	(4,026)	(1,434)
Other unassigned operating expenses	(2,789)	(2,787)	(1,145)
Other income (expense), net	(1,463)	(1,077)	(529)
Income tax expense	(473)	(375)	(583)
<b>Net income</b>	<b>\$777</b>	<b>573</b>	<b>948</b>

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

**Share-based Compensation  
(Tables)**

**12 Months Ended  
Dec. 31, 2012**

[Share-based Compensation](#)  
[Stock option awards activity](#)

	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>
	<u>(in thousands)</u>	
Outstanding at December 31, 2011	10,389	\$31.05
Exercised	(3,155 )	\$24.21
Forfeited/Expired	<u>(501 )</u>	\$31.31
Outstanding at December 31, 2012	<u>6,733</u>	\$34.23
Exercisable at December 31, 2012	<u>6,264</u>	\$34.70

[Restricted stock and restricted stock unit awards  
activity](#)

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
	<u>(in thousands)</u>	
Non-vested at December 31, 2011	4,208	\$36.78
Granted	2,139	\$39.13
Vested	(2,603 )	\$36.33
Forfeited	<u>(216 )</u>	\$39.13
Non-vested at December 31, 2012	<u>3,528</u>	\$38.43

## Commitments and Contingencies

12 Months Ended  
Dec. 31, 2012

### Commitments and Contingencies

### Commitments and Contingencies

#### **(15) Commitments and Contingencies**

In this section, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. Until and unless a class has been certified by the court, it has not been established that the named plaintiffs represent the class of plaintiffs they purport to represent.

We have established accrued liabilities for the matters described below where losses are deemed probable and reasonably estimable.

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 settlement opportunities.

#### ***Litigation Matters Relating to CenturyLink and Embarq***

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 presently approximate \$34 million. The lawsuits allege that Sprint Nextel has breached contracts, violated tariffs, and violated the Federal Communications Act by failing to pay these charges. One lawsuit, filed on behalf of all legacy Embarq operating entities, was tried in federal court in Virginia in August 2010 and, in March 2011, a ruling was issued in our favor and against Sprint Nextel. In the first quarter of 2012, Sprint Nextel filed an appeal of this decision. The other lawsuit, filed on behalf of all Legacy CenturyLink operating entities, 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 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. We have not deferred revenue related to these matters as an adverse outcome is not probable based upon current circumstances.

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 putative 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 a class on certain of plaintiffs' claims, but rejected class certification as to other claims. Embarq and other defendants continue to vigorously contest these claims and charges. On October 14, 2011, the *Fulghum* lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* CenturyLink/Embarq is not named a defendant in the lawsuit. 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. On February 14, 2013, the *Fulghum* court dismissed the majority of the plaintiffs' claims in that case. Embarq and the other defendants will 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 as it is premature (i) to determine whether an accrual is warranted and, (ii) if so, a reasonable estimate of probable liability.

#### ***Litigation Matters Relating to Qwest***

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 certain of the matters described below, and Qwest has been advancing



legal fees and costs to certain former directors, officers or employees in connection with certain matters described below.

On September 29, 2010, the trustees in the Dutch bankruptcy proceeding for KPNQwest, N.V. (of which Qwest was a major shareholder) filed a lawsuit in the District Court of Haarlem, the Netherlands, alleging tort and mismanagement claims under Dutch law. Qwest and Koninklijke KPN N.V. ("KPN") are defendants in this lawsuit along with a number of former KPNQwest supervisory board members and a former officer of KPNQwest, some of whom were formerly affiliated with Qwest. Plaintiffs allege, among other things, that defendants' actions were a cause of the bankruptcy of KPNQwest, and they seek damages for the bankruptcy deficit of KPNQwest, which is claimed to be approximately €4.200 billion (or approximately \$5.6 billion based on the exchange rate on December 31, 2012), plus statutory interest. Two lawsuits asserting similar claims were previously filed against Qwest and others in federal courts in New Jersey in 2004 and Colorado in 2009; those courts dismissed the lawsuits without prejudice on the grounds that the claims should not be litigated in the United States.

On September 13, 2006, Cargill Financial Markets, Plc and Citibank, N.A. filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, KPN, KPN Telecom B.V., and other former officers, employees or supervisory board members of 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 \$289 million based on the exchange rate on December 31, 2012). On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank are appealing that decision.

We have not accrued a liability for the above matters. Regarding the 2010 proceeding, we believe it is premature to determine whether an accrual is warranted and, if so, a reasonable estimate of our probable liability. Regarding the 2006 suit, we do not believe that liability is probable. We will continue to defend against both KPNQwest litigation matters vigorously.

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. Most of the currently pending actions purport to be brought on behalf of state-wide classes in the named Plaintiffs' respective states, although one action pending before the Illinois Court of Appeals purports to be brought on behalf of landowners in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. 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 22 states (Alabama, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, New York, North Carolina, Oklahoma, Tennessee, Virginia and Wisconsin), have received preliminary approval of the settlements in eight states (California, Kentucky, Nevada, Ohio, Oregon, Pennsylvania, South Carolina and Utah), and have not yet received either preliminary or final approval in four states (Arizona, Massachusetts, New Mexico and Texas). We have accrued an amount that we believe is probable for these matters; however, the amount is not material to our consolidated financial statements.

#### **Other Matters**

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, various tax issues, environmental law issues, grievance hearings before labor regulatory agencies, and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable.



However, based on current circumstances we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and insurance coverage, will have a material adverse effect on our financial position, results of operations or cash flows.

### **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. Payments on capital leases are included in repayments of long-term debt, including current maturities in the consolidated statements of cash flows.

The tables below summarize our capital lease activity:

	<b>Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>		
Assets acquired through capital leases	\$209	696
Depreciation expense	150	89
Cash payments towards capital leases	113	76

	<b>December 31,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>		
Assets included in property, plant and equipment	\$893	698

Accumulated depreciation	229	91
--------------------------	-----	----

The future annual minimum payments under capital lease arrangements as of December 31, 2012 were as follows:

	<b>Future Minimum Payments (Dollars in millions)</b>
Capital lease obligations:	
2013	\$155
2014	143
2015	107
2016	72
2017	68
2018 and thereafter	381
Total minimum payments	926
Less: amount representing interest and executory costs	(245 )
Present value of minimum payments	681
Less: current portion	(117 )
Long-term portion	\$564

### **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, 2012, 2011 and 2010, our gross rental expense was \$445 million, \$401 million and \$174 million, respectively. We also received sublease rental income for the years ended December 31, 2012 and 2011 of \$18 million and \$17 million, respectively. We did not have any material sublease rental income for the year ended December 31, 2010.

At December 31, 2012, our future rental commitments for operating leases were as follows:

	<b>Future Minimum Payments</b>
	<b>(Dollars in millions)</b>
2013	\$297
2014	252
2015	219
2016	183
2017	156
2018 and thereafter	964
<b>Total future minimum payments<sup>(1)</sup></b>	<b>\$2,071</b>

(1) Minimum payments have not been reduced by minimum sublease rentals of \$115 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 \$524 million at December 31, 2012. Of this amount, we expect to purchase \$213 million in 2013, \$129 million in 2014 through 2015, \$86 million in 2016 through 2017 and \$96 million in 2018 and thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we are contractually committed.

Segment Information (Details 3) (USD \$) In Millions, unless otherwise specified	3 Months Ended								12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b><u>Reconciliation from segment income to net income</u></b>											
<u>Total segment income</u>	\$ 666	\$ 736	\$ 657	\$ 654	\$ 533	\$ 548	\$ 480	\$ 464	\$ 2,713	\$ 2,025	\$ 2,060
<u>Other operating revenue</u>	4,583	4,571	4,612	4,610	4,653	4,596	4,406	1,696	18,376	15,351	7,042
<u>Depreciation and amortization</u>									(4,780)	(4,026)	(1,434)
<u>Other unassigned operating expenses</u>									(3,244)	(2,975)	(1,004)
<u>Other income (expense), net</u>									(1,463)	(1,077)	(529)
<u>Income tax expense</u>									(473)	(375)	(583)
<b><u>NET INCOME</u></b>	233	270	74	200	109	138	115	211	777	573	948
Operating segments											
<b><u>Reconciliation from segment income to net income</u></b>											
<u>Total segment income</u>									9,226	7,958	4,092
Unallocated amount to segment											
<b><u>Reconciliation from segment income to net income</u></b>											
<u>Other operating revenue</u>									1,056	880	547
<u>Depreciation and amortization</u>									(4,780)	(4,026)	(1,434)
<u>Other unassigned operating expenses</u>									(2,789)	(2,787)	(1,145)
<u>Other income (expense), net</u>									(1,463)	(1,077)	(529)
<u>Income tax expense</u>									\$ (473)	\$ (375)	\$ (583)

**CONSOLIDATED  
STATEMENTS OF CASH  
FLOWS (USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended**

	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>OPERATING ACTIVITIES</u></b>			
Net income	\$ 777	\$ 573	\$ 948
<b><u>Adjustments to reconcile net income to net cash provided by operating activities:</u></b>			
<u>Depreciation and amortization</u>	4,780	4,026	1,434
<u>Deferred income taxes</u>	394	395	132
<u>Provision for uncollectible accounts</u>	187	153	91
<u>Long-term debt (premium) discount amortization</u>	(88)	(148)	1
<u>Net loss on early retirement of debt</u>	179	8	
<b><u>Changes in current assets and current liabilities:</u></b>			
<u>Accounts receivable</u>	(154)	(102)	(118)
<u>Accounts payable</u>	(72)	(58)	(96)
<u>Accrued income and other taxes</u>	(14)	31	38
<u>Other current assets and other current liabilities, net</u>	16	(76)	(127)
<u>Retirement benefits</u>	(169)	(688)	(271)
<u>Changes in other noncurrent assets and liabilities</u>	161	(6)	(13)
<u>Other, net</u>	68	93	26
Net cash provided by operating activities	6,065	4,201	2,045
<b><u>INVESTING ACTIVITIES</u></b>			
<u>Payments for property, plant and equipment and capitalized software</u>	(2,919)	(2,411)	(864)
<u>Cash paid for Savvis acquisition, net of \$61 cash acquired</u>		(1,671)	
<u>Cash acquired in Qwest acquisition, net of \$5 cash paid</u>		419	
<u>Proceeds from sale of property and intangible assets</u>	191		
<u>Other, net</u>	38	16	5
Net cash used in investing activities	(2,690)	(3,647)	(859)
<b><u>FINANCING ACTIVITIES</u></b>			
<u>Net proceeds from issuance of long-term debt</u>	3,362	4,102	
<u>Payments of long-term debt</u>	(5,118)	(2,984)	(500)
<u>Net borrowings (payments) on credit facility</u>	543	(88)	74
<u>Early retirement of debt costs</u>	(346)	(114)	
<u>Dividends paid</u>	(1,811)	(1,556)	(879)
<u>Net proceeds from issuance of common stock</u>	110	103	130
<u>Repurchase of common stock</u>	(37)	(31)	(17)
<u>Other, net</u>	2	(9)	17
Net cash used in financing activities	(3,295)	(577)	(1,175)
<u>Effect of exchange rate changes on cash and cash equivalents</u>	3	(22)	
Net increase (decrease) in cash and cash equivalents	83	(45)	11
<u>Cash and cash equivalents at beginning of period</u>	128	173	162
<u>Cash and cash equivalents at end of period</u>	211	128	173

**Supplemental cash flow information:**

Income taxes (paid) refunded, net

(82) 118 (424)

Interest (paid) (net of capitalized interest of \$43, \$25 and \$13)

\$ (1,405) \$ (1,225) \$ (548)

**CONSOLIDATED  
STATEMENTS OF  
COMPREHENSIVE  
INCOME (LOSS) (USD \$)**  
In Millions, unless otherwise  
specified

**12 Months Ended**

	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u></b>			
<b><u>NET INCOME</u></b>	\$ 777	\$ 573	\$ 948
<b><u>Items related to employee benefit plans:</u></b>			
<u>Change in net actuarial loss, net of \$432, \$508 and \$32 tax</u>	(694)	(812)	(53)
<u>Change in net prior service credit, net of \$4, \$23 and \$2 tax</u>	(6)	(37)	(3)
<u>Auction rate securities marked to market, net of \$(1), \$2 and \$- tax</u>	2	(4)	
<u>Auction rate securities settlements reclassified to net income, net of \$(1), \$- and \$- tax</u>	3		
<u>Foreign currency translation adjustment and other, net of \$-, \$2 and \$- tax</u>	6	(18)	
<u>Other comprehensive (loss) income</u>	(689)	(871)	(56)
<b><u>COMPREHENSIVE INCOME (LOSS)</u></b>	<b>\$ 88</b>	<b>\$ (298)</b>	<b>\$ 892</b>

## Employee Benefits

12 Months Ended  
Dec. 31, 2012

### [Employee Benefits](#)

### [Employee Benefits](#)

#### (8) Employee Benefits

##### *Pension, Post-Retirement and Other Post-Employment Benefits*

We sponsor several defined benefit pension plans, which in the aggregate cover a substantial portion of our employees including separate plans for Legacy CenturyLink, Legacy Qwest and Legacy Embarq employees. Until such time as we elect to integrate the Qwest and Embarq benefit plans with ours, we plan to continue to operate these plans independently. Pension benefits for participants of these plans 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. In addition to these tax qualified pension plans, we also maintain non-qualified pension plans for certain 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**

In connection with the acquisition of Qwest on April 1, 2011, we assumed defined benefit pension plans sponsored by Qwest for its employees. Based on a valuation analysis, we recognized a \$490 million net liability at April 1, 2011 for the unfunded status of the Qwest pension plans, reflecting projected benefit obligations of \$8.3 billion in excess of the \$7.8 billion fair value of plan assets.

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 the pension plans 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 \$2.5 billion as of December 31, 2012.

We made cash contributions of approximately \$32 million in 2012 to our qualified pension plans. During the first quarter of 2013, we made a series of cash contributions totaling \$147 million to our qualified pension plans. Based on current laws and circumstances, we do not expect any further required contributions to these plans for the remainder of 2013.

In 2010, to align our benefit structure closer to those offered by our competitors, we froze our Legacy CenturyLink and Legacy Embarq pension benefit accruals for our non-represented employees at December 31, 2010. Such action resulted in a reduction of our benefit obligation of approximately \$110 million and resulted in the recognition of a curtailment gain of approximately \$21 million in 2010. Prior to their acquisition on April 1, 2011, Qwest had frozen its pension benefit accruals for non-represented employees.

##### **Other 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. Our plans use a December 31 measurement date.

In connection with the acquisition of Qwest on April 1, 2011, we assumed post-retirement benefit plans sponsored by Qwest for certain of its employees. At April 1, 2011, we recognized a \$2.5 billion liability for the unfunded status of Qwest's post-retirement benefit plans, reflecting estimated accumulated post-retirement benefit obligations of \$3.3 billion in excess of the \$762 million fair value of the plan assets.

No contributions were made to the post-retirement trusts in 2012 or 2011, and we do not expect to make a contribution in 2013.

A change of 100 basis points in the assumed initial health care cost trend rate would have had the following effects in 2012:

	100 Basis Points Change	
	Increase	(Decrease)
	(Dollars in millions)	
Effect on the aggregate of the service and interest cost components of net periodic	\$3	(3 )

post-retirement benefit expense  
(statement of operations)

Effect on benefit obligation (balance sheet) 77 (70 )

We expect our health care cost trend rate to decrease by 0.25% per year from 6.75% in 2013 to an ultimate rate of 4.50% in 2022. 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.

**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.

	<u>Pension Plans</u>	<u>Post-Retirement Benefit Plans</u>	<u>Medicare Part D Subsidy Receipts</u>
	(Dollars in millions)		
Estimated future benefit payments:			
2013	\$1,051	377	(25 )
2014	1,006	370	(26 )
2015	996	358	(28 )
2016	985	348	(29 )
2017	972	338	(31 )
2018 - 2022	4,626	1,511	(173 )

**Net Periodic Benefit Expense**

The measurement date used to determine pension, non-qualified pension and post-retirement health care and life insurance benefits is December 31. 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.

	<u>Pension Plans</u>			<u>Post-Retirement Benefit Plans</u>		
	<u>2012</u>	<u>2011<sup>(1)</sup></u>	<u>2010</u>	<u>2012</u>	<u>2011<sup>(2)</sup></u>	<u>2010</u>
Actuarial assumptions at beginning of year:						
Discount rate	4.25% - 5.10%	5.00% - 5.50%	5.50% - 6.00%	4.60% - 4.80%	5.30%	5.70% - 5.80%
Rate of compensation increase	3.25%	3.25%	3.50% - 4.00%	N/A	N/A	N/A
Expected long-term rate of return on plan assets	7.50%	7.50% - 8.00%	8.25% - 8.50%	6.00% - 7.50%	7.25%	7.25%
Initial health care cost trend rate	N/A	N/A	N/A	8.00%	8.50%	8.00%
Ultimate health care cost trend rate	N/A—Not applicable					
Year ultimate trend rate reached	<p>(1) This column does not consider Qwest's actuarial assumptions for its pension plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.40%; expected long-term rate of return on plan assets 7.50%; and a rate of compensation increase of 3.50%.</p>					
	2018	2018	2014			

(2) This column does not consider Qwest's actuarial assumptions for its post-retirement benefit plan as of the beginning of the year due to the acquisition date of April 1, 2011. Qwest had the following actuarial assumptions as of April 1, 2011: discount rate of 5.30%; expected long-term rate of return on plan assets of



7.50%; initial health care cost trend rate of 7.50% and ultimate health care trend rate of 5.00% to be reached in 2016.

Net periodic pension expense, which includes the effects of the Qwest acquisition subsequent to April 1, 2011, included the following components:

	<b>Pension Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Service cost	\$87	70	61
Interest cost	625	560	246
Expected return on plan assets	(847 )	(709 )	(283 )
Curtailment gain	—	—	(21 )
Settlements	—	1	—
Amortization of unrecognized prior service cost	4	2	2
Amortization of unrecognized actuarial loss	35	13	17
Net periodic pension expense	\$(96 )	(63 )	22

(1) Includes \$58 million of income related to the Qwest plans subsequent to the April 1, 2011 acquisition date.

Net periodic post-retirement benefit expense, which includes the effects of the Qwest acquisition subsequent to April 1, 2011, included the following components:

	<b>Post-Retirement Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011<sup>(1)</sup></b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Service cost	\$22	18	15
Interest cost	173	152	32
Expected return on plan assets	(45 )	(41 )	(4 )
Amortization of unrecognized prior service cost	—	(2 )	(3 )
Amortization of unrecognized actuarial loss	—	—	1
Net periodic post-retirement benefit expense	\$150	127	41

(1) Includes \$92 million related to the Qwest plans subsequent to the April 1, 2011 acquisition date.

### **Benefit Obligations**

The actuarial assumptions used to compute the funded status for the plans are based upon information available as of December 31, 2012 and December 31, 2011 and are as follows:

	<b>Pension Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Actuarial assumptions at end of year:				
Discount rate	3.25% - 4.20%	4.25% - 5.10%	3.60%	4.60% - 4.80%
Rate of compensation increase	3.25%	3.25%	N/A	N/A
Initial health care cost trend rate	N/A	N/A	6.75% / 7.50%	7.25% / 8.00%
Ultimate health care cost trend rate	N/A	N/A	4.50%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2022 / 2024	2018

The following retirement benefits are not applicable

**Years Ended December 31,**

**2012                      2011                      2010**

**(Dollars in millions)**

<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$13,596	4,534	4,182
Service cost	87	70	61
Interest cost	625	560	246
Plan amendments	14	12	4
Acquisitions	—	8,267	—
Actuarial loss	1,565	930	427
Curtailment gain	—	—	(110)
Benefits paid by company	(5)	(16)	(5)
Benefits paid from plan assets	(1,001)	(761)	(271)
Benefit obligation at end of year	\$14,881	13,596	4,534

**Post-Retirement Benefit Plans**  
**Years Ended December 31,**

<b>2012</b>	<b>2011</b>	<b>2010</b>
-------------	-------------	-------------

**(Dollars in millions)**

<b>Change in benefit obligation</b>			
Benefit obligation at beginning of year	\$3,930	558	582
Service cost	22	18	15
Interest cost	173	152	32
Participant contributions	86	64	14
Plan amendments	—	31	—
Acquisitions	—	3,284	—
Direct subsidy receipts	19	22	1
Actuarial loss (gain)	260	153	(32)
Benefits paid by company	(268)	(219)	(45)

Benefits paid from plan assets	(147)	(133)	(9)
Benefit obligation at end of year	\$4,075	3,930	558

Our aggregate accumulated benefit obligation as of December 31, 2012, 2011 and 2010 was \$18.956 billion, \$17.499 billion and \$4.509 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:

	<b>Pension Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$11,814	3,732	3,220
Return on plan assets	1,476	479	483
Acquisitions	—	7,777	—
Employer contributions	32	587	300
Settlements	—	—	—
Benefits paid from plan assets	(1,001)	(761)	(271)
Fair value of plan assets at end of year	\$12,321	11,814	3,732

	<b>Post-Retirement Benefit Plans</b>		
	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
<b>Change in plan assets</b>			
Fair value of plan assets at beginning of year	\$693	54	57
Actual gain on plan assets	80	4	6
Acquisitions	—	768	—
Employer contributions	—	—	—
Participant contributions	—	—	—
Benefits paid from plan assets	(147)	(133)	(9)
Fair value of plan assets at end of year	\$626	693	54

*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 55% to interest rate sensitive investments and 45% to investments designed to provide higher expected returns than the interest rate sensitive investments. Interest rate sensitive investments include 35% of plan assets targeted primarily to long-duration investment grade bonds, 13.5% targeted to high yield, emerging market bonds and convertible bonds and 6.5% targeted to diversified strategies, which primarily have exposures to global government, corporate and inflation-linked 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% to U.S. stocks and 14% to developed and emerging market non-U.S. stocks. Approximately 12% is allocated to other private markets investments including funds primarily invested in private equity, debt and hedge funds. Real estate investments are targeted at 5% of plan assets. At the beginning of 2013, 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 35% to equities and 65% 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 equity. While no new private equity investments have been made in recent years, the percent allocation to existing private equity investments is expected to increase as liquid, publicly traded stocks are drawn down for the reimbursement of health care costs. The 65% non-equity allocation includes investment grade bonds, high yield bonds, convertible bonds, emerging market debt, real estate, hedge funds, private debt and diversified strategies. At the beginning of 2013, 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, 2012 and 2011, 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 and total return swaps are used primarily 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. We closely 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.

	<b>Gross Notional Exposure</b>			
	<b>Pension Plans</b>		<b>Post-Retirement Benefit Plans</b>	
	<b>Years Ended December 31,</b>			
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>(Dollars in millions)</b>				
<u>Derivative instruments:</u>				
Exchange-traded U.S.	\$302	535	30	12

equity futures				
Exchange- traded non- U.S. equity futures	1	4	—	—
Exchange- traded Treasury futures	1,763	1,512	—	19
Interest rate swaps	1,471	635	—	—
Total return swaps	—	110	—	51
Credit default swaps	495	201	—	—
Foreign exchange forwards	726	635	21	23
Options	768	917	—	—

*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 11—Fair Value Disclosure.

At December 31, 2012, we used the following valuation techniques to measure fair value for assets. There were no changes to these methodologies during 2012:

- 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 presents the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2012. It is important to note that the asset allocations do not include market exposures that are gained with derivatives.

<b>Fair Value of Pension Plan Assets at December 31, 2012</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>(Dollars in millions)</b>				
Investment grade bonds (a)	\$830	1,555	—	\$2,385
High yield bonds (b)	—	1,303	59	1,362
Emerging market bonds (c)	199	396	—	595
Convertible bonds (d)	—	374	—	374
Diversified strategies (e)	—	655	—	655

U.S. stocks (f)	1,225	119	—	1,344	
Non-U.S. stocks (g)	1,212	178	—	1,390	
Emerging market stocks (h)	111	193	—	304	
Private equity (i)	—	—	711	711	
Private debt (j)	—	—	465	465	
Market neutral hedge funds (k)	—	906	—	906	
Directional hedge funds (k)	—	340	194	534	
Real estate (l)	—	223	337	560	
Derivatives (m)	(5	) 3	—	(2	)
Cash equivalents and short-term investments (n)	—	750	—	750	
Total investments	\$3,572	6,995	1,766	12,333	
Accrued expenses				(12	)
Total pension plan assets				\$12,321	

**Fair Value of Post-Retirement Plan Assets  
at December 31, 2012**

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Investment grade bonds (a)	\$22	86	—	\$108
High yield bonds (b)	—	90	—	90
Emerging market bonds (c)	—	40	—	40
Convertible bonds (d)	—	2	—	2
Diversified strategies (e)	—	72	—	72
U.S. stocks (f)	55	—	—	55
Non-U.S. stocks (g)	58	1	—	59
Emerging market stocks (h)	—	20	—	20
Private equity (i)	—	—	45	45
Private debt (j)	—	—	6	6
Market neutral hedge funds (k)	—	41	—	41
Directional hedge funds (k)	—	24	—	24
Real estate (l)	—	21	28	49

Cash equivalents and short-term investments (n)	5	21	—	26
Total investments	\$140	418	79	637
Accrued expenses				(1 )
Reimbursement accrual				(10 )
Total post-retirement plan assets				\$626

The tables below presents the fair value of plan assets by category and the input levels used to determine those fair values at December 31, 2011. 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, trades payable and accrued expenses.

**Fair Value of Pension Plan Assets at December 31, 2011**

	Level 1	Level 2	Level 3	Total
(Dollars in millions)				
Investment grade bonds (a)	\$694	2,206	—	\$2,900
High yield bonds (b)	—	541	79	620
Emerging market bonds (c)	—	295	—	295
Convertible bonds (d)	—	337	—	337
Diversified strategies (e)	—	489	—	489
U.S. stocks (f)	401	944	—	1,345
Non-U.S. stocks (g)	994	459	—	1,453
Emerging market stocks (h)	102	136	—	238
Private equity (i)	—	—	791	791
Private debt (j)	—	—	461	461
Market neutral hedge funds (k)	—	620	188	808
Directional hedge funds (k)	—	268	183	451
Real estate (l)	—	48	535	583
Derivatives (m)	12	(5 )	—	7
Cash equivalents and short-term investments (n)	13	1,183	—	1,196
Total investments	\$2,216	7,521	2,237	11,974

Dividends and interest receivable	32
Pending trades receivable	436
Accrued expenses	(8 )
Pending trades payable	(620 )
Total pension plan assets	<u>\$11,814</u>

**Fair Value of Post-Retirement Plan Assets  
at December 31, 2011**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(Dollars in millions)			
Investment grade bonds (a)	\$45	100	—	\$145
High yield bonds (b)	—	61	—	61
Emerging market bonds (c)	—	33	—	33
Convertible bonds (d)	—	30	—	30
Diversified strategies (e)	—	62	—	62
U.S. stocks (f)	64	4	—	68
Non-U.S. stocks (g)	62	2	—	64
Emerging market stocks (h)	—	17	—	17
Private equity (i)	—	—	60	60
Private debt (j)	—	—	8	8
Market neutral hedge funds (k)	—	67	—	67
Directional hedge funds (k)	—	20	—	20
Real estate (l)	—	19	26	45
Cash equivalents and short-term investments (n)	5	20	—	25
Total investments	<u>\$176</u>	<u>435</u>	<u>94</u>	<u>705</u>



Dividends and interest receivable	3
Pending trades receivable	23
Accrued expenses	(15 )
Pending trades payable	(23 )
Total post-retirement plan assets	\$693

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 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.

(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 are valued at the last published price reported on the major market on which the mutual funds 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. 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 the market value of exchange traded futures contracts which are classified as Level 1, as well as privately negotiated over-the-counter swaps that are valued based on the change in interest rates or a specific market index and 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. U.S. Treasury Bills 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 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**

	<b>High Yield Bonds</b>	<b>Private Equity</b>	<b>Private Debt</b>	<b>Market Neutral Hedge Fund</b>	<b>Directional Hedge Funds</b>	<b>Real Estate</b>	<b>Other</b>	<b>Total</b>
<b>(Dollars in millions)</b>								
Balance at December 31, 2010	\$—	1	3	—	161	182	3	350
Net acquisitions (dispositions)	96	795	453	185	30	318	(3)	1,874
Actual return on plan assets:								
(Losses) gains relating to assets sold during the year	(12)	197	13	3	(1)	9	—	209
(Losses) gains relating to assets still held at year-end	(5)	(202)	(8)	—	(7)	26	—	(196)
Balance at December 31, 2011	79	791	461	188	183	535	—	2,237
Net transfers	(12)	—	—	(188)	—	(105)	—	(305)
Acquisitions	1	70	120	—	—	18	—	209
Dispositions	(11)	(109)	(102)	—	—	(121)	—	(343)
Actual return on plan assets:								
Gains relating to assets sold during the year	—	3	1	—	—	—	—	4

	<b>Private Equity</b>	<b>Private Debt</b>	<b>Real Estate</b>	<b>Total</b>
<b>Post-Retirement Plan Assets Valued Using Level 3 Inputs</b>				
Gains (losses) relating to assets still held at year-end	2	(44)	(15)	10
<b>(Dollars in millions)</b>				
Balance at December 31, 2010	\$—	—	—	—
Net acquisitions	55	8	24	87
Actual return on plan assets:				
Gains relating to assets sold during the year	33	1	—	34
(Losses) gains relating to assets still held at year-end	(28)	(1)	2	(27)
Balance at December 31, 2011	60	8	26	94
Acquisitions	1	—	—	1
Dispositions	(15)	(3)	(1)	(19)
Gains (losses) relating to assets sold during the year	4	2	(1)	5
(Losses) gains relating to	(5)	(1)	4	(2)

The total inputs:

assets still held  
at year-end

Balance at December 31, 2012	\$45	6	28	79
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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, 2012, the investment program produced actual gains on qualified pension and post-retirement plan assets of \$1.555 billion as compared to the expected returns of \$892 million for a difference of \$663 million. For the year ended December 31, 2011, the investment program produced actual gains on pension and post-retirement plan assets of \$483 million as compared to the expected returns of \$750 million for a difference of \$267 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,	
	2012	2011	2012	2011
	(Dollars in millions)			
Benefit obligation	\$(14,881 )	(13,596 )	(4,075 )	(3,930 )
Fair value of plan assets	12,321	11,814	626	693
Unfunded status	(2,560 )	(1,782 )	(3,449 )	(3,237 )
Current portion of unfunded status	\$(6 )	—	(160 )	(164 )
Non-current portion of unfunded status	\$(2,554 )	(1,782 )	(3,289 )	(3,073 )

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) Income—Recognition and Deferrals**

The following tables present cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2011, items recognized as a component of net periodic benefits expense in 2012, additional items deferred during 2012 and cumulative items not recognized as a component of net periodic benefits expense as of December 31, 2012. 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,				
	2011	Recognition of Net Periodic Benefits Expense	Deferrals	Net Change in AOCI	2012
Accumulated other comprehensive (loss) income:					
Pension plans:					

(Dollars in millions)

Net actuarial (loss) gain	\$(1,335 )	35	(936 )	(901 )	(2,236 )
Prior service (cost) benefit	(29 )	4	(13 )	(9 )	(38 )
Deferred income tax benefit (expense)	526	(15 )	364	349	875
Total pension plans	(838 )	24	(585 )	(561 )	(1,399 )
Post-retirement benefit plans:					
Net actuarial loss	(221 )	—	(225 )	(225 )	(446 )
Prior service (cost) benefit	(21 )	—	(1 )	(1 )	(22 )
Deferred income tax benefit	92	—	87	87	179
Total post-retirement benefit plans	(150 )	—	(139 )	(139 )	(289 )
Total accumulated other comprehensive (loss) income	\$(988 )	24	(724 )	(700 )	(1,688 )

The following table presents estimated items to be recognized in 2013 as a component of net periodic benefit expense of the pension, non-qualified pension and post-retirement benefit plans:

	<b>Pension Plans</b>	<b>Post-Retirement Plans</b>
	<b>(Dollars in millions)</b>	
Estimated recognition of net periodic benefit expense in 2013:		
Net actuarial loss	\$(81 )	(4 )
Prior service cost	(5 )	—
Deferred income tax benefit	33	2
Estimated net periodic benefit expense to be recorded in 2013 as a component of other comprehensive income (loss)	\$(53 )	(2 )

#### **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 were \$360 million, \$377 million and \$190 million for the years ended December 31, 2012, 2011 and 2010, respectively. Union-represented employee benefits are based on negotiated collective bargaining agreements. Employees contributed \$113 million, \$90 million and \$47 million for the years ended December 31, 2012, 2011 and 2010, respectively. Our group 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, 2012 and December 31, 2011, the assets of the plans included approximately 10 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 \$76 million, \$70 million and \$17 million and for the years ended December 31, 2012, 2011 and 2010, 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 plans have been frozen, and the participants are no longer allowed to defer compensation into the plans. The value of assets and liabilities related to these plans was not significant.

**Document and Entity  
Information (USD \$)  
In Billions, except Share  
data, unless otherwise  
specified**

**12 Months Ended**

**Dec. 31, 2012      Feb. 15, 2013 Jun. 30, 2012**

**Document and Entity Information**

<u>Entity Registrant Name</u>	CENTURYLINK, INC		
<u>Entity Central Index Key</u>	0000018926		
<u>Document Type</u>	10-K		
<u>Document Period End Date</u>	Dec. 31, 2012		
<u>Amendment Flag</u>	false		
<u>Current Fiscal Year End Date</u>	--12-31		
<u>Entity Well-known Seasoned Issuer</u>	Yes		
<u>Entity Voluntary Filers</u>	No		
<u>Entity Current Reporting Status</u>	Yes		
<u>Entity Filer Category</u>	Large Accelerated Filer		
<u>Entity Public Float</u>			\$ 24.5
<u>Entity Common Stock, Shares Outstanding</u>		625,822,780	
<u>Document Fiscal Year Focus</u>	2012		
<u>Document Fiscal Period Focus</u>	FY		



## Share-based Compensation

12 Months Ended  
Dec. 31, 2012

### Share-based Compensation

#### Share-based Compensation

#### (9) 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. We also offer an ESPP, which allows 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.

#### *Acquisitions*

Upon the July 15, 2011, closing of our acquisition of Savvis, and pursuant to the terms of the acquisition agreement, we assumed certain obligations under Savvis' share-based compensation arrangements. Specifically:

- all Savvis stock options outstanding immediately prior to the acquisition were vested in full and were converted into 2,420,532 fully vested CenturyLink stock options, and
- all non-vested Savvis restricted stock units outstanding immediately prior to the acquisition converted into an aggregate 1,080,070 non-vested CenturyLink awards.

We estimate the aggregate fair value of the assumed Savvis share-based compensation arrangements was \$123 million, of which \$98 million was attributable to services 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 \$38.54 closing price of our common stock on July 14, 2011. The remaining \$25 million of the aggregate fair value of the assumed Savvis awards was attributable to post-acquisition services and was recognized as compensation expense, net of forfeitures, over the remaining 1.5 year vesting period.

Upon the April 1, 2011, closing of our acquisition of Qwest, pursuant to the terms of the acquisition agreement, we assumed certain obligations under Qwest's pre-existing share-based compensation arrangements. Specifically:

- all Qwest non-qualified stock options outstanding immediately prior to the acquisition converted into an aggregate of 7,198,331 CenturyLink non-qualified stock options (including 5,562,198 fully vested options),
- all non-vested shares of Qwest restricted stock outstanding immediately prior to the acquisition converted into an aggregate of 780,455 non-vested shares of CenturyLink restricted stock, and
- all Qwest market-based awards outstanding immediately prior to the acquisition vested in full and were paid out by us through the issuance of an aggregate of 563,269 shares of CenturyLink common stock in April 2011.

The aggregate fair value of the assumed Qwest awards was \$114 million, of which \$85 million was attributable to services 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 \$41.55 closing price of our common stock on March 31, 2011. We determined the fair value of Qwest's non-qualified stock options, using the Black-Scholes option-pricing model, reflecting a risk-free interest rate ranging from 0% to 2.13% (depending on the expected life of the option), an expected dividend yield of 6.98%, an expected term ranging from 0.1 to 4.8 years (depending on the option's remaining contractual term and exercise price and on historical experience), and

expected volatility ranging from 11.1% to 35.3% (based on the expected term and historical experience). The remaining \$29 million of the aggregate fair value of the assumed Qwest awards was attributable to the post-acquisition period and was included in the cost of the acquisition, which is being recognized as compensation expense, net of estimated forfeitures, over the remaining vesting periods from 0.1 years to 3.0 years.

### **Stock Options**

The following table summarizes activity involving stock option awards for the year ended December 31, 2012:

	<b>Number of Options</b>	<b>Weighted- Average Exercise Price</b>
	<u>(in thousands)</u>	
Outstanding at December 31, 2011	10,389	\$31.05
Exercised	(3,155)	) \$24.21
Forfeited/Expired	(501)	) \$31.31
Outstanding at December 31, 2012	<u>6,733</u>	<u>\$34.23</u>
Exercisable at December 31, 2012	<u>6,264</u>	<u>\$34.70</u>

The aggregate intrinsic value of our options outstanding and exercisable at December 31, 2012 was \$51 million and \$46 million, respectively. The weighted average remaining contractual term for such options was 4.0 years and 3.8 years, respectively.

During 2012, we received net cash proceeds of \$76 million in connection with our option exercises. The tax benefit realized from these exercises was \$20 million. The total intrinsic value of options exercised for the years ended December 31, 2012, 2011 and 2010 was \$49 million, \$47 million and \$28 million, respectively.

### **Restricted Stock**

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

During the first quarter of 2012, we granted approximately 402,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 201,000 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 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.

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 519,000 of awards will vest on a straight-line basis on January 9, 2013, 2014 and 2015. Approximately 873,000 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 over a three year period.

During the second and third quarter of 2011, we granted approximately 624,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 474,000 contained only service conditions and will vest on a straight-line basis on May 31, 2012, 2013 and 2014. The remaining awards contain market conditions and will vest on May 31, 2014. These shares 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 2011, 2012 and 2013 in relation to that of the S&P 500 Index.

In addition to these awards, during 2011 we granted approximately 689,000 shares of restricted stock awards to certain other key employees and our outside directors as part of our

equity compensation and retention programs. These awards require only service conditions for vesting.

During the first quarter of 2010, we granted approximately 397,000 shares of restricted stock to certain executive-level employees as part of our long-term incentive program, of which approximately 198,000 contained only service conditions and will vest on a straight-line basis on March 15, 2011, 2012 and 2013. The remaining awards contain service and market conditions. One half of these awards will vest on March 15, 2012 based on our two-year total shareholder return for 2010 and 2011 as measured against the total shareholder return of the companies comprising the S&P 500 Index. The other half will vest on March 15, 2013 based on our three-year total shareholder return for 2010, 2011 and 2012 as measured against the total shareholder return of the companies comprising the S&P 500 Index. These shares 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 in relation to that of the S&P 500 Index.

In addition to these awards, during 2010 we granted approximately 600,000 shares of restricted stock awards to certain other key employees and our outside directors as part of our equity compensation and retention programs. These awards require only service conditions for vesting.

In anticipation of our acquisition of Qwest, during the third quarter of 2010, we granted 407,000 shares of restricted stock to certain executive officers and other key employees as part of a retention program. The shares of restricted stock contain only service conditions and will vest in equal installments on the first, second and third anniversaries of the April 1, 2011 closing date of the acquisition. As this retention program was contingent upon the consummation of the Qwest acquisition, we did not begin expensing these awards until the closing of the acquisition on April 1, 2011.

The following table summarizes activity involving restricted stock and restricted stock unit awards for the year ended December 31, 2012:

	<b>Number of Shares</b>	<b>Weighted- Average Grant Date Fair Value</b>
	<b>(in thousands)</b>	
Non-vested at December 31, 2011	4,208	\$36.78
Granted	2,139	\$39.13
Vested	(2,603)	\$36.33
Forfeited	(216)	\$39.13
Non-vested at December 31, 2012	3,528	\$38.43

During 2011, we granted 1.3 million shares of restricted stock at a weighted-average price of \$36.15, excluding the 1.9 million shares issued in connection with our acquisitions of Qwest and Savvis. During 2010, we granted 1.4 million shares of restricted stock at a weighted-average price of \$36.56. The total fair value of restricted stock that vested during 2012, 2011 and 2010 was \$102 million, \$72 million and \$48 million, respectively.

#### ***Compensation Expense and Tax Benefit***

We recognize compensation expense related to our 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, 2012, 2011 and 2010 was \$78 million, \$65 million and \$38 million, respectively. These amounts included \$12 million in compensation expense recognized in 2011 for the acceleration of certain awards resulting from the consummation of the Qwest acquisition. Our tax benefit recognized in the income statements for our share-based payment arrangements for the years ended December 31, 2012, 2011 and 2010 was \$31 million, \$25 million and \$14 million, respectively. At December 31, 2012, there was \$92 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.

**CONSOLIDATED  
STATEMENTS OF  
COMPREHENSIVE  
INCOME (LOSS)  
(Parenthetical) (USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended**

	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)</u></b>			
<u>Change in net actuarial loss, tax</u>	\$ 432	\$ 508	\$ 32
<u>Change in net prior service credit, tax</u>	4	23	2
<u>Auction rate securities marked to market, tax</u>	(1)	2	
<u>Auction rate securities settlements reclassified to net income, tax</u>	(1)		
<u>Foreign currency translation adjustment and other, tax</u>		\$ 2	

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

**12 Months Ended**

**Dec. 31, 2012**

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

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

**(3) Goodwill, Customer Relationships and Other Intangible Assets**

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

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
	<b>(Dollars in millions)</b>	
Goodwill	\$21,732	21,732
Customer relationships, less accumulated amortization of \$2,524 and \$1,337	7,052	8,239
Indefinite-life intangible assets	268	422
Other intangible assets subject to amortization		
Capitalized software, less accumulated amortization of \$814 and \$441	1,399	1,622
Trade names and patents, less accumulated amortization of \$142 and \$71	128	199
Total other intangible assets, net	\$1,795	2,243

Total amortization expense for intangible assets for the years ended December 31, 2012, 2011 and 2010 was \$1.682 billion, \$1.425 billion and \$206 million, respectively.

We estimate that total amortization expense for intangible assets for the years ending December 31, 2013 through 2017 will be as follows:

	<b>(Dollars in millions)</b>
2013	\$1,493
2014	1,369
2015	1,232
2016	1,104
2017	983

Our goodwill was derived from numerous acquisitions whereby the purchase price exceeded the fair value of the net assets acquired. For more information on our recent acquisitions and resulting fair values, see Note 2—Acquisitions. During the year ended December 31, 2012, during the respective one-year measurement periods for our recent acquisitions we retrospectively adjusted our previously reported preliminary assignment of the aggregate consideration for changes to our original estimates. Due to these revisions in our estimates, goodwill increased by \$8 million. This adjustment to goodwill has been reflected in the balance sheets for both December 31, 2012 and December 31, 2011.

Effective April 1, 2012, we restructured our operating segments to support our new operating structure. As a result, we reassigned goodwill to our reporting units using a relative fair value allocation approach. As of December 31, 2012, we attributed our goodwill balances to our segments as follows:

	<b><u>December 31, 2012</u></b> <b>(Dollars in millions)</b>
Regional markets	\$15,170

Wholesale markets	3,283
Enterprise markets—network	1,788
Enterprise markets—data hosting	1,491
<b>Total goodwill</b>	<b>\$21,732</b>

We test our goodwill 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 in periods in which the recorded amount of goodwill exceeds the estimated fair value. Our annual measurement date for testing impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units, which are our four operating segments (regional markets, wholesale markets, enterprise markets—network and enterprise markets—data hosting) that we recognized following our internal reorganization in the second quarter of 2012.

We adopted the provisions of ASU 2011-08, Testing Goodwill for Impairment, in the third quarter of 2011, which permits us to make a qualitative assessment of whether it is more likely than not that a reporting unit's, which we refer to as our segments, fair value is less than its carrying amount before applying the two-step goodwill impairment test, which requires us (i) in step one, to identify potential impairments by comparing the estimated fair value of a reporting unit against its carrying value and (ii) in step two, to quantify any impairment identified in step one. At September 30, 2012, as a result of the recent internal reorganization of our four segments we did not have a baseline valuation to perform a qualitative assessment. We estimated the fair value of our four segments using an equal weighting based on a market approach and a discounted cash flow method. The market approach 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 segments beyond the cash flows from the discrete nine-year projection period. We discounted the estimated cash flows for our regional markets, wholesale markets, and enterprise markets—network segments using a rate that represents a market participant's weighted average cost of capital, which we determined to be approximately 6.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 8.4%). We discounted the estimated cash flows of our enterprise markets—data hosting segment using a rate that represents a market participant's estimated weighted average cost of capital, which we determined to be approximately 11.0% as of the measurement date (which was comprised of an after-tax cost of debt of 3.2% and a cost of equity of 12.0%). We also reconciled the estimated fair values of the segments to our market capitalization as of September 30, 2012 and concluded that the indicated implied control premium of approximately 14% was reasonable based on recent transactions in the market place. Based on our analysis performed with respect to our reporting units described above, we have concluded that our goodwill is not impaired.

Our long-lived intangible assets with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of ASU 2012-2, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we will be required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

During the second quarter of 2012, we committed to a plan to sell our Advanced Wireless Services A Block and 700 MHz wireless in the A, B, and C Blocks, which in the aggregate had a basis of \$154 million. We sold \$58 million of our wireless spectrum assets during the fourth quarter of 2012, and we sold another \$43 million of our wireless spectrum assets in January 2013.

In the aggregate, these transactions resulted in a gain of \$32 million. We expect to reach agreements with various other purchasers for the remaining spectrum, and the consummation of which will be subject to regulatory approval.



## Acquisitions

12 Months Ended  
Dec. 31, 2012

### [Acquisitions](#) [Acquisitions](#)

#### (2) Acquisitions

##### *Acquisition of Savvis*

On July 15, 2011, we acquired all of the outstanding common stock of Savvis, a provider of cloud hosting, managed hosting, colocation and network services in domestic and foreign markets. We believe this acquisition enhances our ability to be an information technology partner with our existing business customers and strengthens our opportunities to attract new business customers in the future. Each share of Savvis common stock outstanding immediately prior to the acquisition converted into the right to receive \$30 per share in cash and 0.2479 shares of CenturyLink common stock. The aggregate consideration of \$2.382 billion consisted of:

- cash payments of \$1.732 billion;
- the 14.313 million shares of CenturyLink common stock issued to consummate the acquisition,
- the closing stock price of CenturyLink common stock at July 14, 2011 of \$38.54; and
- the estimated net value of the pre-combination portion of certain share-based compensation awards assumed by CenturyLink of \$98 million, of which \$33 million was paid in cash.

Upon completing the acquisition, we also paid \$547 million to retire certain pre-existing Savvis debt and accrued interest, and paid related transaction expenses totaling \$15 million. The cash payments required on or about the closing date were funded using existing cash balances, which included the net proceeds from the June 2011 issuance of senior notes with an aggregate principal amount of \$2 billion. See Note 4—Long-term Debt and Credit Facilities, for additional information about our senior notes.

We have completed our valuation of the fair value of Savvis' assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. The aggregate consideration paid by us exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$1.349 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, and product and market diversification that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

The following is our assignment of the aggregate consideration:

	<u>July 15, 2011</u>
	<u>(Dollars in millions)</u>
Cash, accounts receivable and other current assets*	\$214
Property, plant and equipment	1,367
Identifiable intangible assets	
Customer relationships	739
Other	51
Other noncurrent assets	27
Current liabilities, excluding current maturities of long-term debt	(129)
Current maturities of long-term debt	(38)
Long-term debt	(840)
Deferred credits and other liabilities	(358)
Goodwill	1,349



Aggregate consideration \$2,382

- \* Includes estimated fair value of \$90 million for accounts receivable which had gross contractual value of \$101 million on July 15, 2011. The \$11 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of July 15, 2011 of contractual cash flows that would not be collected.

We have retrospectively adjusted our previously reported preliminary assignment of the aggregate Savvis consideration for changes to our original estimates. These changes are the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2011, which occurred during the one-year measurement period. Due to these revisions in our estimates, (i) customer relationships decreased \$55 million due to a decrease in our customer relationships valuation, (ii) property, plant and equipment increased \$32 million primarily from a revision to our valuation of our capital lease assets, and (iii) deferred credits and other liabilities decreased by \$30 million primarily from changes in deferred taxes. Among other minor revisions, goodwill decreased by \$8 million as an offset to the above-mentioned changes. The depreciation and amortization expense impact of the adjustments to intangible assets and property, plant and equipment valuations did not result in a material change to previously—reported amounts.

#### ***Acquisition of Qwest***

On April 1, 2011, we acquired all of the outstanding common stock of Qwest, a provider of data, Internet, video and voice services nationwide and globally. We entered into this acquisition, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks. As of the acquisition date, Qwest served approximately 9.0 million access lines and approximately 3.0 million broadband subscribers across 14 states. Each share of Qwest common stock outstanding immediately prior to the acquisition converted into the right to receive 0.1664 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. The aggregate consideration was \$12.273 billion based on:

- the 294 million shares of CenturyLink common stock issued to consummate the acquisition;
- the closing stock price of CenturyLink common stock at March 31, 2011 of \$41.55;
- the estimated net value of the pre-combination portion of share-based compensation awards assumed by CenturyLink of \$52 million (excluding the value of restricted stock included in the number of issued shares specified above); and
- cash paid in lieu of the issuance of fractional shares of \$5 million.

We assumed approximately \$12.7 billion of long-term debt in connection with our acquisition of Qwest.

We have completed our valuation of the fair value of Qwest's assets acquired and liabilities assumed, along with the related allocations to goodwill and intangible assets. The aggregate consideration exceeded the aggregate estimated fair value of the assets acquired and liabilities assumed by \$10.123 billion, which we have recognized as goodwill. This goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

The following is our assignment of the aggregate consideration:

	<u>April 1, 2011</u> (Dollars in millions)
Cash, accounts receivable and other current assets*	\$2,121

Property, plant and equipment	9,529	
Identifiable intangible assets		
Customer relationships	7,558	
Capitalized software	1,702	
Other	189	
Other noncurrent assets	390	
Current liabilities, excluding current maturities of long-term debt	(2,426)	)
Current maturities of long-term debt	(2,422)	)
Long-term debt	(10,253)	)
Deferred credits and other liabilities	(4,238)	)
Goodwill	10,123	
Aggregate consideration	\$12,273	

\* Includes estimated fair value of \$1.194 billion for accounts receivable which had gross contractual value of \$1.274 billion on April 1, 2011. The \$80 million difference between the gross contractual value and the estimated fair value assigned represents our best estimate as of April 1, 2011 of contractual cash flows that would not be collected.

We have retrospectively adjusted our reported assignment of the aggregate Qwest consideration for changes to our original estimates of the fair value of certain items at the acquisition date. These changes are the result of additional information obtained since the filing of our Form 10-K for the year ended December 31, 2011, which occurred during the one-year measurement period. Due to these revisions of our estimates, (i) identifiable intangible assets decreased due to a \$67 million decrease in our customer relationships valuation, (ii) property, plant and equipment decreased by \$24 million primarily from a revision to our valuation of our buildings, and (iii) deferred credits and other liabilities decreased by \$63 million primarily from a revision to one of our lease valuations and changes in tax liabilities. Among other minor revisions, goodwill increased by \$17 million as an offset to the above-mentioned changes. The depreciation and amortization expense impact of the adjustments to intangible assets and property, plant and equipment valuations did not result in a material change to previously reported amounts.

On the acquisition date, we assumed Qwest's contingencies. For more information on our contingencies, see Note 15—Commitments and Contingencies.

#### **Acquisition-Related Expenses**

We have incurred operating expenses related to our acquisition of Savvis in July 2011, Qwest in April 2011 and Embarq in July 2009. The table below summarizes our expenses related to our acquisitions, which consist primarily of integration and severance expenses:

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Acquisition-related expenses	\$83	467	145

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

At December 31, 2012, we had incurred cumulative acquisition related expenses, consisting primarily of integration and severance related expenses, of \$56 million for Savvis and \$464 million for Qwest. In addition to the acquisition-related expenses included in the schedule for the year ended December 31, 2011, transaction expenses in the amount of \$16 million were incurred in connection with terminating an unused loan financing commitment related to our Savvis acquisition. This amount was not considered an operating activity and therefore not included as an operating expense.

Qwest incurred cumulative pre-acquisition related expenses of \$71 million, including \$36 million in periods prior to being acquired and \$35 million on the date of acquisition. Savvis incurred cumulative pre-acquisition related expenses of \$22 million, including \$3 million in periods prior to being acquired and \$19 million on the date of acquisition. These amounts are 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 Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used to a comparison of our consolidated results for the years ended December 31, 2012 and 2011, mean the business we operated prior to the Qwest and Savvis acquisitions.

**Combined Pro Forma Operating Results (Unaudited)**

The following unaudited pro forma financial information presents the combined results of CenturyLink as if the Qwest and Savvis acquisitions had been consummated as of January 1, 2010.

	<b>Years Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>		
Operating revenues	\$18,692	19,431
Net income	601	293
Basic earnings per common share	.97	.48
Diluted earnings per common share	.97	.48

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 and deferred expenses associated with installation activities and capacity leases that were assigned no value at the acquisition date and the elimination of transactions among CenturyLink, Qwest and Savvis that are now subject to intercompany elimination;
- increased amortization expense related to identifiable intangible assets, net of decreased depreciation expense to reflect the fair value of property, plant and equipment;
- decreased recognition of retiree benefit expenses for Qwest due to the elimination of unrecognized actuarial losses;
- decreased interest expense primarily due to the amortization of an adjustment to reflect the increased fair value of long-term debt of Qwest recognized on the acquisition date; and
- the related income tax effects.

The pro forma information does not necessarily reflect the actual results of operations had the Qwest and Savvis acquisitions been consummated at January 1, 2010, nor is it necessarily indicative of future operating results. The pro forma information does not adjust for integration costs incurred by us, Qwest and Savvis during 2011 (which are further described above in this note) or 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 the respective acquisition dates).

**Quarterly Financial Data  
(Unaudited)**

**12 Months Ended  
Dec. 31, 2012**

[Quarterly Financial Data  
\(Unaudited\)](#)

[Quarterly Financial Data  
\(Unaudited\)](#)

**(14) Quarterly Financial Data (Unaudited)**

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
<b>(Dollars in millions, except per share amounts)</b>					
<b>2012</b>					
Operating revenues	\$4,610	4,612	4,571	4,583	18,376
Operating income	654	657	736	666	2,713
Net income	200	74	270	233	777
Basic earnings per common share	.32	.12	.43	.37	1.25
Diluted earnings per common share	.32	.12	.43	.37	1.25
<b>2011</b>					
Operating revenues	\$1,696	4,406	4,596	4,653	15,351
Operating income	464	480	548	533	2,025
Net income	211	115	138	109	573
Basic earnings per common share	.69	.19	.22	.18	1.07
Diluted earnings per common share	.69	.19	.22	.18	1.07

These results include Savvis operations for periods beginning July 15, 2011 and Qwest operations for periods beginning April 1, 2011. See Note 2—Acquisitions for additional information. During the third quarter of 2012, we discovered and corrected an error that resulted in an overstatement of depreciation expense in the amount of \$30 million in 2011 and \$15 million in the first six months of 2012. The total reduction in depreciation expense of \$45 million was recognized in the third quarter of 2012.

**Earnings Per Common  
Share**

**12 Months Ended  
Dec. 31, 2012**

**Earnings Per Common  
Share**

**Earnings Per Common Share**

**(10) Earnings Per Common Share**

Basic and diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010 were calculated as follows:

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions, except per share amounts, shares in thousands)</b>			
<b>Income</b>			
<b>(Numerator):</b>			
Net income	\$777	573	948
<b>Earnings</b>			
applicable to non-vested restricted stock	(1 )	(2 )	(6 )
Net income applicable to common stock for computing basic earnings per common share	776	571	942
Net income as adjusted for purposes of computing diluted earnings per common share	\$776	571	942
<b>Shares</b>			
<b>(Denominator):</b>			
<b>Weighted average number of shares:</b>			
Outstanding during period	622,139	534,320	301,428
Non-vested restricted stock	(2,796 )	(2,209 )	(1,756 )
Non-vested restricted stock units	862	669	947
Weighted average shares outstanding for computing basic earnings per common share	620,205	532,780	300,619
Incremental common shares			

attributable to dilutive securities:			
Shares issuable under convertible securities	12	13	13
Shares issuable under incentive compensation plans	2,068	1,328	665
Number of shares as adjusted for purposes of computing diluted earnings per common share	622,285	534,121	301,297
Basic earnings per common share	\$1.25	1.07	3.13
Diluted earnings per common share	\$1.25	1.07	3.13

Our calculations of diluted earnings per common share exclude 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 period. Such potentially issuable shares totaled 2.2 million, 2.4 million and 2.9 million for 2012, 2011 and 2010, respectively.

**Property, Plant and  
Equipment**

**12 Months Ended  
Dec. 31, 2012**

**Property, Plant and  
Equipment**

**Property, Plant and Equipment (6) Property, Plant and Equipment**

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

	Depreciable Lives	December 31,	
		2012	2011
(Dollars in millions)			
Land	N/A	\$579	590
Fiber, conduit and other outside plant <sup>(1)</sup>	15-45 years	13,030	12,415
Central office and other network electronics <sup>(2)</sup>	3-10 years	11,395	9,683
Support assets <sup>(3)</sup>	3-30 years	6,235	6,098
Construction in progress <sup>(4)</sup>	N/A	847	799
Gross property, plant and equipment		32,086	29,585
Accumulated depreciation		(13,054)	(10,141)
Net property, plant and equipment		\$19,032	19,444

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

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

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

<sup>(4)</sup> 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.

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain of Qwest's legacy systems to our historical company systems. This transition resulted in an estimated \$40 million to \$55 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if Qwest had continued to use its legacy systems and a corresponding estimated \$40 million to \$55 million decrease in operating expenses for the year ended December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$25 million to \$34 million, or \$0.04 to \$0.05 per basic and diluted common share, for the year ended December 31, 2012.

Effective January 1, 2012, we changed our estimates of the remaining useful lives and net salvage value for certain telecommunications equipment. These changes resulted in additional depreciation expense of approximately \$26 million for the year ended December 31, 2012. This additional depreciation expense, net of tax, reduced net income by approximately \$16 million, or \$0.03 per basic and diluted common share, for the year ended December 31, 2012.

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.

During the first and second quarters of 2012, we retrospectively adjusted our reported preliminary assignment of the aggregate Qwest and Savvis consideration for changes to our original estimates of the fair value of buildings at the acquisition date. This retrospective adjustment increased the previously reported December 31, 2011 support assets by \$8 million.

During 2012, we reclassified certain prior period amounts of inventory held for construction to conform to the current period presentation. This reclassification increased construction in progress at December 31, 2011 by \$55 million with an offsetting decrease to fiber, conduit and other outside plant and central office and other network electronics by \$8 million and \$47 million, respectively.

We recorded depreciation expense of \$3.098 billion, \$2.601 billion and \$1.228 billion for the years ended December 31, 2012, 2011 and 2010, respectively.

***Asset Retirement Obligations***

At December 31, 2012, 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:

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>(Dollars in millions)</b>			
Balance at beginning of year	\$109	41	39
Accretion expense	7	9	2
Liabilities incurred	1	—	—
Liabilities assumed in Qwest and Savvis acquisitions	—	124	—
Liabilities settled and other	(1	) (3	) —
Change in estimate	(10	) (62	) —
<b>Balance at end of year</b>	<b>\$106</b>	<b>109</b>	<b>41</b>

During 2012 and 2011, we revised our estimates for the cost of removal of network equipment, asbestos remediation, and other obligations by \$10 million and \$62 million, respectively. These revisions resulted in a reduction of the asset retirement obligation and offsetting reduction to gross property, plant and equipment.





**Long-Term Debt and Credit  
Facilities**

**12 Months Ended  
Dec. 31, 2012**

**Long-Term Debt and Credit  
Facilities**

**Long-Term Debt and Credit  
Facilities**

**(4) Long-Term Debt and Credit Facilities**

Long-term debt, including unamortized discounts and premiums, at December 31, 2012 and 2011 consisted of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest and Embarq Corporation ("Embarq"), as follows:

	<u>Interest Rates</u>	<u>Maturities</u>	<u>December 31,</u>	
			<u>2012</u>	<u>2011</u>
<b>(Dollars in millions)</b>				
<b>CenturyLink, Inc.</b>				
Senior notes	5.000% - 7.650%	2013 - 2042	\$6,250	4,518
Credit facility <sup>(1)</sup>	1.960% - 4.000%	2017	820	277
Term loan	2.22%	2019	424	—
<b>Subsidiaries</b>				
Qwest				
Senior notes <sup>(2)</sup>	3.558% - 8.375%	2013 - 2052	9,168	11,460
Embarq				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	4,013
First mortgage bonds	6.875% - 8.770%	2013 - 2025	322	322
Other	6.750% - 9.000%	2013 - 2019	200	200
Other subsidiary notes				
First mortgage notes			—	65
Capital lease and other obligations	Various	Various	734	712
Unamortized premiums (discounts) and other, net			18	269
Total long-term debt			20,605	21,836
Less current maturities			(1,205)	(480)
Long-term debt, excluding current maturities			\$19,400	21,356

(1) The information presented here illustrates the interest rates and maturity on our credit facility as amended and restated on April 6, 2012. The outstanding amount of our Credit Facility borrowings at December 31, 2012 was \$820 million with a weighted average interest rate of 2.45%.

(2) The \$750 million of Qwest Corporation Notes due 2013 are floating rate notes, with a rate that resets every three months. As of the most recent measurement date of December 17, 2012, the rate for these notes was 3.558%.

***New Issuances***  
**2012**

On June 25, 2012, QC issued \$400 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$387 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after July 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On April 18, 2012, CenturyLink entered into a term loan in the amount of \$440 million with CoBank and several other Farm Credit System banks. This term loan is payable in 29 consecutive quarterly installments of \$5.5 million in principal plus interest through April 18, 2019, when the balance will be due. We have the option of paying monthly interest based upon either London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our term loan is guaranteed by two of our wholly-owned subsidiaries, Embarq and QCII, and one of QCII's wholly-owned subsidiaries. The remaining terms and conditions of our term loan are substantially similar to those set forth in our Credit Facility, described in this Note below under "Credit Facilities."

On April 2, 2012, QC issued \$525 million aggregate principal amount of 7.00% Notes due 2052 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$508 million. The Notes are unsecured obligations and may be redeemed, in whole or in part, on or after April 1, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued interest.

On March 12, 2012, CenturyLink issued (i) \$650 million aggregate principal amount of 7.65% Senior Notes due 2042 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$644 million and (ii) \$1.4 billion aggregate principal amount of 5.80% Senior Notes due 2022 in exchange for net proceeds, after deducting underwriting discounts, of approximately \$1.389 billion. The Notes are unsecured obligations and may be redeemed at any time on the terms and conditions specified therein.

## **2011**

On October 4, 2011, our indirect wholly owned subsidiary, QC issued \$950 million aggregate principal amount of its 6.75% Notes due 2021 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$927 million. The notes are senior unsecured obligations of QC and may be redeemed, in whole or in part, at a redemption price equal to the greater of their principal amount or the present value of the remaining principal and interest payments discounted at a U.S. Treasury interest rate specified in the indenture agreement plus 50 basis points. In October 2011, QC used the net proceeds from this offering, together with the \$557 million of net proceeds received on September 21, 2011 from the debt issuance described below and available cash, to redeem the \$1.500 billion aggregate principal amount of its 8.875% Notes due 2012 and to pay all related fees and expenses, which resulted in an immaterial loss.

On September 21, 2011, QC issued \$575 million aggregate principal amount of its 7.50% Notes due 2051 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$557 million. The notes are senior unsecured obligations of QC and may be redeemed, in whole or in part, on or after September 15, 2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On June 16, 2011, we issued unsecured senior notes with an aggregate principal amount of \$2.0 billion ("Senior Notes"), consisting of (i) \$400 million of 7.60% Senior Notes, Series P, due 2039, (ii) \$350 million of 5.15% Senior Notes, Series R, due 2017 and (iii) \$1.250 billion of 6.45% Senior Notes, Series S, due 2021. After deducting underwriting discounts and expenses, we received aggregate net proceeds of \$1.959 billion in exchange for the Senior Notes. We may redeem the Senior Notes, in whole or in part, at any time at a redemption price equal to the greater of their principal amount or the present value of the remaining principal and interest payments discounted at a U.S. Treasury interest rates plus 50 basis points. We used the net proceeds to fund a portion of our acquisition of Savvis and repay certain of Savvis' debt. See Note 2—Acquisitions for additional information. In April 2011, we received commitment letters from two banks to provide up to \$2.0 billion in bridge financing for the Savvis acquisition. This arrangement was terminated in June 2011 in connection with the issuance of the Senior Notes resulting in \$16 million in transaction expenses recognized in other income (expense), net.

On June 8, 2011, QC issued \$661 million aggregate principal amount of its 7.375% Notes due 2051 in exchange for net proceeds, after deducting underwriting discounts and expenses, of \$642 million. The notes are unsecured obligations of QC and may be redeemed, in whole or in part, on or after June 1, 2016 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

## **Repayments**

### **2012**

On October 26, 2012, QCII redeemed all \$550 million of its 8.00% Notes due 2015, which resulted in a gain of \$15 million.

On August 29, 2012, certain subsidiaries of CenturyLink paid \$29 million and \$30 million, respectively, to retire its outstanding Rural Utilities Service and Rural Telephone Bank debt.

On August 15, 2012, CenturyLink paid at maturity the \$318 million principal amount of its 7.875% Notes.

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

On May 17, 2012, QCII redeemed \$500 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

On April 23, 2012, Embarq redeemed the remaining \$200 million of its 6.738% Notes due 2013, which resulted in an immaterial loss.

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

On April 2, 2012, Embarq completed a cash tender offer to purchase a portion of its \$528 million of 6.738% Notes due 2013 and its \$2.0 billion of 7.082% Notes due 2016. With respect to its 6.738% Notes due 2013, Embarq received and accepted tenders of approximately \$328 million aggregate principal amount of these notes, or 62%, for \$360 million including a premium, fees and accrued interest. With respect to its 7.082% Notes due 2016, Embarq received and accepted tenders of approximately \$816 million aggregate principal amount of these notes, or 41%, for \$944 million including a premium, fees and accrued interest. The completion of these tender offers resulted in a loss of \$144 million.

On March 1, 2012, QCII redeemed \$800 million of its 7.50% Notes due 2014, which resulted in an immaterial gain.

## **2011**

In October 2011, QC used the net proceeds of \$927 million from the October 4, 2011 issuance, together with the \$557 million of net proceeds received from the September 21, 2011 debt issuance described above and available cash, to redeem the \$1.5 billion aggregate principal amount of its 8.875% Notes due 2012 and to pay all related fees and expenses, which resulted in an immaterial loss.

In June 2011, QC used the net proceeds of \$642 million from the June 8, 2011 debt issuance, together with available cash, to redeem \$825 million aggregate principal amount of its 7.875% Notes due 2011 and to pay related fees and expenses, which resulted in an immaterial loss.

### ***Credit Facilities***

On April 6, 2012, we amended and restated our \$1.7 billion revolving credit facility to increase the aggregate principal amount available to \$2.0 billion and to extend the maturity date to April 2017. This amended credit facility (the "Credit Facility") has 18 lenders, with commitments ranging from \$2.5 million to \$181 million and allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which will reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (as defined in the Credit Facility) plus an applicable margin between 1.25% and 2.25% per annum for LIBOR loans and 0.25% 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 two of our wholly-owned subsidiaries, Embarq and QCII, and one of QCII's wholly-owned subsidiaries. In the event of a ratings decline below "investment grade" as defined, Savvis and its operating subsidiaries will become guarantors of the Credit Facility. As of December 31, 2012, there was \$820 million outstanding under the Credit Facility.

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, 2012, our outstanding letters of credit totaled \$120 million under this facility.

### ***Aggregate Maturities of Long-Term Debt***

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

	<u>(Dollars in millions)</u>
2013	\$1,205
2014	781
2015	545
2016	1,488
2017	2,313
2018 and thereafter	14,255
<b>Total long-term debt</b>	<b><u><u>\$20,587</u></u></b>

### ***Interest Expense***

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

	<b>Years Ended</b>		
	<b>December 31,</b>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<b>(Dollars in millions)</b>		
Interest			
expense:			
Gross interest			
expense	\$1,362	1,097	557
Capitalized			
interest	(43 )	(25 )	(13 )
Total interest			
expense	<u><u>\$1,319</u></u>	<u><u>1,072</u></u>	<u><u>544</u></u>

### ***Covenants***

Certain of our loan agreements contain various restrictions, as described more fully below. 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.

The indentures governing Qwest's debt securities contain customary covenants that restrict the ability of Qwest or its subsidiaries from incurring additional debt, making certain payments and investments, granting liens, and selling or transferring assets. 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.

Since the Qwest parent company has achieved investment grade ratings from one of the rating agencies, most of the covenants listed above have been suspended. These covenants will be reinstated if the Qwest parent company loses the investment grade rating from that agency. Under the indenture governing these notes, we must repurchase the notes upon certain changes of control, which were not triggered upon the acquisition on April 1, 2011. This indenture also contains provisions for cross acceleration relating to any of our other debt obligations and the debt obligations of our restricted subsidiaries in an aggregate amount in excess of \$100 million.

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. The indenture does not contain any financial covenants or restrictions on the ability to issue new securities in accordance with the terms of the indenture.

Several of our other subsidiaries have outstanding first mortgage bonds or notes. Each issue of these first mortgage bonds or notes is secured by substantially all of the property, plant and

equipment of the issuing subsidiary. Approximately 21% of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

Under the Credit Facility, we, and our indirect subsidiary, QC, must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in our Credit Facility) ratio of not more than 4:1 and 2.85:1, 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 provides restrictions if we pledge assets or permit liens on our property, and requires that any advances under the Credit Facility must also be secured equally and ratably. 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.

At December 31, 2012, we were in compliance with all of the provisions and covenants contained in our Credit Facility and other debt agreements.

## Accounts Receivable

**12 Months Ended  
Dec. 31, 2012**

### [Accounts Receivable](#) [Accounts Receivable](#)

**(5) Accounts Receivable**

The following table presents details of our accounts receivable balances:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011<sup>(1)</sup></b>
<b>(Dollars in millions)</b>		
Trade and purchased receivables	\$1,782	1,768
Earned and unbilled receivables	274	296
Other	19	31
<b>Total accounts receivable</b>	<b>2,075</b>	<b>2,095</b>
Less: allowance for doubtful accounts	(158 )	(145 )
<b>Accounts receivable, less allowance</b>	<b>\$1,917</b>	<b>1,950</b>

<sup>(1)</sup> We have reclassified prior period amounts to conform to the current period presentation.

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:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Other</b>	<b>Ending Balance</b>
<b>(Dollars in millions)</b>					
2012	\$145	187	(174 )	—	158
2011	\$60	153	(68 )	—	145
2010	\$48	91	(79 )	—	60

**Severance and Leased Real  
Estate**

**12 Months Ended  
Dec. 31, 2012**

**Severance and Leased Real  
Estate**

**Severance and Leased Real  
Estate**

**(7) Severance and Leased Real Estate**

Periodically, we have reductions in our workforce and have accrued liabilities for related severance costs. These workforce reductions resulted primarily from the progression or completion of our integration plans, increased competitive pressures and reduced workload demands due to the loss of access lines.

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. We have not allocated any severance expense to our regional, enterprise and wholesale markets segments.

In periods prior to our acquisition of Qwest, Qwest had ceased using certain real estate that it was leasing under long-term operating leases. As of the April 1, 2011 acquisition date, we recognized 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 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 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, 2012, the current and noncurrent portions of our leased real estate accrual were \$19 million and \$112 million, respectively. The remaining lease terms range from 0.1 to 13.0 years, with a weighted average of 9.0 years.

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

	<u>Severance</u>	<u>Real Estate</u>
	<b>(Dollars in millions)</b>	
Balance at December 31, 2010	\$18	—
Accrued to expense	132	6
Liabilities assumed in Qwest acquisition	20	168
Payments, net	(133)	(21)
Balance at December 31, 2011	37	153
Accrued to expense	96	2
Payments, net	(113)	(24)
Reversals and adjustments	(3)	—
Balance at December 31, 2012	<u>\$17</u>	<u>131</u>

Our severance expenses for the year ended December 31, 2011 included \$12 million of share-based compensation associated with the accelerated vesting of stock awards that occurred in connection with workforce reductions relating to the acquisition of Qwest.



<b>Income Taxes (Details) (USD \$)</b>	<b>12 Months Ended</b>		
	<b>Dec. 31, 2012</b>	<b>Dec. 31, 2011</b>	<b>Dec. 31, 2010</b>
<b><u>Federal</u></b>			
<u>Current</u>	\$ 57,000,000	\$ (49,000,000)	\$ 384,000,000
<u>Deferred</u>	361,000,000	401,000,000	145,000,000
<b><u>State</u></b>			
<u>Current</u>	15,000,000	25,000,000	67,000,000
<u>Deferred</u>	33,000,000	(6,000,000)	(13,000,000)
<b><u>Foreign</u></b>			
<u>Current</u>	7,000,000	4,000,000	
<u>Total income tax expense</u>	473,000,000	375,000,000	583,000,000
<b><u>Income tax expense in the consolidated statements of income:</u></b>			
<u>Attributable to income</u>	473,000,000	375,000,000	583,000,000
<b><u>Stockholders' equity:</u></b>			
<u>Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes</u>	(18,000,000)	(13,000,000)	(12,000,000)
<u>Tax effect of the change in accumulated other comprehensive loss</u>	(434,000,000)	(535,000,000)	(34,000,000)
<b><u>Reconciliation of the statutory federal income tax rate to effective income tax rate</u></b>			
<u>Statutory federal income tax rate (as a percent)</u>	35.00%	35.00%	35.00%
<u>State income taxes, net of federal income tax benefit (as a percent)</u>	2.50%	1.30%	1.90%
<u>Change in tax treatment of Medicare subsidy (as a percent)</u>			0.30%
<u>Nondeductible acquisition related costs (as a percent)</u>		0.90%	0.20%
<u>Nondeductible compensation pursuant to executive compensation limitations (as a percent)</u>	0.50%	0.40%	0.20%
<u>Reversal of valuation allowance on auction rate securities (as a percent)</u>	(1.20%)		
<u>Foreign income taxes (as a percent)</u>	0.30%	0.40%	
<u>Foreign valuation allowance (as a percent)</u>		0.80%	
<u>Other, net (as a percent)</u>	0.70%	0.80%	0.50%
<u>Effective income tax rate (as a percent)</u>	37.80%	39.60%	38.10%
<u>Recognition of additional income tax expense due to non-deductible transaction cost related to recent acquisitions</u>		24,000,000	4,000,000
<u>Benefit on sale of auction rate securities, net of valuation allowance</u>	12,000,000		
<u>Expense on reversal of valuation allowance on auction rate securities</u>	6,000,000		
<u>Reversal of valuation allowance</u>	16,000,000	16,000,000	
<b><u>Deferred tax assets</u></b>			
<u>Postretirement and pension benefit costs</u>	2,327,000,000	2,040,000,000	
<u>Net operating loss carryforwards</u>	1,764,000,000	2,492,000,000	
<u>Other employee benefits</u>	193,000,000	122,000,000	

<u>Other</u>	754,000,000	802,000,000	
<u>Gross deferred tax assets</u>	5,038,000,000	5,456,000,000	
<u>Less valuation allowance</u>	(281,000,000)	(293,000,000)	
<u>Net deferred tax assets</u>	4,757,000,000	5,163,000,000	
<b><u>Deferred tax liabilities</u></b>			
<u>Property, plant and equipment, primarily due to depreciation differences</u>	(3,983,000,000)	(3,638,000,000)	
<u>Goodwill and other intangible assets</u>	(3,316,000,000)	(4,144,000,000)	
<u>Other</u>	(211,000,000)	(162,000,000)	
<u>Gross deferred tax liabilities</u>	(7,510,000,000)	(7,944,000,000)	
<u>Net deferred tax liability</u>	(2,753,000,000)	(2,781,000,000)	
<u>Long-term deferred tax liability</u>	3,644,000,000	3,800,000,000	
<u>Net current deferred tax asset</u>	891,000,000	1,019,000,000	
<u>Deferred tax asset valuation allowance from future income of a special character</u>		8,000,000	
<b><u>NOLs</u></b>			
<u>Valuation allowance, primarily related to state NOLs</u>	281,000,000		
<u>Assumed in Qwest and Savvis acquisitions</u>		206,000,000	
<u>Increase in tax positions taken in the current year</u>	3,000,000		
<u>Deferred tax asset valuation allowance adjustment</u>	(12,000,000)		
<b><u>Summary of reconciliation of the change in gross unrecognized tax benefits activity</u></b>			
<u>Unrecognized tax benefits, beginning of year</u>	111,000,000	311,000,000	
<u>Assumed in Qwest and Savvis acquisitions</u>		206,000,000	
<u>Increase in tax positions taken in the current year</u>	3,000,000		
<u>Decrease due to the reversal of tax positions taken in a prior year</u>	(34,000,000)	(13,000,000)	
<u>Decrease from the lapse of statute of limitations</u>	(2,000,000)	(1,000,000)	
<u>Settlements</u>		(392,000,000)	
<u>Unrecognized tax benefits, end of year</u>	78,000,000	111,000,000	311,000,000
<u>Unrecognized tax benefits that would impact effective tax rate</u>	52,000,000	118,000,000	
<u>Accrued interest associated with unrecognized tax benefits</u>	33,000,000	33,000,000	
<u>Amount of unrecognized tax benefit that may decrease within the next twelve months</u>	32,000,000		
State Jurisdiction			
<b><u>NOLs</u></b>			
<u>Net operating losses</u>	7,000,000,000		
federal			
<b><u>NOLs</u></b>			
<u>Net operating losses</u>	\$		
	4,700,000,000		

Segment Information (Details) (USD \$) In Millions, unless otherwise specified	1	3 Months Ended						12 Months Ended					
	Months Ended	Jan. 31, 2013	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>Segment information</b>													
<u>Expenses</u>											\$ 15,663	\$ 13,326	\$ 4,982
<u>Net income</u>		666	736	657	654	533	548	480	464	2,713	2,025	2,060	
<u>Number of operating segments</u>	4									4			
<u>Number of operating segments for which certain expenses are allocated from the enterprise markets data hosting segment</u>										3			
Operating segments													
<b>Segment information</b>													
<u>Revenues</u>										17,320	14,471		
<u>Expenses</u>										8,094	6,513		
<u>Net income</u>										9,226	7,958	4,092	
<u>Margin percentage</u>										53.00%	55.00%		
Operating segments   Previously allocated amounts													
<b>Segment information</b>													
<u>Revenues</u>											14,471	6,495	
<u>Expenses</u>											6,535	2,403	
<u>Net income</u>											7,936	4,092	
<u>Margin percentage</u>											55.00%	63.00%	
Regional markets													
<b>Segment information</b>													
<u>Number of regions in which the entity operates</u>	6									6			
<u>Revenues</u>										9,876	8,743		
<u>Expenses</u>										4,218	3,673		
<u>Net income</u>										5,658	5,070		
<u>Margin percentage</u>										57.00%	58.00%		
Regional markets   Previously allocated amounts													
<b>Segment information</b>													
<u>Revenues</u>											7,832	4,640	
<u>Expenses</u>											3,398	1,783	
<u>Net income</u>											4,434	2,857	
<u>Margin percentage</u>											57.00%	62.00%	
Wholesale markets													

**Segment information**

<u>Revenues</u>	3,721	3,305
<u>Expenses</u>	1,117	1,021
<u>Net income</u>	2,604	2,284
<u>Margin percentage</u>	70.00%	69.00%

Wholesale markets | Previously allocated amounts

**Segment information**

<u>Revenues</u>	3,295	1,589
<u>Expenses</u>	1,021	500
<u>Net income</u>	2,274	1,089
<u>Margin percentage</u>	69.00%	69.00%

Enterprise markets - network

**Segment information**

<u>Revenues</u>	2,609	1,933
<u>Expenses</u>	1,891	1,450
<u>Net income</u>	718	483
<u>Margin percentage</u>	28.00%	25.00%

Enterprise markets - data hosting

**Segment information**

<u>Revenues</u>	1,114	490
<u>Expenses</u>	868	369
<u>Net income</u>	246	121
<u>Margin percentage</u>	22.00%	25.00%

Business markets | Previously allocated amounts

**Segment information**

<u>Revenues</u>	2,861	266
<u>Expenses</u>	1,736	120
<u>Net income</u>	1,125	146
<u>Margin percentage</u>	39.00%	55.00%

Savvis operations | Previously allocated amounts

**Segment information**

<u>Revenues</u>	483	
<u>Expenses</u>	380	
<u>Net income</u>	\$ 103	
<u>Margin percentage</u>	21.00%	

**Fair Value Disclosure  
(Details 2) (USD \$)  
In Millions, unless otherwise  
specified**

**12 Months Ended  
Dec. 31, 2012 Dec. 31, 2011**

**Available for sale securities**

Auction rate securities settlements reclassified to net income \$ 3

Auction rate securities marked to market 2 (4)

Auction rate securities

**Available for sale securities**

Gains on disposition of securities 14

Auction rate securities settlements reclassified to net income 3

Auction rate securities marked to market 2

Auction rate securities | Sale Increment One

**Available for sale securities**

Auction rate securities sold 17

Auction rate securities | Sale Increment Two

**Available for sale securities**

Auction rate securities sold 39

Auction rate securities | Sale Increment Three

**Available for sale securities**

Auction rate securities sold \$ 19

**Severance and Leased Real  
Estate (Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Severance and Leased Real Estate**

Schedule of changes in accrued liabilities for severance  
expenses and leased real estate

	<u>Severance</u>	<u>Real Estate</u>
	<b>(Dollars in millions)</b>	
Balance at December 31, 2010	\$18	—
Accrued to expense	132	6
Liabilities assumed in Qwest acquisition	20	168
Payments, net	(133)	(21)
Balance at December 31, 2011	37	153
Accrued to expense	96	2
Payments, net	(113)	(24)
Reversals and adjustments	(3)	—
Balance at December 31, 2012	\$17	131

Acquisitions (Details) (USD \$)	12 Months Ended			1 Months Ended		12 Months Ended		1 Months Ended		1 Months Ended		12 Months Ended		12 Months Ended									
	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	Jul. 14, 2011	Mar. 31, 2011	Jul. 31, 2011	Dec. 31, 2011	Dec. 31, 2011	Jul. 15, 2011	Jun. 30, 2011	Jul. 15, 2011	Jul. 15, 2011	Jul. 15, 2011	Apr. 30, 2011	Dec. 31, 2012	Apr. 02, 2011	Apr. 02, 2011	Apr. 02, 2011	Mar. 31, 2012	Mar. 31, 2012	Dec. 31, 2011	Dec. 31, 2010	
																Qwest accessible subscriber state	Qwest Customer relationships	Qwest Capitalized software	2011 Other intangibles	Qwest Retrospective adjustments Change in purchase price allocation	Qwest Retrospective adjustments Change in purchase price allocation	Qwest and Savvis acquisitions	Qwest and Savvis acquisitions
Share price of CenturyLink shares that Savvis shareholders received for each share of common stock owned at closing (in dollars per share)								\$ 30															
Number of CenturyLink shares that shareholders received for each share of common stock owned at closing								0.2479															
Cash payments								\$ 1,732,000,000															
Common shares issued to consummate the merger							14,313,000									294,000,000							
Closing stock price used to value shares issued for acquisition (in dollars per share)				\$ 38.544155																			
Estimated net value of pre-combination portion of share-based compensation awards assumed									98,000,000														
Pre-combination portion of share-based compensation paid in cash							33,000,000																
Number of access lines served by acquiree entity																							
Number of broadband subscribers served by acquiree entity																							
Number of states in which services provided																							
Long-term debt assumed in connection with acquisition																							
Payments made towards retirement of existing Savvis debt and accrued interest							547,000,000																
Principal amount of senior notes issued to fund a portion of the acquisition and refinance Savvis existing debt										2,000,000,000													
Assignment of the aggregate consideration																							
Cash, accounts receivable and other current assets										214,000,000													
Property, plant and equipment										1,367,000,000													
Intangible assets										739,000,000	51,000,000		32,000,000										
Other noncurrent assets										27,000,000													
Current liabilities, excluding current maturities of long-term debt										(129,000,000)													
Current maturities of long-term debt										(38,000,000)													
Long-term debt										(840,000,000)													
Deferred credits and other liabilities										(358,000,000)			30,000,000										
Goodwill										1,349,000,000			(8,000,000)										
Aggregate consideration								2,382,000,000															
Fair value assigned to accounts receivable								90,000,000															
Accounts receivable gross contractual value								101,000,000															
Best estimate of contractual cash flows that would not be collected								11,000,000															
Pre-form financial information																							
Acquisition related expenses							15,000,000																
Operating revenues																							
Net income																							
Basic earnings per common share (in dollars per share)																							
Diluted earnings per common share (in dollars per share)																							
Merger-related transaction costs, cumulative amount							56,000,000																
Transaction expenses incurred in connection with terminating an unused loan financing commitment related to acquisition																							
Merger-related pre-acquisition costs																							
Merger-related pre-acquisition costs, prior to acquisition																							
Merger-related pre-acquisition costs, on the date of acquisition																							
Acquisition-related expenses	\$ 83,000,000	\$ 467,000,000	\$ 145,000,000																				

**Income Taxes**

**12 Months Ended  
Dec. 31, 2012**

**Income Taxes**  
Income Taxes

**(12) Income Taxes**

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Income tax expense was as follows:			
Federal			
Current	\$57	(49 )	384
Deferred	361	401	145
State			
Current	15	25	67
Deferred	33	(6 )	(13 )
Foreign			
Current	7	4	—
Deferred	—	—	—
<b>Total income tax expense</b>	<b>\$473</b>	<b>375</b>	<b>583</b>

	<b>Years Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>(Dollars in millions)</b>		
Income tax expense was allocated as follows:			
Income tax expense in the consolidated statements of income:			
Attributable to income	\$473	375	583
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(18 )	(13 )	(12 )
Tax effect of the change in accumulated other comprehensive loss	(434 )	(535 )	(34 )

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

**Years Ended December 31,**



	<u>2012</u>	<u>2011</u>	<u>2010</u>
	<b>(Percentage of pre-tax income)</b>		
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5%	1.3%	1.9%
Change in tax treatment of Medicare subsidy	—	—	0.3%
Nondeductible acquisition related costs	—	0.9%	0.2%
Nondeductible compensation pursuant to executive compensation limitations	0.5%	0.4%	0.2%
Reversal of valuation allowance on auction rate securities	(1.2)%	—	—
Foreign income taxes	0.3%	0.4%	—
Foreign valuation allowance	—	0.8%	—
Other, net	0.7%	0.8%	0.5%
Effective income tax rate	<u>37.8%</u>	<u>39.6%</u>	<u>38.1%</u>

Included in income tax expense for the years ended December 31, 2011 and 2010 is \$24 million and \$4 million, respectively, which is related to a portion of our transaction costs associated with our recent acquisitions. The transaction costs were primarily related to the acquisition of Qwest. These costs are considered non-deductible for income tax purposes. We did not incur non-deductible transaction costs in 2012.

The 2012 effective tax rate is 37.8% compared to 39.6% for 2011. The 2012 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 an expense of \$6 million associated with reversing a receivable related to periods that have been effectively settled with the IRS. The 2011 rate increase was due in part to \$24 million of non-deductible transaction costs and an \$8 million valuation allowance recorded on deferred tax assets that require future income of a special character to realize the benefits. Because we are not currently forecasting income of an appropriate character for these benefits to be realized, we will continue to maintain a valuation allowance equal to the amount we do not believe is more likely than not to be realized. This 2011 increase was partially offset by a \$16 million reduction in valuation allowances related to state NOLs due primarily to the effects of a tax law change in one of the states in which we operate.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2012 and 2011 were as follows:

	<b>Years Ended December 31,</b>	
	<u>2012</u>	<u>2011</u>
	<b>(Dollars in millions)</b>	
Deferred tax assets		
Post-retirement and pension benefit costs	\$2,327	2,040

Net operating loss carryforwards	1,764	2,492
Other employee benefits	193	122
Other	754	802
Gross deferred tax assets	5,038	5,456
Less valuation allowance	(281)	(293)
Net deferred tax assets	4,757	5,163
<b>Deferred tax liabilities</b>		
Property, plant and equipment, primarily due to depreciation differences	(3,983)	(3,638)
Goodwill and other intangible assets	(3,316)	(4,144)
Other	(211)	(162)
Gross deferred tax liabilities	(7,510)	(7,944)
Net deferred tax liability	<u>\$(2,753)</u>	<u>(2,781)</u>

Of the \$2.753 billion and \$2.781 billion net deferred tax liability at December 31, 2012 and 2011, respectively, \$3.644 billion and \$3.800 billion is reflected as a long-term liability and \$891 million and \$1.019 billion is reflected as a net current deferred tax asset at December 31, 2012 and December 31, 2011, respectively.

In connection with our acquisitions of Savvis on July 15, 2011 and Qwest on April 1, 2011, we recognized net noncurrent deferred tax liabilities of approximately \$320 million and \$595 million, respectively, which reflects the expected future tax effects of certain differences between the financial reporting carrying amounts and tax bases of Savvis' and Qwest's assets and liabilities. In addition, due to the Qwest acquisition, we recognized a net current deferred tax asset of \$271 million, which relates primarily to certain accrued liabilities that are expected to result in future tax deductions. These primary differences involve Qwest's pension and other post-retirement benefit obligations as well as tax effects for acquired intangible assets, property, plant and equipment and long-term debt, including the effects of acquisition date valuation adjustments, for both entities. The net deferred tax liability is partially offset by a deferred tax asset for expected future tax deductions relating to Savvis' and Qwest's net operating loss carryforwards.

At December 31, 2012, we had federal NOLs of \$4.7 billion and state NOLS of \$7 billion. If unused, the NOLs will expire between 2015 and 2032; however, no significant amounts expire until 2020. At December 31, 2012, we had \$72 million (\$47 million net of federal income tax) of state investment tax credit carryforwards that will expire between 2013 and 2024 if not utilized. In addition, at December 31, 2012 we had \$62 million of 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 is subject to annual limits imposed by Section 382. Despite this, we expect to use substantially all of these NOLs as an offset against our future taxable income, 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, 2012, a valuation allowance of \$281 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, 2012 and 2011 is primarily related to state NOL carryforwards. This valuation allowance decreased by \$12 million during 2012.

We recorded valuation allowances of \$10 million and \$248 million related to the Savvis and Qwest acquisitions, respectively, for the portion of the acquired net deferred tax assets that we did not believe is more likely than not to be realized. Our acquisition date assignment of deferred income taxes and the related valuation allowance was completed in 2012 as discussed in Note 2—Acquisitions.

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 2012 and 2011 is as follows:

<u>2012</u>	<u>2011</u>
<b>(Dollars in millions)</b>	

Unrecognized tax benefits at beginning of year	\$111	311
Assumed in Qwest and Savvis acquisitions	—	206
Increase in tax positions taken in the current year	3	—
Decrease due to the reversal of tax positions taken in a prior year	(34	) (13
Decrease from the lapse of statute of limitations	(2	) (1
Settlements	—	(392
Unrecognized tax benefits at end of year	\$78	111

Upon the dismissal of our refund appeal in October 2011, we recorded a \$242 million settlement related to the treatment of universal service fund receipts of certain subsidiaries acquired in our Embarq acquisition, effectively settling the issue for the 1990 through 1994 years. We dismissed our 2004-2006 Tax Court proceedings due to an agreement in place with the IRS Chief Counsel's office. Dismissal of the Tax Court proceedings will result in an agreed tax deficiency amount for each period. Since the Tax Court proceedings involved years that Embarq was owned by Sprint, Sprint will receive the deficiency and the payment to the IRS will trigger a settlement obligation under the Tax Sharing agreement with Sprint. During 2011, Qwest also withdrew their claims associated with the treatment of universal services fund receipts resulting in a \$141 million settlement decrease in our unrecognized tax benefits. Due to Qwest's NOL carryforward, the settlement of the position resulted in a reduction in our unrecognized tax benefit but no cash payment is required.

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 those negotiations at year end, we have partially reversed an unrecognized tax benefit that was assumed as part of the Qwest acquisition, which decreased our total unrecognized tax benefits.

The total amount of unrecognized tax benefits that, if recognized, would impact the effective income tax rate was \$52 million at December 31, 2012 and \$118 million at December 31, 2011.

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 at December 31, 2012 and December 31, 2011.

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 2010 tax year, our federal consolidated returns are subject to annual examination by the IRS. Qwest's federal consolidated returns for the 2009, 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. In 2012, Qwest filed an amended 2008 federal income tax return primarily to report the carryforward impact of prior year settlements. Such amended filing is subject to adjustment by the IRS. At the same time, Qwest also filed an amended return for 1999 for its predecessor U S WEST, Inc. to make certain refund claims. An agreed resolution of those claims is pending conditioned upon Congressional Joint Committee Approval.

Our open income tax years by major jurisdiction are as follows at December 31, 2012:

<u>Jurisdiction</u>	<u>Open Tax Years</u>
Federal	2008—current
State	
Florida	2006—current
Louisiana	2009—current
Minnesota	1996—1999 and 2002—current
New York	2001—2006 and 2009—current
North Carolina	2004—2006 and 2009—current

Oregon	2002—2003 and 2009—current
Texas	2008—current
Other states	2006—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 \$32 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.

## Labor Union Contracts

**12 Months Ended  
Dec. 31, 2012**

### Labor Union Contracts

#### Labor Union Contracts

#### **(17) Labor Union Contracts**

Over 38% of our employees are members of various bargaining units represented by the Communications Workers of America and the International Brotherhood of Electrical Workers. Approximately 12,000, or 26%, of our employees are subject to collective bargaining agreements that expired October 6, 2012. We are currently negotiating the terms of new agreements. In the meantime, the predecessor agreements have been extended, and the applicable unions have agreed to provide us with at least twenty-four hour advance notice before terminating those predecessor agreements. Any strikes or other changes in our labor relations could have a significant impact on our business. 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. To help mitigate this potential risk, we have established contingency plans in which we would assign trained, non-represented employees to cover jobs for represented employees in the event of a work stoppage to provide continuity for our customers.

**Basis of Presentation and  
Summary of Significant  
Accounting Policies (Details  
5) (USD \$)  
In Millions, except Per Share  
data, unless otherwise  
specified**

**12 Months Ended**

**Dec. 31, 2012 Dec. 31, 2011 Dec. 31, 2010**

**Foreign Currency**

<u>Foreign currency translation gain (loss), net of tax</u>	\$ 6	\$ (15)	\$ 0
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**Preferred stock**

<u>Preferential preferred stock distribution (in dollars per share)</u>	\$ 25		
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Acquisition

**Common stock**

<u>Unissued shares of CenturyLink common stock</u>	4		
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Incentive compensation programs

**Common stock**

<u>Unissued shares of CenturyLink common stock</u>	34		
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Employee stock purchase plan

**Common stock**

<u>Unissued shares of CenturyLink common stock</u>	3		
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Quarterly Financial Data  
(Unaudited) (Tables)

12 Months Ended  
Dec. 31, 2012

[Quarterly Financial Data  
\(Unaudited\)  
Schedule of quarterly financial  
information](#)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(Dollars in millions, except per share amounts)					
<b>2012</b>					
Operating revenues	\$4,610	4,612	4,571	4,583	18,376
Operating income	654	657	736	666	2,713
Net income	200	74	270	233	777
Basic earnings per common share	.32	.12	.43	.37	1.25
Diluted earnings per common share	.32	.12	.43	.37	1.25
<b>2011</b>					
Operating revenues	\$1,696	4,406	4,596	4,653	15,351
Operating income	464	480	548	533	2,025
Net income	211	115	138	109	573
Basic earnings per common share	.69	.19	.22	.18	1.07
Diluted earnings per common share	.69	.19	.22	.18	1.07

**CONSOLIDATED  
BALANCE SHEETS (USD  
\$)  
In Millions, unless otherwise  
specified**

**Dec. 31, Dec. 31,  
2012 2011**

**CURRENT ASSETS**

<u>Cash and cash equivalents</u>	\$ 211	\$ 128
<u>Accounts receivable, less allowance of \$158 and \$145</u>	1,917	1,950
<u>Income tax receivable</u>	42	27
<u>Deferred income taxes, net</u>	891	1,019
<u>Other</u>	552	393
<u>Total current assets</u>	3,613	3,517

**NET PROPERTY, PLANT AND EQUIPMENT**

<u>Property, plant and equipment</u>	32,086	29,585
<u>Accumulated depreciation</u>	(13,054)	(10,141)
<u>Net property, plant and equipment</u>	19,032	19,444

**GOODWILL AND OTHER ASSETS**

<u>Goodwill</u>	21,732	21,732
<u>Customer relationships, net</u>	7,052	8,239
<u>Other intangible assets, net</u>	1,795	2,243
<u>Other, net</u>	796	869
<u>Total goodwill and other assets</u>	31,375	33,083

**TOTAL ASSETS**

54,020 56,044

**CURRENT LIABILITIES**

<u>Current maturities of long-term debt</u>	1,205	480
<u>Accounts payable</u>	1,207	1,400
<b><u>Accrued expenses and other liabilities</u></b>		
<u>Salaries and benefits</u>	683	633
<u>Income and other taxes</u>	356	383
<u>Interest</u>	268	293
<u>Other</u>	234	255
<u>Advance billings and customer deposits</u>	642	573
<u>Total current liabilities</u>	4,595	4,017

**LONG-TERM DEBT**

19,400 21,356

**DEFERRED CREDITS AND OTHER LIABILITIES**

<u>Deferred income taxes, net</u>	3,644	3,800
<u>Benefit plan obligations, net</u>	5,844	4,855
<u>Other</u>	1,248	1,189
<u>Total deferred credits and other liabilities</u>	10,736	9,844

**COMMITMENTS AND CONTINGENCIES (Note 15)**

**STOCKHOLDERS' EQUITY**

Preferred stock - non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 9 shares



<u>Common stock, \$1.00 par value, authorized 1,600,000 and 800,000 shares, respectively, issued and outstanding 625,658 and 618,514 shares</u>	626	619
<u>Additional paid-in capital</u>	19,079	18,901
<u>Accumulated other comprehensive (loss) income</u>	(1,701)	(1,012)
<u>Retained earnings</u>	1,285	2,319
<u>Total stockholders' equity</u>	19,289	20,827
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	\$ 54,020	\$ 56,044

**Basis of Presentation and  
Summary of Significant  
Accounting Policies**

**12 Months Ended**

**Dec. 31, 2012**

**Basis of Presentation and  
Summary of Significant  
Accounting Policies**

**Basis of Presentation and  
Summary of Significant  
Accounting Policies**

**(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, network access, private line (including special access), public access, broadband, data, managed hosting (including cloud hosting), colocation, wireless and video services. In certain local and regional markets, we also provide local access and fiber transport services to competitive local exchange carriers and security monitoring.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries over which we exercise control. These subsidiaries include our acquisition of SAVVIS, Inc. ("Savvis") on July 15, 2011 and Qwest Communications International Inc. ("Qwest") on April 1, 2011. See Note 2—Acquisitions for additional information. All intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

Effective January 1, 2012, we changed our rates of capitalized labor as we transitioned certain of Qwest's legacy systems to our historical company systems. This transition resulted in an estimated \$40 million to \$55 million increase in the amount of labor capitalized as an asset compared to the amount that would have been capitalized if Qwest had continued to use its legacy systems and a corresponding estimated \$40 million to \$55 million decrease in operating expenses for the year ended December 31, 2012. The reduction in expenses described above, net of tax, increased net income approximately \$25 million to \$34 million, or \$0.04 to \$0.05 per basic and diluted common share, for the year ended December 31, 2012.

Effective January 1, 2012, we changed our estimates of the remaining useful lives and net salvage value for certain telecommunications equipment. These changes resulted in additional depreciation expense of approximately \$26 million for the year ended December 31, 2012. This additional depreciation expense, net of tax, reduced net income by approximately \$16 million, or \$0.03 per basic and diluted common share, for the year ended December 31, 2012.

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

We also have reclassified certain other prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 13—Segment Information for additional information. These changes had no impact on total revenues, total operating expenses or net income for any period.

***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 made 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 revenue, 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 12—Income Taxes and Note 15—Commitments and Contingencies for additional information.

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

For matters related to income taxes, if 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 revenues 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 each element 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 have periodically transferred 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.

We offer some products and services that are 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 data 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 revenue, with a corresponding increase in the credit reserve.

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

In determining whether to include in our revenue and expenses the taxes and surcharges collected from customers and remitted to governmental 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 revenue 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 revenue 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. For the years ended December 31, 2012, 2011 and 2010, our advertising expense was \$189 million, \$275 million and \$49 million, 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. At December 31, 2012, we had established a \$281 million valuation allowance, primarily related to state NOLs, as it is more likely than not that this amount will not be utilized prior to expiration. See Note 12—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. Property, plant and equipment purchased subsequent to our acquisitions 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 categorized in the year acquired on the basis of equal life groups for purposes of depreciation and tracking. 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 life of our asset base.

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 assets, other than goodwill and other intangible assets with indefinite lives, for impairment whenever facts and circumstances indicate that the carrying amounts of the assets may not be recoverable. For measurement 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 measured 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 years to 12.5 years, using either the sum-of-the-years-digits or straight-line methods, depending on the type of customer. We amortize capitalized software using the straight-line method over estimated lives ranging up to seven years and amortize our other intangible assets predominantly using the sum-of-the-years digits method over an estimated life of four 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 group 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 with indefinite lives are tested 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 historical cost if their estimated fair value is greater than their carrying amounts. 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 early adopted the provisions of Accounting Standards Update ("ASU") 2012-2, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment, during the fourth quarter of 2012, which allows us the option to first review qualitative factors to determine the likelihood of whether the indefinite-lived intangible asset is impaired before performing a qualitative impairment test. Under this approach, if we determine that it is more likely than not that the indefinite-lived intangible asset is impaired, we are required to compute and compare the fair value of the indefinite-lived intangible asset to its carrying amount to determine and measure the impairment loss, if any. We completed our qualitative assessment as of December 31, 2012 and concluded it is not more likely than not that our indefinite-lived intangible assets are impaired; thus, no impairment charge was recorded in 2012.

We are required to test 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 fair value. Our reporting units, which we refer to as our segments, 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 analysis is performed on a reporting unit. As a result, our assets, liabilities and cash flows are allocated to reporting units using reasonable and consistent allocation methodologies. Certain estimates, judgments and assumptions are required to perform these allocations. 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 measurement date for testing goodwill impairment is September 30. As of September 30, 2012, we tested for goodwill impairment on our reporting units, which are our four operating segments (regional markets, wholesale markets, enterprise markets—network and enterprise markets—data hosting) that we recognized following our internal reorganization effective April 1, 2012. In the fourth quarter of 2012, we completed our annual impairment testing and concluded that our goodwill was not impaired as of September 30, 2012. See Note 3—Goodwill, Customer Relationships and Other Intangible Assets for additional information.

We are required to reassign goodwill to reporting units each time we reorganize our internal reporting structure which causes a change in our operating segments. Goodwill is reassigned to the reporting units using a relative fair value approach. We utilize the earnings before interest, tax



and depreciation as our allocation methodology as it represents a reasonable proxy for the fair value of the operations being reorganized.

We periodically 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 periodic reviews.

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

We recognize the overfunded or underfunded status of our defined benefit and post-retirement plans as an asset or a liability on our 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) income. 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 and health care trend rates) in computing the pension and post-retirement benefits expense and obligations. See Note 8—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. Resulting gains or losses from translating foreign currency are a component of our other comprehensive (loss) income, which is then included in our accumulated other comprehensive (loss) income. For the years ended December 31, 2012, 2011 and 2010, our foreign currency translation gain (loss), net of tax, was \$6 million, \$(15) million and \$-0- million, respectively.

#### **Common Stock**

At December 31, 2012, we had unissued shares of CenturyLink common stock reserved of 34 million shares for incentive compensation, 4 million shares for acquisitions and 3 million shares for our employee stock purchase plan ("ESPP").

#### **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.

#### ***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.

**Employee Benefits (Details  
2) (USD \$)**  
In Millions, unless otherwise  
specified

**12 Months Ended**

**Dec. 31, Dec. 31, Dec. 31, Dec. 31,**  
**2012 2011 2010 2009**

**Actual return on plan assets:**

Actual gains on pension and post retirement plan assets

\$ 1,555,000 \$ 483

Expected return

892 750

Difference between the actual and expected returns on pension and post-retirement plan assets

663 267

**Accumulated other comprehensive (loss) income at the beginning of the period**

Total

(1,688) (988)

**Recognition of Net Periodic Benefits Expense**

Net periodic (income) expense

24

**Deferrals**

Total

(724)

**Net Change in AOCI**

Total

(700)

**Accumulated other comprehensive (loss) income at the end of the period**

Total

(1,688) (988)

**Health Care and Life Insurance**

Active health care benefit expenses

360 377 190

Participating management employees' contribution to health care plan

113 90 47

Pension Plan

**Employee Benefits**

Total investments

12,333 11,974

Dividends and interest receivable

32

Pending trades receivable

436

Accrued expenses

(12) (8)

Pending trades payable

(620)

Total plan assets

12,321 11,814 3,732

**Change in plan assets**

Fair value of plan assets at the beginning of the period

11,814 3,732 3,220

Acquisitions

7,777

**Actual return on plan assets:**

Fair value of plan assets at the end of the period

12,321 11,814 3,732

Actual gains on pension and post retirement plan assets

1,476 479 483

Expected return

847 709 283

**Unfunded Status**

Benefit obligation

(14,881) (13,596) (4,534) (4,182)

Fair value of plan assets

12,321 11,814 3,732

Unfunded status

(2,560) (1,782)



<u>Current portion of unfunded status</u>	(6)		
<u>Non-current portion of unfunded status</u>	(2,554)	(1,782)	
<b><u>Accumulated other comprehensive (loss) income at the beginning of the period</u></b>			
<u>Net actuarial (loss) gain</u>	(2,236)	(1,335)	
<u>Prior service (cost) benefit</u>	(38)	(29)	
<u>Deferred income tax benefit (expense)</u>	875	526	
<u>Total</u>	(1,399)	(838)	
<b><u>Recognition of Net Periodic Benefits Expense</u></b>			
<u>Net actuarial (loss) gain</u>	(35)	(13)	(17)
<u>Prior service benefit (cost)</u>	4	2	2
<u>Deferred income tax benefit (expense)</u>	(15)		
<u>Net periodic (income) expense</u>	24		
<b><u>Deferrals</u></b>			
<u>Net actuarial (loss) gain</u>	(936)		
<u>Prior service (cost) benefit</u>	(13)		
<u>Deferred income tax benefit (expense)</u>	364		
<u>Total</u>	(585)		
<b><u>Net Change in AOCI</u></b>			
<u>Net actuarial (loss) gain</u>	(901)		
<u>Prior service (cost) benefit</u>	(9)		
<u>Deferred income tax benefit (expense)</u>	349		
<u>Total</u>	(561)		
<b><u>Accumulated other comprehensive (loss) income at the end of the period</u></b>			
<u>Net actuarial (loss) gain</u>	(2,236)	(1,335)	
<u>Prior service (cost) benefit</u>	(38)	(29)	
<u>Deferred income tax benefit (expense)</u>	875	526	
<u>Total</u>	(1,399)	(838)	
<b><u>Estimated recognition of net periodic benefit expense in 2013:</u></b>			
<u>Net actuarial (loss)</u>	(81)		
<u>Prior service(cost)</u>	(5)		
<u>Deferred income tax benefit</u>	33		
<u>Total</u>	(53)		
Pension Plan   Level 1			
<b><u>Employee Benefits</u></b>			
<u>Total investments</u>	3,572	2,216	
Pension Plan   Level 2			
<b><u>Employee Benefits</u></b>			
<u>Total investments</u>	6,995	7,521	
Pension Plan   Level 3			
<b><u>Employee Benefits</u></b>			
<u>Total investments</u>	1,766	2,237	
<u>Total plan assets</u>	1,766	2,237	

<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	2,237	350
<u>Net transfers</u>	(305)	
<u>Acquisitions</u>	209	1,874
<u>Dispositions</u>	(343)	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>	4	209
<u>Gains (losses) relating to assets still held at year-end</u>	(36)	(196)
<u>Fair value of plan assets at the end of the period</u>	1,766	2,237
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>	1,766	2,237
Pension Plan   Exchange-traded U.S. equity futures		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	302	535
Pension Plan   Exchange-traded non-U.S. equity futures		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	1	4
Pension Plan   Exchange-traded Treasury futures		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	1,763	1,512
Pension Plan   Interest rate swaps		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	1,471	635
Pension Plan   Total return swaps		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>		110
Pension Plan   Credit default swaps		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	495	201
Pension Plan   Foreign exchange forwards		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	726	635
Pension Plan   Options		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	768	917
Pension Plan   Investment grade bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	2,385	2,900
Pension Plan   Investment grade bonds   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	830	694
Pension Plan   Investment grade bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1,555	2,206

Pension Plan   High Yield Bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1,362	620
Pension Plan   High Yield Bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1,303	541
Pension Plan   High Yield Bonds   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	59	79
<u>Total plan assets</u>	59	79
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	79	
<u>Net transfers</u>	(12)	
<u>Acquisitions</u>	1	96
<u>Dispositions</u>	(11)	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>		(12)
<u>Gains (losses) relating to assets still held at year-end</u>	2	(5)
<u>Fair value of plan assets at the end of the period</u>	59	79
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>	59	79
Pension Plan   Emerging market bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	595	295
Pension Plan   Emerging market bonds   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	199	
Pension Plan   Emerging market bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	396	295
Pension Plan   Diversified strategies		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	655	489
Pension Plan   Diversified strategies   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	655	489
Pension Plan   U.S. stocks		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1,344	1,345
Pension Plan   U.S. stocks   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1,225	401
Pension Plan   U.S. stocks   Level 2		
<b><u>Employee Benefits</u></b>		

<a href="#">Total investments</a>	119	944
Pension Plan   Non-U.S. stocks		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	1,390	1,453
Pension Plan   Non-U.S. stocks   Level 1		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	1,212	994
Pension Plan   Non-U.S. stocks   Level 2		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	178	459
Pension Plan   Emerging market stocks		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	304	238
Pension Plan   Emerging market stocks   Level 1		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	111	102
Pension Plan   Emerging market stocks   Level 2		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	193	136
Pension Plan   Private Equity		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	711	791
Pension Plan   Private Equity   Level 3		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	711	791
<a href="#">Total plan assets</a>	711	791
<b><a href="#">Change in plan assets</a></b>		
<a href="#">Fair value of plan assets at the beginning of the period</a>	791	1
<a href="#">Acquisitions</a>	70	795
<a href="#">Dispositions</a>	(109)	
<b><a href="#">Actual return on plan assets:</a></b>		
<a href="#">Gains relating to assets sold during the year</a>	3	197
<a href="#">Gains (losses) relating to assets still held at year-end</a>	(44)	(202)
<a href="#">Fair value of plan assets at the end of the period</a>	711	791
<b><a href="#">Unfunded Status</a></b>		
<a href="#">Fair value of plan assets</a>	711	791
Pension Plan   Private Debt		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	465	461
Pension Plan   Private Debt   Level 3		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	465	461
<a href="#">Total plan assets</a>	465	461
<b><a href="#">Change in plan assets</a></b>		

<u>Fair value of plan assets at the beginning of the period</u>	461	3
<u>Acquisitions</u>	120	453
<u>Dispositions</u>	(102)	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>	1	13
<u>Gains (losses) relating to assets still held at year-end</u>	(15)	(8)
<u>Fair value of plan assets at the end of the period</u>	465	461
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>	465	461
Pension Plan   Market Neutral Hedge Funds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	906	808
Pension Plan   Market Neutral Hedge Funds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	906	620
Pension Plan   Market Neutral Hedge Funds   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>		188
<u>Total plan assets</u>		188
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	188	
<u>Net transfers</u>	(188)	
<u>Acquisitions</u>		185
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>		3
<u>Fair value of plan assets at the end of the period</u>		188
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>		188
Pension Plan   Directional Hedge Funds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	534	451
Pension Plan   Directional Hedge Funds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	340	268
Pension Plan   Directional Hedge Funds   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	194	183
<u>Total plan assets</u>	194	183
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	183	161
<u>Acquisitions</u>		30
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>		(1)
<u>Gains (losses) relating to assets still held at year-end</u>	11	(7)

<a href="#">Fair value of plan assets at the end of the period</a>	194	183
<b><a href="#">Unfunded Status</a></b>		
<a href="#">Fair value of plan assets</a>	194	183
Pension Plan   Real Estate		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	560	583
Pension Plan   Real Estate   Level 2		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	223	48
Pension Plan   Real Estate   Level 3		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	337	535
<a href="#">Total plan assets</a>	337	535
<b><a href="#">Change in plan assets</a></b>		
<a href="#">Fair value of plan assets at the beginning of the period</a>	535	182
<a href="#">Net transfers</a>	(105)	
<a href="#">Acquisitions</a>	18	318
<a href="#">Dispositions</a>	(121)	
<b><a href="#">Actual return on plan assets:</a></b>		
<a href="#">Gains relating to assets sold during the year</a>		9
<a href="#">Gains (losses) relating to assets still held at year-end</a>	10	26
<a href="#">Fair value of plan assets at the end of the period</a>	337	535
<b><a href="#">Unfunded Status</a></b>		
<a href="#">Fair value of plan assets</a>	337	535
Pension Plan   Derivatives		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	(2)	7
Pension Plan   Derivatives   Level 1		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	(5)	12
Pension Plan   Derivatives   Level 2		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	3	(5)
Pension Plan   Cash equivalents and short-term investment funds		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	750	1,196
Pension Plan   Cash equivalents and short-term investment funds   Level 1		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>		13
Pension Plan   Cash equivalents and short-term investment funds   Level 2		
<b><a href="#">Employee Benefits</a></b>		
<a href="#">Total investments</a>	750	1,183

Pension Plan | Other | Level 3

**Change in plan assets**

Fair value of plan assets at the beginning of the period 3  
Acquisitions (3)

Pension Plan | Convertible bonds

**Employee Benefits**

Total investments 374 337

Pension Plan | Convertible bonds | Level 2

**Employee Benefits**

Total investments 374 337

Post-Retirement Benefit Plans

**Employee Benefits**

Total investments 637 705

Dividends and interest receivable 3

Pending trades receivable 23

Accrued expenses (1) (15)

Reimbursement accrual (10)

Pending trades payable (23)

Total plan assets 626 693 54

**Change in plan assets**

Fair value of plan assets at the beginning of the period 693 54 57

Acquisitions 768

**Actual return on plan assets:**

Fair value of plan assets at the end of the period 626 693 54

Actual gains on pension and post retirement plan assets 80 4 6

Expected return 45 41 4

**Unfunded Status**

Benefit obligation (4,075) (3,930) (558) (582)

Fair value of plan assets 626 693 54

Unfunded status (3,449) (3,237)

Current portion of unfunded status (160) (164)

Non-current portion of unfunded status (3,289) (3,073)

**Accumulated other comprehensive (loss) income at the beginning of the period**

Net actuarial (loss) gain (446) (221)

Prior service (cost) benefit (22) (21)

Deferred income tax benefit (expense) 179 92

Total (289) (150)

**Recognition of Net Periodic Benefits Expense**

Net actuarial (loss) gain (1)

Prior service benefit (cost) (2) (3)

**Deferrals**

Net actuarial (loss) gain (225)

Prior service (cost) benefit (1)

<u>Deferred income tax benefit (expense)</u>	87	
<u>Total</u>	(139)	
<b><u>Net Change in AOCI</u></b>		
<u>Net actuarial (loss) gain</u>	(225)	
<u>Prior service (cost) benefit</u>	(1)	
<u>Deferred income tax benefit (expense)</u>	87	
<u>Total</u>	(139)	
<b><u>Accumulated other comprehensive (loss) income at the end of the period</u></b>		
<u>Net actuarial (loss) gain</u>	(446)	(221)
<u>Prior service (cost) benefit</u>	(22)	(21)
<u>Deferred income tax benefit (expense)</u>	179	92
<u>Total</u>	(289)	(150)
<b><u>Estimated recognition of net periodic benefit expense in 2013:</u></b>		
<u>Net actuarial (loss)</u>	(4)	
<u>Deferred income tax benefit</u>	2	
<u>Total</u>	(2)	
Post-Retirement Benefit Plans   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	140	176
Post-Retirement Benefit Plans   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	418	435
Post-Retirement Benefit Plans   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	79	94
<u>Total plan assets</u>	79	94
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	94	
<u>Acquisitions</u>	1	87
<u>Dispositions</u>	19	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>	5	34
<u>Gains (losses) relating to assets still held at year-end</u>	(2)	(27)
<u>Fair value of plan assets at the end of the period</u>	79	94
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>	79	94
Post-Retirement Benefit Plans   Exchange-traded U.S. equity futures		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	30	12
Post-Retirement Benefit Plans   Exchange-traded Treasury futures		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>		19
Post-Retirement Benefit Plans   Total return swaps		



<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>		51
Post-Retirement Benefit Plans   Foreign exchange forwards		
<b><u>Employee Benefits</u></b>		
<u>Gross notional exposure</u>	21	23
Post-Retirement Benefit Plans   Investment grade bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	108	145
Post-Retirement Benefit Plans   Investment grade bonds   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	22	45
Post-Retirement Benefit Plans   Investment grade bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	86	100
Post-Retirement Benefit Plans   High Yield Bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	90	61
Post-Retirement Benefit Plans   High Yield Bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	90	61
Post-Retirement Benefit Plans   Emerging market bonds		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	40	33
Post-Retirement Benefit Plans   Emerging market bonds   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	40	33
Post-Retirement Benefit Plans   Diversified strategies		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	72	62
Post-Retirement Benefit Plans   Diversified strategies   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	72	62
Post-Retirement Benefit Plans   U.S. stocks		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	55	68
Post-Retirement Benefit Plans   U.S. stocks   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	55	64
Post-Retirement Benefit Plans   U.S. stocks   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>		4
Post-Retirement Benefit Plans   Non-U.S. stocks		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	59	64

Post-Retirement Benefit Plans   Non-U.S. stocks   Level 1		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	58	62
Post-Retirement Benefit Plans   Non-U.S. stocks   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	1	2
Post-Retirement Benefit Plans   Emerging market stocks		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	20	17
Post-Retirement Benefit Plans   Emerging market stocks   Level 2		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	20	17
Post-Retirement Benefit Plans   Private Equity		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	45	60
Post-Retirement Benefit Plans   Private Equity   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	45	60
<u>Total plan assets</u>	45	60
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	60	
<u>Acquisitions</u>	1	55
<u>Dispositions</u>	15	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>	4	33
<u>Gains (losses) relating to assets still held at year-end</u>	(5)	(28)
<u>Fair value of plan assets at the end of the period</u>	45	60
<b><u>Unfunded Status</u></b>		
<u>Fair value of plan assets</u>	45	60
Post-Retirement Benefit Plans   Private Debt		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	6	8
Post-Retirement Benefit Plans   Private Debt   Level 3		
<b><u>Employee Benefits</u></b>		
<u>Total investments</u>	6	8
<u>Total plan assets</u>	6	8
<b><u>Change in plan assets</u></b>		
<u>Fair value of plan assets at the beginning of the period</u>	8	
<u>Acquisitions</u>		8
<u>Dispositions</u>	3	
<b><u>Actual return on plan assets:</u></b>		
<u>Gains relating to assets sold during the year</u>	2	1
<u>Gains (losses) relating to assets still held at year-end</u>	(1)	(1)
<u>Fair value of plan assets at the end of the period</u>	6	8

**Unfunded Status**

Fair value of plan assets 6 8  
Post-Retirement Benefit Plans | Market Neutral Hedge Funds

**Employee Benefits**

Total investments 41 67  
Post-Retirement Benefit Plans | Market Neutral Hedge Funds | Level 2

**Employee Benefits**

Total investments 41 67  
Post-Retirement Benefit Plans | Directional Hedge Funds

**Employee Benefits**

Total investments 24 20  
Post-Retirement Benefit Plans | Directional Hedge Funds | Level 2

**Employee Benefits**

Total investments 24 20  
Post-Retirement Benefit Plans | Real Estate

**Employee Benefits**

Total investments 49 45  
Post-Retirement Benefit Plans | Real Estate | Level 2

**Employee Benefits**

Total investments 21 19  
Post-Retirement Benefit Plans | Real Estate | Level 3

**Employee Benefits**

Total investments 28 26  
Total plan assets 28 26

**Change in plan assets**

Fair value of plan assets at the beginning of the period 26  
Acquisitions 24  
Dispositions 1

**Actual return on plan assets:**

Gains relating to assets sold during the year (1)  
Gains (losses) relating to assets still held at year-end 4 2  
Fair value of plan assets at the end of the period 28 26

**Unfunded Status**

Fair value of plan assets 28 26  
Post-Retirement Benefit Plans | Cash equivalents and short-term investment funds

**Employee Benefits**

Total investments 26 25  
Post-Retirement Benefit Plans | Cash equivalents and short-term investment funds | Level 1

**Employee Benefits**

Total investments 5 5  
Post-Retirement Benefit Plans | Cash equivalents and short-term investment funds | Level 2

**Employee Benefits**

**Total investments**

21 20

Post-Retirement Benefit Plans | Convertible bonds

**Employee Benefits**

**Total investments**

2 30

Post-Retirement Benefit Plans | Convertible bonds | Level 2

**Employee Benefits**

**Total investments**

\$ 2 \$ 30

Quarterly Financial Data (Unaudited) (Details) (USD \$)	3 Months Ended								6 Months Ended	12 Months Ended		
	Dec. 31, 2012	Sep. 30, 2012	Jun. 30, 2012	Mar. 31, 2012	Dec. 31, 2011	Sep. 30, 2011	Jun. 30, 2011	Mar. 31, 2011	Jun. 30, 2012	Dec. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
<b>In Millions, except Per Share data, unless otherwise specified</b>												
<b>Quarterly Financial Data (Unaudited)</b>												
<u>Operating revenues</u>	\$ 4,583	\$ 4,571	\$ 4,612	\$ 4,610	\$ 4,653	\$ 4,596	\$ 4,406	\$ 1,696	\$ 18,376	\$ 15,351	\$ 17,042	
<u>Operating income</u>	666	736	657	654	533	548	480	464	2,713	2,025	2,060	
<u>Net income</u>	233	270	74	200	109	138	115	211	777	573	948	
<u>Basic earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	
<u>Diluted earnings per common share (in dollars per share)</u>	\$ 0.37	\$ 0.43	\$ 0.12	\$ 0.32	\$ 0.18	\$ 0.22	\$ 0.19	\$ 0.69	\$ 1.25	\$ 1.07	\$ 3.13	
<b>Quarterly Financial Data (Unaudited)</b>												
<u>Depreciation expense</u>									15	3,098	2,601	1,228
Correction of Immaterial Error												
<b>Quarterly Financial Data (Unaudited)</b>												
<u>Depreciation expense</u>		\$ (45)							\$ 15		\$ 30	

## Dividends

**12 Months Ended  
Dec. 31, 2012**

### Dividends

### Dividends

**(18) Dividends**

Our Board of Directors declared the following dividends payable in 2012 and 2011:

<u>Date Declared</u>	<u>Record Date</u>	<u>Dividend Per Share</u>	<u>Total Amount</u>	<u>Payment Date</u>
			(in millions)	
November 13, 2012	December 11, 2012	.725	\$454	December 21, 2012
August 21, 2012	September 11, 2012	.725	\$452	September 21, 2012
May 24, 2012	June 5, 2012	.725	\$453	June 15, 2012
February 12, 2012	March 6, 2012	.725	\$452	March 16, 2012
November 15, 2011	December 6, 2011	.725	\$449	December 16, 2011
August 23, 2011	September 6, 2011	.725	\$449	September 16, 2011
May 18, 2011	June 6, 2011	.725	\$436	June 16, 2011
January 24, 2011	February 18, 2011	.725	\$222	February 25, 2011

**Fair Value Disclosure  
(Tables)**

**12 Months Ended  
Dec. 31, 2012**

**Fair Value Disclosure**

Schedule of the three input levels in the hierarchy of fair value measurements

Schedule of carrying amounts and estimated fair values of long-term debt, excluding capital lease obligations, and input levels to determine fair values

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

	<b>Input Level</b>	<b>December 31, 2012</b>		<b>December 31, 2011</b>	
		<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
(Dollars in millions)					
Assets—Investments securities	3	\$—	—	73	73
Liabilities—Long-term debt excluding capital lease obligations	2	\$19,871	21,457	21,124	22,052

## Fair Value Disclosure

12 Months Ended  
Dec. 31, 2012

### [Fair Value Disclosure](#)

### [Fair Value Disclosure](#)

#### (11) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, investments, 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 Financial Accounting Standards Board ("FASB").

We determined the fair values of our long-term notes, 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:

<u>Input Level</u>	<u>Description of Input</u>
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 investment securities, which are reported in noncurrent other assets, and long-term debt, excluding capital lease obligations, as well as the input levels used to determine the fair values:

	<u>Input Level</u>	<u>December 31, 2012</u>		<u>December 31, 2011</u>	
		<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
(Dollars in millions)					
Assets—Investments securities	3	\$—	—	73	73
Liabilities—Long-term debt excluding capital lease obligations	2	\$19,871	21,457	21,124	22,052

In connection with the acquisition of Qwest on April 1, 2011, we acquired auction rate securities that were not actively traded in liquid markets. We designated these securities as available for sale and, accordingly, we reported them on our balance sheet under our "goodwill and other assets—other" line item at fair value on December 31, 2011. During 2012, we sold these securities in increments of \$17 million, \$39 million and \$19 million for a gain of \$14 million. In connection with auction rate securities sales, temporary losses of approximately \$3 million, net of tax, were reclassified into income from other comprehensive income and recognized in our consolidated statement of operations for 2012. During 2012, we recognized an unrealized temporary holding gain on these securities in the amount of \$2 million, net of tax in other comprehensive income. At December 31, 2011, we estimated the fair value of these securities using a probability-weighted cash flow model that considered the coupon rate for the securities, probabilities of default and liquidation prior to maturity, and a discount rate commensurate with the creditworthiness of the issuer.