CENTURYLINK, INC
Form 10-Q
August 07, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
or
o 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)

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 ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

On July 27, 2017, there were 549,609,275 shares of common stock outstanding.

TABLE OF CONTENTS

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

PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions, except per share amounts and shares in thousands)			
OPERATING REVENUES	$4,090	4,398	8,299	8,799
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	1,890	1,949	3,778	3,849
Selling, general and administrative	884	815	1,694	1,652
Depreciation and amortization	949	987	1,829	1,963
Total operating expenses	3,723	3,751	7,301	7,464
OPERATING INCOME	367	647	998	1,335
OTHER (EXPENSE) INCOME				
Interest expense	(320)	(340)	(638)	(671)
Other (expense) income, net	(7)	10	(13)	33
Total other expense, net	(327)	(330)	(651)	(638)
INCOME BEFORE INCOME TAX EXPENSE	40	317	347	697
Income tax expense	23	121	167	265
NET INCOME	$17	196	180	432
BASIC AND DILUTED EARNINGS PER COMMON SHARE				
BASIC	$0.03	0.36	0.33	0.80
DILUTED	$0.03	0.36	0.33	0.80
DIVIDENDS DECLARED PER COMMON SHARE	$0.54	0.54	1.08	1.08
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	541,361	539,627	540,909	539,213
DILUTED	542,151	540,375	541,836	540,281

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
NET INCOME	$17	196	180	432
OTHER COMPREHENSIVE INCOME:				
Items related to employee benefit plans:				
Change in net actuarial loss, net of $(22), $(17), $(42) and $(33) tax	30	28	61	54
Change in net prior service costs, net of $(1), $(1), $(2) and $(2) tax	2	2	4	4
Foreign currency translation adjustment and other, net of $—, $—, $— and $— tax	4	(4)	2	(5)
Other comprehensive income	36	26	67	53
COMPREHENSIVE INCOME	$53	222	247	485

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$342	222
Accounts receivable, less allowance of $174 and $178	1,868	2,017
Assets held for sale	7	2,376
Other	691	547
Total current assets	2,908	5,162
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	40,744	39,194
Accumulated depreciation	(23,161)	(22,155)
Net property, plant and equipment	17,583	17,039
GOODWILL AND OTHER ASSETS		
Goodwill	19,639	19,650
Restricted cash	6,015	2
Customer relationships, less accumulated amortization of $6,716 and $6,318	2,401	2,797
Other intangible assets, less accumulated amortization of $2,176 and $2,042	1,556	1,531
Other, net	823	836
Total goodwill and other assets	30,434	24,816
TOTAL ASSETS	$50,925	47,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$196	1,503
Accounts payable	944	1,179
Accrued expenses and other liabilities		
Salaries and benefits	669	802
Income and other taxes	290	301
Interest	262	260
Other	238	213
Current liabilities associated with assets held for sale	—	419
Advance billings and customer deposits	644	672
Total current liabilities	3,243	5,349
LONG-TERM DEBT	24,881	18,185
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,230	3,471
Benefit plan obligations, net	5,362	5,527
Other	1,123	1,086
Total deferred credits and other liabilities	9,715	10,084
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY		
Preferred stock—non-redeemable, $25.00 par value, authorized 2,000 and 2,000 shares, issued and outstanding 7 and 7 shares	—	—
	550	547

Common stock, $1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 549,743 and 546,545 shares		
Additional paid-in capital	14,637	14,970
Accumulated other comprehensive loss	(2,050)	(2,117)
Accumulated deficit	(51)	(1)
Total stockholders' equity	13,086	13,399
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$50,925	47,017

See accompanying notes to consolidated financial statements.

5

CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2017	2016
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	$180	432
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,829	1,963
Deferred income taxes	(126)	21
Loss on the sale of data centers and colocation business	119	—
Impairment of assets held for sale	11	1
Provision for uncollectible accounts	78	96
Net loss on early retirement of debt	5	—
Share-based compensation	43	40
Changes in current assets and liabilities:		
Accounts receivable	71	(125)
Accounts payable	(112)	74
Accrued income and other taxes	29	208
Other current assets and liabilities, net	(306)	(64)
Retirement benefits	(56)	(28)
Changes in other noncurrent assets and liabilities, net	(92)	(35)
Other, net	69	18
Net cash provided by operating activities	1,742	2,601
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(1,610)	(1,264)
Cash paid for acquisitions	(5)	(24)
Proceeds from the sale of data centers and colocation business, less cash sold	1,473	—
Proceeds from sale of property	48	11
Other, net	—	(2)
Net cash used in investing activities	(94)	(1,279)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	6,608	1,215
Proceeds from financing obligation (Note 3)	378	—
Payments of long-term debt	(1,530)	(1,464)
Net payments on Credit Facility and revolving line of credit	(370)	(410)
Dividends paid	(590)	(586)
Proceeds from issuance of common stock	4	3
Shares withheld to satisfy tax withholdings	(15)	(15)
Net cash provided by (used in) financing activities	4,485	(1,257)
Net increase in cash, cash equivalents and restricted cash	6,133	65
Cash, cash equivalents and restricted cash at beginning of period	224	128
Cash, cash equivalents and restricted cash at end of period	$6,357	193
Supplemental cash flow information:		
Income taxes refunded (paid), net	$(260)	(21)
Interest paid (net of capitalized interest of $41 and $24)	$(624)	(660)

See accompanying notes to consolidated financial statements.

6

CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	$547	544
Issuance of common stock through dividend reinvestment, incentive and benefit plans	3	2
Balance at end of period	550	546
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	14,970	15,178
Issuance of common stock through dividend reinvestment, incentive and benefit plans	3	3
Shares withheld to satisfy tax withholdings	(15)	(14)
Share-based compensation and other, net	38	38
Dividends declared	(359)	—
Balance at end of period	14,637	15,205
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of period	(2,117)	(1,934)
Other comprehensive income	67	53
Balance at end of period	(2,050)	(1,881)
(ACCUMULATED DEFICIT) RETAINED EARNINGS		
Balance at beginning of period	(1)	272
Net income	180	432
Cumulative effect of adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	3	—
Dividends declared	(233)	(589)
Balance at end of period	(51)	115
TOTAL STOCKHOLDERS' EQUITY	$13,086	13,985

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the content otherwise requires and except in Note 4, where such references refer solely to CenturyLink, Inc.

(1) Background

General

We are an integrated communications company engaged primarily in providing an array of services to our residential and business customers. Our communications services include local and long-distance voice, broadband, Multi-Protocol Label Switching ("MPLS"), private line (including special access), Ethernet, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, Voice over Internet Protocol ("VoIP"), information technology and other ancillary services.

On October 31, 2016, we entered into a definitive merger agreement under which we agreed to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. See Note 2—Pending Acquisition of Level 3 for additional information. On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital for a combination of cash and equity. See Note 3—Sale of Data Centers and Colocation Business for additional information.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2016, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first six months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2016.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

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

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

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 9—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

Recently Adopted Accounting Pronouncements

In the second quarter of 2017, we adopted Accounting Standards Update ("ASU") 2016-18, "Restricted Cash (a consensus of the Financial Accounting Standards Board ("FASB") Emerging Issues Task Force)" ("ASU 2016-18").

In the first quarter of 2017, we adopted ASU 2016-09, “Improvements to Employee Share Based Compensation” (“ASU 2016-09”) and ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost” (“ASU 2017-07”). Each of these are described further below.

8

Restricted Cash

On November 17, 2016, the FASB issued ASU 2016-18, which requires that a statement of cash flows explain the change in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents as compared to the previous presentation, which explains only the change in cash and cash equivalents. ASU 2016-18 is effective January 1, 2018, but early adoption is permitted and requires retrospective application of the requirements to all previous periods presented. We early adopted ASU 2016-18 in the second quarter of 2017.

Prior to the financing transactions we entered into in the second quarter of 2017 related to the Level 3 acquisition, as further described in Note 4—Long-Term Debt and Credit Facilities, our restricted cash balances have been immaterial. With the adoption of ASU 2016-18, our "net increase in cash, cash equivalents and restricted cash" presented in our consolidated statements of cash flows for the six months ended June 30, 2017 increased by $6 billion as a result of the inclusion of the restricted cash related to the Level 3 financing transaction, with a corresponding increase in net cash generated from financing activities.

Share-based Compensation

ASU 2016-09 modified the accounting and associated income tax accounting for share-based compensation in order to reduce the cost and complexity associated with previous U.S. generally accepted accounting principles (“GAAP”). The primary provisions of ASU 2016-09 that affect our consolidated financial statements for the three and six months ended June 30, 2017 are:

1. A reclassification of the income tax effect associated with the difference between the expense recognized for share-based payments and the related tax deduction from additional paid-in capital to income tax expense. This change was applied on a prospective basis and resulted in a $1 million decrease in income tax expense for the three months ended June 30, 2017 and a $6 million increase in income tax expense for the six months ended June 30, 2017.

2. We elected to change our accounting policy to account for forfeitures of share-based payment grants as they occur as opposed to our previous policy of estimating the forfeitures on the grant date. The cumulative effect of adopting this policy as of January 1, 2017 resulted in a decrease of $3 million, net of a $2 million tax effect, in accumulated deficit.

Net Periodic Pension and Postretirement Benefit Costs

ASU 2017-07 modified the presentation of net periodic pension and postretirement benefit costs and requires the service cost component to be reported separately from the other components in order to provide more useful information. Under ASU 2017-07, the service cost component of net periodic pension and postretirement benefit costs is required to be presented in the same expense category as the related salary and wages for the employee. The other components of the net periodic pension and postretirement benefit costs are required to be recognized below operating income in other (expense) income, net in our consolidated statements of operations. This change was applied on a retrospective basis to all previous periods to match the current period presentation. This retrospective application resulted in a $3 million and $9 million reduction in operating income and a corresponding decrease in total other expense, net for the three and six months ended June 30, 2016, respectively.

Recent Accounting Pronouncements

Goodwill Impairment

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

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

9

Income Taxes

On October 24, 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other Than Inventory" ("ASU 2016-16"). ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. After adoption of this ASU, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. We are currently reviewing the requirements of this ASU and evaluating the impact on our consolidated financial statements.

We expect to adopt the provisions of ASU 2016-16 on the required adoption date of January 1, 2018. The impact of adopting ASU 2016-16, if any, will be recognized through a cumulative adjustment to (accumulated deficit) retained earnings as of the date of adoption.

Financial Instruments

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

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

Leases

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

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Early adoption of ASU 2016-02 is permitted. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that we may elect to apply. We will implement this new standard on its effective date, but we have not yet decided which practical expedient options we will elect.

We are currently evaluating new lease administrative and accounting systems and are in the process of developing an implementation plan. We are also currently evaluating and assessing the impact ASU 2016-02 will have on us and our consolidated financial statements. As of the date of this report, we believe it is premature to provide any estimate of the impact of adopting ASU 2016-02. Upon the January 1, 2019 implementation of the new accounting standard for Leases (ASU 2016-02), accounting for the failed-sale-leaseback transaction described in Note 3—Sale of Data Centers and Colocation Business, will no longer be applicable based on our facts and circumstances, and the real estate assets and corresponding financing obligation will be derecognized from our consolidated balance sheet.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 replaces virtually all existing GAAP on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs. We currently do not defer any contract acquisition costs, but we expect we will defer certain contract acquisition costs in the future, which could have the impact of lowering our operating expenses. We currently defer contract fulfillment costs only to the extent of any deferred revenue. Under ASU 2014-09, in certain transactions our deferred contract fulfillment costs could exceed our deferred revenues, which could result in an increase in deferred costs, and could also impact the timing on our recognition of these deferred costs.

On July 9, 2015, the FASB approved the deferral of the effective date of ASU 2014-09 by one year until January 1, 2018, which is the date we plan to adopt this standard. ASU 2014-09 may be adopted by applying the provisions of this standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis, which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2018. We have completed our initial assessment of our business and systems requirements, and we are currently developing and implementing a new revenue recognition system to comply with the requirements of ASU 2014-09. Based on this initial assessment, we currently plan to adopt the new revenue recognition standard under the modified retrospective transition method. As of the date of this report, we are not able to provide reasonably accurate estimates of the impact of implementing ASU 2014-09 on the timing of our revenue recognition or the transition adjustment that will be recorded to equity on January 1, 2018.

(2) Pending Acquisition of Level 3

On October 31, 2016, we entered into a definitive merger agreement under which we agreed to acquire Level 3 in a cash and stock transaction. Under the terms of the agreement, Level 3 shareholders will receive $26.50 per share in cash and 1.4286 of CenturyLink shares for each share of Level 3 common stock they own at closing. CenturyLink shareholders are expected to own approximately 51% and Level 3 shareholders are expected to own approximately 49% of the combined company at closing. In addition, CenturyLink will assume Level 3's long-term debt upon closing. On March 31, 2017, Level 3 had outstanding $11 billion of total long-term debt.

The merger agreement was approved by CenturyLink and Level 3 shareholders at special meetings held on March 16, 2017. Completion of the transaction is subject to (i) the receipt of regulatory approvals, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, (ii) approvals from the Federal Communications Commission ("FCC") and certain state regulatory authorities and (iii) other customary closing conditions. Subject to these conditions, we anticipate closing this transaction by the end of the third quarter 2017.

(3) Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital in exchange for cash and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies ("Cyxtera").

We received pre-tax cash proceeds of $1.8 billion, and we have valued our minority stake at $150 million, which was based upon the total equity contribution to the limited partnership. Due to the sale and related restructuring actions we have taken regarding certain subsidiaries involved in the data centers and colocation business, we have estimated a cumulative current tax impact relating to the sale totaling $65 million, $18 million of which was accrued in 2016, $15 million of which was accrued in the three months ended March 31, 2017, and $32 million of which was accrued in the three months ended June 30, 2017.

In connection with our sale of the data centers and colocation business to Cyxtera, we agreed to lease back from Cyxtera a portion of the data center space to provide data hosting services to our customers. Because we have continuing involvement in the business through our minority stake in Cyxtera's parent, we do not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, Leases - Sale-Leaseback Transactions. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera, which we must continue to reflect on our consolidated balance sheet and depreciate over the assets' remaining useful life. We must also treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation on our consolidated balance sheet, and our consolidated results of operations must include imputed revenue associated with the portion of the real estate assets that we have not leased back and imputed interest expense on the financing obligation. A portion of the rent payments required under our leaseback arrangement with Cyxtera are recognized as reductions of the financing obligation, resulting in lower recognized rent expense than the amounts actually paid each period. At the end of the lease term, the remaining imputed financing obligation and the remaining net book value of the real estate assets are derecognized.

The following table reflects the assets sold to and the liabilities assumed by Cyxtera Technologies on May 1, 2017, including our preliminary estimates of the impact of failed-sale-leaseback:

	Dollars in millions
Goodwill	$ 1,141
Property, plant and equipment	1,046
Other intangible assets	249
Other assets	62
Less assets recorded as part of the failed-sale-leaseback	(501)
Total net amount of assets derecognized	$ 1,997
Capital lease obligations	$ 294
Other liabilities	273
Less imputed financing obligations from the failed-sale-leaseback	(648)
Total net imputed liabilities recognized	$ (81)

In addition, based on our preliminary estimates, the failed-sale-leaseback accounting treatment had the following effects on our consolidated results of operations for the three and six months ended June 30, 2017:

	Positive (Negative) Impact to Net Income Dollars in millions
Increase in revenue	$ 12
Decrease in cost of sales	3
Increase in loss on sale of business included in selling, general and administrative expense	(117)
Increase in depreciation expense (one-time)	(44)
Increase in depreciation expense (ongoing)	(10)
Increase in interest expense	(8)
Decrease in income tax expense	63
Decrease in net income	$ (101)

After factoring in the costs to sell the data centers and colocation business, excluding the estimated impacts from the failed-sale-leaseback accounting treatment, the sale resulted in a $2 million loss as a result of the carrying value of the assets sold and liabilities assumed was greater than the value of the proceeds we received. Based on our preliminary estimates of the fair market values of the failed-sale-leaseback assets, the failed-sale-leaseback accounting treatment resulted in an additional loss of $117 million as a result of the requirement to treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation. The combined loss of $119 million is included in selling, general and administrative expenses in our consolidated statement of operations for the six months ended June 30, 2017. The sale also resulted in a significant capital loss carryforward which will be entirely offset by a valuation allowance due to our determination that we are not likely to be able to utilize this carryforward prior to its expiration.

We evaluated our minority stake in the limited partnership and determined that we were not the primary beneficiary of the entity. As a result, we classified our $150 million investment in the limited partnership in other assets on our consolidated balance sheet as of June 30, 2017. In addition to our investment, we have a receivable for $83 million from Cyxtera, classified in other current assets, primarily as a result of the continued efforts to separate the activities of the divested colocation business from our ongoing data hosting services. Over the near term, we expect that the receivable balance from Cyxtera will decline to an immaterial amount. We will continue to have an ongoing obligation to Cyxtera related to our lease of data center space from them. During the three months ended June 30, 2017, we paid rent to Cyxtera totaling $14 million.

Effective November 3, 2016, which is the date we entered into the agreement to sell our data centers and colocation business, we ceased recording depreciation of the property, plant and equipment to be sold and amortization of the business's intangible assets in accordance with applicable accounting rules. Otherwise, we estimate that we would have recorded additional depreciation and amortization expense of $17 million in the second quarter of 2017 and $67 million from January 1, 2017 through May 1, 2017.

(4) Long-Term Debt and Credit Facilities

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

	Interest Rates	Maturities	As of June 30, 2017	As of December 31, 2016
			(Dollars in millions)	
CenturyLink, Inc.				
Senior notes	5.625% - 7.650%	2019 - 2042	$8,125	8,975
Credit Facility and revolving line of credit[1]	—%	2019	—	370
Term loan	2.980%	2019	325	336
Subsidiaries				
CenturyLink Escrow, LLC				
Term loan "B"[2]	1.375%	2025	6,000	—
Qwest Corporation				
Senior notes	6.125% - 7.750%	2021 - 2057	7,294	7,259
Term loan	2.980%	2025	100	100
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation and subsidiaries				
Senior note	7.995%	2036	1,485	1,485
First mortgage bonds	7.125% - 8.770%	2017 - 2025	223	223
Other	9.000%	2019	150	150
Capital lease and other obligations[3]	Various	Various	766	440
Unamortized discounts, net			(166)	(133)
Unamortized debt issuance costs			(206)	(193)
Total long-term debt			25,077	19,993
Less current maturities not associated with assets held for sale			(196)	(1,503)
Less capital lease obligations associated with assets held for sale			—	(305)
Long-term debt, excluding current maturities and capital leases obligations associated with assets held for sale			$24,881	18,185

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(1) The aggregate amount outstanding on our Credit Facility and revolving line of credit borrowings at December 31, 2016 was $370 million with a weighted-average interest rate of 4.500%. At June 30, 2017, we had no borrowings outstanding under our Credit Facility or revolving line of credit. These amounts change on a regular basis.

(2) Represents the fixed rate in effect at June 30, 2017. Please see "Level 3 Financing Credit Agreement" for information on future rates.

(3) As a result of not meeting the sale leaseback accounting requirements, we must treat a certain amount of the pre-tax cash proceeds from the sale of our real estate assets as though it were the result of a financing obligation on our consolidated balance sheet. Also, the capital lease obligations that were shown as held for sale as of December 31, 2016 are retained. Please see Note 3—Sale of Data Centers and Colocation Business for additional information on our preliminary estimate of the financing obligation.

New Issuances

On April 27, 2017, Qwest Corporation issued $575 million aggregate principal amount of 6.75% Notes due 2057 and, on May 5, 2017, issued an additional $85 million aggregate principal amount of such notes pursuant to an over-allotment option in exchange for aggregate net proceeds, after deducting underwriting discounts and other expenses, of $638 million. All of the 6.75% Notes are senior unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after June 15, 2022, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

Repayments

On June 15, 2017, CenturyLink, Inc. paid at maturity the $350 million principal and accrued and unpaid interest due under its 5.15% Notes.

On May 9, 2017, Qwest Corporation redeemed $125 million aggregate principal amount of the remaining $288 million of its 7.5% Notes due 2051, which resulted in an immaterial loss.

On May 4, 2017, Qwest Corporation redeemed all $500 million of its 6.5% Notes due 2017, which resulted in an immaterial loss.

On April 3, 2017, CenturyLink, Inc. paid at maturity the $500 million principal and accrued and unpaid interest due under its 6.00% Notes.

Level 3 Financing Credit Agreement

To fund a substantial portion of its pending acquisition of Level 3, on June 19, 2017, CenturyLink, Inc. caused its wholly-owned subsidiary, CenturyLink Escrow, LLC (the "Escrow Borrower"), to enter into a credit agreement (the "Credit Agreement") with, among others, Bank of America, N.A., as administrative agent and collateral agent, providing for $9.945 billion in senior secured credit facilities (the "New Senior Secured Credit Facilities"). These facilities consist of (i) a $2 billion revolving credit facility (“the New Revolving Credit Facility”), which is expected to have 18 lenders, each with commitments ranging from $32.8 million to $167.8 million; (ii) a $1.575 billion senior secured term loan “A” credit facility, which is expected to have 17 lenders, each with commitments ranging from $28.6 million to $132.2 million; (iii) a $370 million senior secured term loan “A-1” credit facility with CoBank, ACB; and (iv) a $6 billion senior secured term loan “B” credit facility, which was fully funded into escrow on June 19, 2017. These escrowed debt proceeds, together with pre-funded amounts in escrow to cover interest payments, are reflected as “restricted cash” in our consolidated balance sheet as of June 30, 2017.

We intend to use the proceeds of borrowings under the New Senior Secured Credit Facilities, together with other available funds, to fund the cash portion of the consideration and transaction costs payable in connection with the Level 3 acquisition, to refinance existing indebtedness, and for other general corporate purposes. The New Revolving Credit Facility and borrowings under the Term Loan A and A-1 facilities will mature five years after the closing of the Level 3 acquisition. Borrowings under the Term Loan B facility will mature on January 31, 2025.

The proceeds of the borrowings under the Term Loan B facility, net of an original issue discount of 0.5%, will continue to be held in escrow prior to the closing of the Level 3 acquisition. Once all applicable conditions with respect to the Level 3 acquisition and the Credit Agreement have been met, CenturyLink, Inc. (i) will assume the Escrow Borrower’s rights and obligations as the borrower under the New Senior Secured Credit Facilities, (ii) will borrow funds under the Term Loan A and A-1 facilities and (iii) will have the ability to borrow funds under the New Revolving Credit Facility, in each case on the terms and conditions specified in the Credit Agreement.

Loans under the Term Loan A and A-1 facilities and the New Revolving Credit Facility will bear interest at a rate equal to, at our option, the London Interbank Offered Rate (“LIBOR”) or the alternative base rate (each as defined in the Credit Agreement) plus an applicable margin between 2.25% to 3.00% per annum for LIBOR loans and 1.25% to 2.00% per annum for alternative base rate loans, depending on our then current total leverage ratio. Borrowings under the Term Loan B facility bore interest at 1.375% per annum through July 18, 2017 and will bear interest at 2.75% per annum thereafter through the consummation date of the Level 3 acquisition. Upon consummation of the Level 3 acquisition, borrowings under the Term Loan B facility will bear interest at LIBOR plus 2.75% per annum. After the closing of the Level 3 acquisition, loans under each of the term loan facilities will require certain specified quarterly amortization payments and certain specified mandatory prepayments in connection with certain asset sales and debt issuances and out of excess cash flow, among other things, subject in each case to certain significant exceptions.

Upon consummation of the Level 3 acquisition, all of our obligations under the New Senior Secured Credit Facilities are expected to be guaranteed by certain of our subsidiaries. The guarantees by certain of those guarantors are expected to be secured by a first priority security interest in substantially all assets directly owned by them, subject to certain exceptions and limitations.

The New Revolving Credit Facility is designed to replace our current revolving credit facility. A portion of the New Revolving Credit Facility in an amount not to exceed $100 million will be available for swingline loans and a portion in an amount not to exceed $400 million will be available for the issuance of letters of credit. Upon the closing of the Level 3 acquisition, CenturyLink, Inc.'s existing term loan with CoBank, ACB that is scheduled to mature in 2019 will be paid, and CenturyLink, Inc. will enter into term loan "A-1" with the same lender. Upon consummation of the Level 3 acquisition, CenturyLink, Inc. will be obligated to pay certain specified commitment and fees under the New Senior Secured Credit Facilities.

With respect to the Term Loan A and A-1 facilities and the New Revolving Credit Facility, the Credit Agreement requires us to maintain (i) a maximum total leverage ratio of not more than 5.00 to 1.00 between the closing date of the Level 3 acquisition and the second anniversary thereof and 4.75 to 1.00 thereafter and (ii) a minimum consolidated interest coverage ratio of at least 2.00 to 1.00, with such ratios being determined and calculated in the manner described in the Credit Agreement.

The New Senior Secured Credit Facilities contain various representations and warranties and affirmative and negative covenants that apply, in certain circumstances, before and after the closing of the Level 3 acquisition. Such covenants include, among other things and subject to certain significant exceptions, restrictions on our ability to declare or pay dividends, repurchase stock, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with its affiliates, dispose of assets and merge or consolidate with any other person.

There is a risk that the funding conditions for the New Senior Secured Credit Facilities (which include the completion of the Level 3 acquisition) will not be satisfied, and that the debt financing may not be available when required. In addition, we have the right to substitute the proceeds of other debt financing, or commitments for other debt financing, for all or any portion of these credit facilities. As of the date of this report, no such other debt financing has been arranged.

Covenants

As of June 30, 2017, we believe we were in compliance with the provisions and covenants contained in our Credit Facility, Credit Agreement and other material debt agreements.

(5) Severance and Leased Real Estate

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the progression or completion of our post-acquisition integration plans, increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

We report severance liabilities within accrued expenses and other liabilities - salaries and benefits in our consolidated balance sheets and report severance expenses in selling, general and administrative expenses in our consolidated statements of operations. As described in Note 9—Segment Information, we do not allocate these severance expenses to our segments.

We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities - other and report the noncurrent portion in deferred credits and other liabilities - other in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At June 30, 2017, the current and noncurrent portions of our leased real estate accrual were $8 million and $55 million, respectively. The remaining lease terms range from 0.7 years to 8.5 years, with a weighted-average of 7.4 years.

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

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2016	$98	67
Accrued to expense	6	2
Payments, net	(89)	—
Reversals and adjustments	—	(6)
Balance at June 30, 2017	$15	63

(6) Employee Benefits

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

	Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Service cost	$14	15	31	32
Interest cost	105	107	206	214
Expected return on plan assets	(167)	(183)	(333)	(367)
Recognition of prior service credit	(2)	(2)	(4)	(4)
Recognition of actuarial loss	52	45	103	87
Net periodic pension benefit expense (income)	$2	(18)	3	(38)

Net periodic benefit expense for our post-retirement benefit plans included the following components:

	Post-Retirement Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Service cost	$5	5	9	10
Interest cost	25	27	50	55
Expected return on plan assets	(1)	(2)	(1)	(4)
Recognition of prior service cost	5	5	10	10
Net periodic post-retirement benefit expense	$34	35	68	71

We report service cost for our qualified pension and post-retirement benefit plans in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations. Additionally, a portion of the service cost is also allocated to certain assets under construction, which when completed are capitalized and reflected as part of property, plant and equipment in our consolidated balance sheets. The remaining components of net periodic benefit (income) expense are reported in other (expense) income, net in our consolidated statements of operations. The expected rate of return on plan assets is the long-term rate of return we expect to earn on the plans' assets, net of administrative expenses paid from plan assets.

Benefits paid by our qualified pension plan are paid through a trust that holds all plan assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during the remainder of 2017. However, we currently expect to make a voluntary contribution of $100 million to the trust for our qualified pension plan in the third quarter of 2017.

(7) Earnings Per Common Share

Basic and diluted earnings per common share for the three and six months ended June 30, 2017 and 2016 were calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions, except per share amounts, shares in thousands)			
Income (Numerator):				
Net income	$17	196	180	432
Earnings applicable to non-vested restricted stock	—	—	—	—
Net income applicable to common stock for computing basic earnings per common share	17	196	180	432
Net income as adjusted for purposes of computing diluted earnings per common share	$17	196	180	432
Shares (Denominator):				
Weighted-average number of shares:				
Outstanding during period	549,100	545,988	548,359	545,417
Non-vested restricted stock	(7,739)	(6,361)	(7,450)	(6,204)
Weighted-average shares outstanding for computing basic earnings per common share	541,361	539,627	540,909	539,213
Incremental common shares attributable to dilutive securities:				
Shares issuable under convertible securities	10	10	10	10
Shares issuable under incentive compensation plans	780	738	917	1,058
Number of shares as adjusted for purposes of computing diluted earnings per common share	542,151	540,375	541,836	540,281
Basic earnings per common share	$0.03	0.36	0.33	0.80
Diluted earnings per common share	$0.03	0.36	0.33	0.80

Our calculation of diluted earnings per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock. We also exclude unvested restricted stock awards that are antidilutive as a result of unrecognized compensation cost. Such shares averaged 3.1 million and 4.1 million for the three months ended June 30, 2017 and 2016, respectively, and averaged 3.7 million and 3.6 million for the six months ended June 30, 2017 and 2016, respectively.

(8) Fair Value Disclosure

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

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

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

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

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

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

		As of June 30, 2017		As of December 31, 2016	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities—Long-term debt, excluding capital lease and other obligations	2	$24,311	25,230	19,553	19,639

(9) Segment Information

Segment Data

In January 2017, we implemented a new organizational structure designed to further strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as two segments, business and consumer. As a result of this reorganization, we changed the name of the predecessor business segment to "enterprise" segment. We now have the following two reportable segments:

- Enterprise Segment. Consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, Ethernet, broadband, VoIP and other ancillary services. Our legacy services offered to these customers primarily include local and long-distance voice, including the sale of unbundled network elements ("UNEs"), which allow our wholesale customers to use all or part of our network to provide voice and data services to their customers, private line (including special access), switched access and other ancillary services. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related products and professional services, all of which are described further below under the heading "Product and Service Categories"; and
- Consumer Segment. Consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, video (including our Prism TV services) and other ancillary services. Our legacy services offered to these customers include local and long-distance voice and other ancillary services.

In connection with our January 2017 reorganization, we also reassigned our information technology, managed hosting, cloud hosting and hosting area network services from our former business segment to a new non-reportable operating segment.

The results of our two reportable segments, enterprise and consumer, are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Total reportable segment revenues	$3,617	3,929	7,385	7,860
Total reportable segment expenses	1,877	2,011	3,807	3,941
Total reportable segment income	$1,740	1,918	3,578	3,919
Total margin percentage	48 %	49 %	48 %	50 %
Enterprise segment:				
Revenues	$2,215	2,435	4,571	4,877
Expenses	1,285	1,372	2,615	2,691
Income	$930	1,063	1,956	2,186
Margin percentage	42 %	44 %	43 %	45 %
Consumer segment:				
Revenues	$1,402	1,494	2,814	2,983
Expenses	592	639	1,192	1,250
Income	$810	855	1,622	1,733
Margin percentage	58 %	57 %	58 %	58 %

Additional Changes in Segment Reporting

As a part of the implementation of the new organizational structure described in "Segment Data", we made several changes with respect to the assignment of certain expenses to our reportable segments, most notably the reassignment of certain marketing and advertising expenses from the consumer segment to the enterprise segment. We have recast our previously-reported segment results for the three and six months ended June 30, 2016, to conform to the current presentation reflected in this report.

Following the consummation of our pending acquisition of Level 3 (discussed further in Note 2—Pending Acquisition of Level 3), we plan to substantially change our organizational structure. We currently expect that these organizational changes will cause us to change our current reportable segments.

Product and Service Categories

From time to time, we change the categorization of our products and services, and we may make similar changes in the future. During the second quarter of 2017, we determined that certain of our legacy services, specifically our dark fiber network leasing, are more closely aligned with our strategic services than with our legacy services. As a result, we now reflect these operating revenues as strategic services, and we have reclassified certain prior period amounts to conform to this change. The revision resulted in an increase of revenue from strategic services and a corresponding decrease in revenue from legacy services of $12 million and $24 million for the three and six months ended June 30, 2016, respectively.

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

- Strategic services, which include primarily broadband, MPLS, Ethernet, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we offer in 16 markets), VoIP, information technology and other ancillary services;
- Legacy services, which include primarily local and long-distance voice, including the sale of UNEs, private line (including special access), Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and other ancillary services;
- Data integration, which includes the sale of telecommunications equipment located on customers' premises and related products and professional services, such as network management, installation and maintenance of data equipment, the building of proprietary fiber-optic broadband networks for our governmental and business customers and the reselling of software; and

- Other operating revenues, which consist primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the FCC's universal service programs. We also generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Strategic services				
Enterprise high-bandwidth data services (1)	$760	753	1,529	1,491
Other enterprise strategic services (2)	225	328	553	655
IT and managed services (3)	162	161	314	323
Consumer broadband services (4)	661	682	1,322	1,349
Other consumer strategic services (5)	107	118	210	225
Total strategic services revenues	1,915	2,042	3,928	4,043
Legacy services				
Enterprise voice services (6)	558	611	1,131	1,233
Enterprise low-bandwidth data services (7)	302	352	616	717
Other enterprise legacy services (8)	247	269	502	544
Consumer voice services (6)	562	615	1,137	1,249
Other consumer legacy services (9)	71	79	144	159
Total legacy services revenues	1,740	1,926	3,530	3,902
Data integration				
Enterprise data integration	123	122	240	237
IT and managed services data integration	9	1	10	1
Consumer data integration	1	—	1	1
Total data integration revenues	133	123	251	239
Other revenues				
High-cost support revenue (10)	168	173	336	347
Other revenue (11)	134	134	254	268
Total other revenues	302	307	590	615
Total revenues	$4,090	4,398	8,299	8,799

(1) Includes MPLS and Ethernet revenue
(2) Includes primarily colocation, broadband, VOIP, video and fiber lease revenue
(3) Includes primarily IT services, managed hosting, cloud hosting and hosting area network revenue
(4) Includes broadband and related services revenue
(5) Includes video and other revenue
(6) Includes local and long-distance voice revenue
(7) Includes private line (including special access) revenue
(8) Includes UNEs, public access, switched access and other ancillary revenue
(9) Includes other ancillary revenue
(10) Includes CAF Phase 1, CAF Phase 2 and federal and state USF support revenue
(11) Includes USF surcharges and failed-sale-leaseback rental income

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflect the offsetting expense for the amounts we remit to the government agencies. The total amount of such surcharges and transaction taxes that we included in revenues aggregated $133 million and $144 million for the three months ended June 30, 2017 and 2016, respectively, and $263 million and $291 million for the six months ended June 30, 2017 and 2016, respectively. These USF surcharges, where we record revenue, are included in "other" operating revenues and these transaction taxes are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to bill our customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

Allocations of Revenues and Expenses

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

The following table reconciles total reportable segment income to net income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Total reportable segment income	$1,740	1,918	3,578	3,919
Non-reportable segment revenues	171	162	324	324
Other operating revenues	302	307	590	615
Depreciation and amortization	(949)	(987)	(1,829)	(1,963)
Other operating expenses	(897)	(753)	(1,665)	(1,560)
Total other expense, net	(327)	(330)	(651)	(638)
Income before income tax expense	40	317	347	697
Income tax expense	(23)	(121)	(167)	(265)
Net income	$17	196	180	432

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

22

(10) Commitments and Contingencies

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

Pending Matters

CenturyLink and the members of the CenturyLink Board have been named as defendants in a putative shareholder class action lawsuit filed on January 11, 2017 in the 4th Judicial District Court of the State of Louisiana, Ouachita Parish, captioned Jeffery Tomasulo v. CenturyLink, Inc., et al., Docket No. C-20170110. The complaint asserts, among other things, that the members of CenturyLink’s Board allegedly breached their fiduciary duties to the CenturyLink shareholders in approving the Level 3 merger agreement and, more particularly, that: the consideration that CenturyLink agreed to pay to Level 3 stockholders in the transaction is allegedly unfairly high; the CenturyLink directors allegedly had conflicts of interest in negotiating and approving the transaction; and the disclosures set forth in our preliminary joint proxy statement/prospectus filed in December 2016 are insufficient in that they allegedly fail to contain material information concerning the transaction. The complaint seeks, among other things, a declaration that the members of the CenturyLink Board have breached their fiduciary duties, corrective disclosure, rescissory or other damages and equitable relief, including rescission of the transaction. On February 13, 2017, the parties entered into a memorandum of understanding providing for the settlement of the lawsuit. The proposed settlement is subject to court approval, among other conditions, and the amount of the settlement is not material to our consolidated financial statements.

In William Douglas Fulghum, et al. v. Embarq Corporation, et al., filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, was expected to reduce estimated future expenses for the subject benefits by more than $300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefits plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The court certified classes on the claims for vested benefits and age discrimination, but rejected class certification on the claims for breach of fiduciary duty. On October 14, 2011, the Fulghum lawyers filed a new, related lawsuit, Abbott et al. v. Sprint Nextel et al. In Abbott, approximately 1,500 plaintiffs alleged breach of fiduciary duty in connection with the changes in retiree benefits that were at issue in Fulghum. After extensive district court proceedings in Fulghum, and an interlocutory appeal to the United States Court of Appeals for the Tenth Circuit, defendants prevailed in 2015 on all age discrimination claims and on the majority of claims for vested benefits. The district court in Fulghum subsequently granted judgment in favor of defendants on all remaining vested benefits claims, and in July 2016 ordered that any affected class members could appeal this ruling. No appeal was taken, and all claims for vested benefits thus have lapsed. On August 31, 2016, the parties reached a settlement in principle on all remaining claims in Fulghum and Abbott. Since then, a settlement agreement has been finalized and, per its terms, the vast majority of the settlement funds were paid out to the claims administrator in March 2017, with the remainder to be paid out in the next few months. The settlement payments are not material to our consolidated financial statements.

Subsidiaries of CenturyLink, Inc. are among hundreds of companies involved in an industry-wide dispute, raised in nearly 100 federal lawsuits (filed between 2014 and 2016) that have been consolidated in the United States District Court for the District of Northern Texas for pretrial procedures. The disputes relate to switched access charges that local exchange carriers ("LECs") collect from interexchange carriers ("IXCs") for IXCs' use of LEC's access services. In the lawsuits, three IXCs, Sprint Communications Company L.P. ("Sprint"), affiliates of Verizon Communications Inc. ("Verizon") and affiliates of Level 3 Communications LLC ("Level 3"), assert that federal and state laws bar LECs from collecting access charges when IXCs exchange certain types of calls between mobile and wireline devices that are routed through an IXC. Some of these IXCs have asserted claims seeking refunds of payments for access charges previously paid and relief from future access charges. In addition, Level 3 has ceased paying switched access charges on these calls.

In November 2015, the federal court agreed with the LECs and rejected the IXCs' contention that federal law prohibits these particular access charges, and also allowed the IXCs to refile state-law claims. The Verizon entities did not file any new state claims, while Sprint filed state claims substantially similar to those previously dismissed. Based on the November 2015 ruling, we filed suit against Level 3 seeking payment of charges which Level 3 has disputed and withheld. Separately, some of the defendants, including us, have petitioned the FCC to address these issues on an industry-wide basis.

As both an IXC and a LEC, we both pay and assess significant amounts of the charges in question. The outcome of these disputes and lawsuits, as well as any related regulatory proceedings that could ensue, are currently not predictable. If we are required to stop assessing these charges or to pay refunds of any such charges, our financial results could be negatively affected.

CenturyLink, Inc. and several of its subsidiaries are defendants in lawsuits filed over the past few years in the Circuit Court of St. Louis County, Missouri by numerous Missouri municipalities alleging underpayment of taxes. These municipalities are seeking, among other things, (i) a declaratory judgment regarding the extent of our obligations to pay certain business license and gross receipts taxes and (ii) a monetary award of back taxes covering 2007 to the present, plus penalties and interest. In a February 2017 ruling in connection with one of these pending cases, the court entered into a final order awarding plaintiffs $4 million and broadening the tax base on a going forward basis. We filed a notice of appeal on March 3, 2017.We expect the outcome of our appeal to reduce our ultimate exposure, although we can provide no assurances to this effect. In a June 9, 2017 ruling in connection with another one of these pending cases, the court made findings which, if not overturned, will result in a tax liability to us well in excess of the contingent liability we have established. Following further proceedings at the district court, we plan to file an appeal and continue to vigorously defend against these claims. For a variety of reasons, we expect the outcome of our appeal to significantly reduce our ultimate exposure, although we can provide no assurances to this effect.

In June 2017, a former employee filed an employment lawsuit against us claiming that she was wrongfully terminated for alleging that we charged some of our retail customers for products and services they did not authorize. Shortly thereafter, and based in part on the allegations made by the former employee, a series of consumer and shareholder putative class actions were filed against us and we received a shareholder derivative demand. The Minnesota Attorney General also filed a civil suit on behalf of Minnesota consumers alleging that we engaged in improper sales and billing practices. The filing of additional related lawsuits is possible. In late June 2017, the Board of Directors formed a special committee of outside directors to investigate alleged improper sales and billing practices and related matters. The special committee is in the early stages of its investigation.

Other Proceedings and Disputes

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

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

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

The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows.

(11) Other Financial Information

Other Current Assets

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

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Prepaid expenses	$247	206
Materials, supplies and inventory	144	134
Deferred activation and installation charges	105	101
Other	195	106
Total other current assets	$691	547

Selected Current Liabilities

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

	As of June 30, 2017	As of December 31, 2016
	(Dollars in millions)	
Accounts payable	$944	1,179
Other current liabilities:		
Accrued rent	$30	31
Legal contingencies	26	30
Other	182	152
Total other current liabilities	$238	213

Included in accounts payable at June 30, 2017 and December 31, 2016, were (i) $51 million and $56 million, respectively, representing book overdrafts and (ii) $73 million and $196 million, respectively, associated with capital expenditures.

(12) Accumulated Other Comprehensive Loss

Information Relating to 2017

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the three and six months ended June 30, 2017:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at March 31, 2017	$(1,865)	(159)	(62)	(2,086)
Other comprehensive income (loss) before reclassifications	—	—	4	4
Amounts reclassified from accumulated other comprehensive income	29	3	—	32
Net current-period other comprehensive income	29	3	4	36
Balance at June 30, 2017	$(1,836)	(156)	(58)	(2,050)

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2016	$(1,895)	(162)	(60)	(2,117)
Other comprehensive income (loss) before reclassifications	—	—	2	2
Amounts reclassified from accumulated other comprehensive income	59	6	—	65
Net current-period other comprehensive income	59	6	2	67
Balance at June 30, 2017	$(1,836)	(156)	(58)	(2,050)

The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and six months ended June 30, 2017:

Three Months Ended June 30, 2017	Decrease (Increase) in Net Income (Dollars in millions)	Affected Line Item in Consolidated Statement of Operations
Amortization of pension & post-retirement plans[(1)]		
Net actuarial loss	$ 52	Other (expense) income, net
Prior service cost	3	Other (expense) income, net
Total before tax	55	
Income tax benefit	(23)	Income tax expense
Net of tax	$ 32	

Six Months Ended June 30, 2017	Decrease (Increase) in Net Income (Dollars in millions)	Affected Line Item in Consolidated Statement of Operations
Amortization of pension & post-retirement plans[(1)]		
Net actuarial loss	$ 103	Other (expense) income, net
Prior service cost	6	Other (expense) income, net
Total before tax	109	
Income tax benefit	(44)	Income tax expense
Net of tax	$ 65	

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(1) See Note 6—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

Information Relating to 2016

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the three and six months ended June 30, 2016:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at March 31, 2016	$(1,690)	(177)	(40)	(1,907)
Other comprehensive income (loss) before reclassifications	—	—	(4)	(4)
Amounts reclassified from accumulated other comprehensive income	27	3	—	30
Net current-period other comprehensive income	27	3	(4)	26
Balance at June 30, 2016	$(1,663)	(174)	(44)	(1,881)

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2015	$(1,715)	(180)	(39)	(1,934)
Other comprehensive income (loss) before reclassifications	—	—	(5)	(5)
Amounts reclassified from accumulated other comprehensive income	52	6	—	58
Net current-period other comprehensive income	52	6	(5)	53
Balance at June 30, 2016	$(1,663)	(174)	(44)	(1,881)

The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and six months ended June 30, 2016:

Three Months Ended June 30, 2016	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans[1]		
Net actuarial loss	$ 45	Other (expense) income, net
Prior service cost	3	Other (expense) income, net
Total before tax	48	
Income tax benefit	(18)	Income tax expense
Net of tax	$ 30	

Six Months Ended June 30, 2016	Decrease (Increase) in Net Income	Affected Line Item in Consolidated Statement of Operations
	(Dollars in millions)	
Amortization of pension & post-retirement plans[1]		
Net actuarial loss	$ 87	Other (expense) income, net
Prior service cost	6	Other (expense) income, net
Total before tax	93	
Income tax benefit	(35)	Income tax expense

Net of tax	$ 58

(1) See Note 6—Employee Benefits for additional information on our net periodic benefit (expense) income related to our pension and post-retirement plans.

(13) Labor Union Contracts

Approximately 36% of our employees are members of various bargaining units represented by the Communication Workers of America ("CWA") and the International Brotherhood of Electrical Workers ("IBEW"). Approximately 1,000 of our employees are subject to collective bargaining agreements that are scheduled to expire during the remainder of 2017. We recently reached new agreements with the CWA District 7 and IBEW Local 206, which represented approximately 10,000, or 25%, of our employees that were subject to collective bargaining agreements expiring on October 7, 2017. The new agreements were effective June 18, 2017 and will expire on March 28, 2020 and include terms substantially similar to those contained in the prior agreements.

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

Unless the context requires otherwise, references in this report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries.

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

Certain statements in this report constitute forward-looking statements. See the last paragraph of this Item 2 of Part I and "Risk Factors" in Item 1A of Part II of this report for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2016, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations and cash flows for the first six months of the year are not necessarily indicative of the results of operations and cash flows that might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of services to our residential and business customers. Our communications services include local and long-distance voice, broadband, Multi-Protocol Label Switching ("MPLS"), private line (including special access), Ethernet, hosting (including cloud hosting and managed hosting), data integration, video, network, public access, Voice over Internet Protocol ("VoIP"), information technology and other ancillary services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services.

At June 30, 2017, we operated 10.7 million access lines in 37 states and served 5.9 million broadband subscribers. Our methodology for counting access lines and broadband subscribers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

Pending Acquisition of Level 3

On October 31, 2016, we entered into a definitive merger agreement under which we agreed to acquire Level 3 Communications, Inc. ("Level 3") in a cash and stock transaction. Under the terms of the agreement, Level 3 shareholders will receive $26.50 per share in cash and 1.4286 of CenturyLink shares for each share of Level 3 common stock they own at closing. CenturyLink shareholders are expected to own approximately 51% and Level 3 shareholders are expected to own approximately 49% of the combined company at closing. In addition, CenturyLink will assume Level 3's long-term debt upon closing. On March 31, 2017, Level 3 had outstanding $11 billion of total long-term debt.

The merger agreement was approved by CenturyLink and Level 3 shareholders at special meetings held on March 16, 2017. Completion of the transaction is subject to (i) the receipt of regulatory approvals, including the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act, (ii) approvals from the Federal Communications Commission ("FCC") and certain state regulatory authorities and (iii) other customary closing conditions. Subject to these conditions, we anticipate closing this transaction by the end of the third quarter 2017.

During the three and six months ended June 30, 2017, we recognized $18 million and $28 million, respectively, of acquisition and integration expenses associated with our activities related to the pending Level 3 acquisition. We have not yet recognized various other expenses that are contingent on completion of the acquisition. These expenses include financial advisory fees and compensation expense comprised of severance and stock-based compensation for stock-based awards that will vest in connection with the acquisition. Most of these contingent expenses will be recognized in our consolidated financial statements in the period in which the acquisition occurs, with the remainder recognized thereafter. Compensation expense related to retention bonuses is accrued from the date of the offer through the date they are paid. The final amount of compensation expense to be recognized is partially dependent upon personnel decisions that will be made as part of our continuing integration planning. These amounts may be material.

Upon completion of the acquisition, Level 3's assets and liabilities will be revalued and recorded at fair value. The assignment of fair value will require a significant amount of judgment. The use of fair value measures will affect the comparability of our post-acquisition financial information and may make it more difficult to predict earnings in future periods. For example, Level 3 has certain deferred costs and deferred revenues on its balance sheet associated with capacity leases. Based on the accounting guidance for business combinations, these existing deferred costs and deferred revenues are expected to be assigned little or no value in the purchase price allocation process and will thus be eliminated.

For unaudited pro forma condensed combined financial information relating to the acquisition, see the definitive joint proxy statement/prospectus filed with the Securities and Exchange Commission ("SEC") by us on February 13, 2017. This pro forma financial information is based upon preliminary purchase price allocations and various assumptions and estimates made earlier in the year, all of which we urge you to carefully consider in connection with your review of such information.

Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital ("the Purchaser") in exchange for cash and a minority stake in the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies. As part of the transaction, the Purchaser acquired 57 of our data centers and assumed our capital lease obligations, which amounted to $294 million on May 1, 2017, related to the divested properties.

Our colocation business generated revenues (excluding revenue from affiliates) of $210 million from January 1, 2017 through May 1, 2017 and $311 million for the six months ended June 30, 2016, (a small portion of which will be retained by us). We received pre-tax cash proceeds of $1.8 billion.

We do not meet the accounting requirements for a sale-leaseback transaction as described in ASC 840-40, Leases - Sale-Leaseback Transaction. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera. Based on our preliminary estimates, the failed-sale-leaseback accounting treatment had the following effects on our consolidated results of operations for the three and six months ended June 30, 2017:

	Positive (Negative) Impact to Net Income Dollars in millions
Increase in revenue	$ 12
Decrease in cost of sales	3
Increase in loss on sale of business included in selling, general and administrative expense	(117)
Increase in depreciation expense (one-time)	(44)
Increase in depreciation expense (ongoing)	(10)
Increase in interest expense	(8)
Decrease in income tax expense	63
Decrease in net income	$ (101)

After factoring in the costs to sell the data centers and colocation business, excluding the estimated impacts from the failed-sale-leaseback accounting treatment, the sale resulted in a $2 million loss as a result of the carrying value of the assets sold and liabilities assumed was greater than the value of the proceeds we received. Based on our preliminary estimates of the fair market values of the failed-sale-leaseback assets, the failed-sale-leaseback accounting treatment resulted in an additional loss of $117 million as a result of the requirement to treat a certain amount of the pre-tax cash proceeds from the sale of the assets as though it were the result of a financing obligation. The combined loss of $119 million is included in selling, general and administrative expenses in our consolidated statement of operations for the six months ended June 30, 2017. The sale also resulted in a significant capital loss carryforward which will be entirely offset by a valuation allowance due to our determination that we are not likely to be able to utilize this carryforward prior to its expiration.

For the second half of 2017 and all of 2018, we will be required by GAAP to record similar non-cash adjustments to our net income as those preliminary estimates listed above, other than our recording of a one-time loss on the sale of the business in the second quarter of 2017. Upon the January 1, 2019 implementation of the new accounting standard for Leases (ASU 2016-02), which was issued by the FASB in early 2016, this particular accounting treatment will no longer be applicable for this transaction, and the real estate assets and corresponding financing obligation will be derecognized from our consolidated balance sheet.

See Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 1 of Part I of this report for additional information.

New Organizational Structure

In January 2017, we implemented a new organizational structure designed to further strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as two segments, business and consumer. As a result of this reorganization, we changed the name of the predecessor business segment to the "enterprise" segment. We now report the following two segments:

- Enterprise Segment. This segment consists generally of providing strategic, legacy and data integration products and services to small, medium and enterprise business, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our MPLS, Ethernet, broadband, VoIP and other ancillary services. Our legacy services offered to these customers primarily include local and long-distance voice, including the sale of unbundled network elements ("UNEs"), which allow our wholesale customers to use all or part of our network to provide voice and data services to their customers, private line (including special access), switched access and other ancillary services. Our data integration offerings include the sale of telecommunications equipment located on customers' premises and related products and professional services, all of which are described further below under the heading "Product and Service Categories"; and
- Consumer Segment. This segment consists generally of providing strategic and legacy products and services to residential customers. Our strategic products and services offered to these customers include our broadband, video (including our Prism TV services) and other ancillary services. Our legacy services offered to these customers include local and long-distance voice and other ancillary services.

In connection with our January 2017 reorganization, we also reassigned our information technology, managed hosting, cloud hosting and hosting area network services from our former business segment to a new non-reportable operating segment.

Results of Operations

The following table summarizes the results of our consolidated operations for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions except per share amounts)			
Operating revenues	$4,090	4,398	8,299	8,799
Operating expenses	3,723	3,751	7,301	7,464
Operating income	367	647	998	1,335
Total other expense, net	(327)	(330)	(651)	(638)
Income tax expense	23	121	167	265
Net income	$17	196	180	432
Basic earnings per common share	$0.03	0.36	0.33	0.80
Diluted earnings per common share	$0.03	0.36	0.33	0.80

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

	As of June 30, 2017	2016	Increase / (Decrease)	% Change
	(in thousands)			
Operational metrics:				
Total access lines[(1)]	10,733	11,413	(680)	(6)%
Total broadband subscribers[(1)]	5,868	5,990	(122)	(2)%
Total employees	39.8	42.8	(3.0)	(7)%

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

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

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

Operating Revenues

From time to time, we change the categorization of our products and services, and we may make similar changes in the future. During the second quarter of 2017, we determined that certain of our legacy services, specifically our dark fiber network leasing, are more closely aligned with our strategic services than with our legacy services. As described in greater detail in Note 9—Segment Information, these operating revenues are now reflected as strategic services.

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

- Strategic services, which include primarily broadband, MPLS, Ethernet, hosting (including cloud hosting and managed hosting), video (including our facilities-based video services, which we offer in 16 markets), VoIP, information technology and other ancillary services;
- Legacy services, which include primarily local and long-distance voice, including the sale of UNEs, private line (including special access), Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), switched access and other ancillary services;
- Data integration, which includes the sale of telecommunications equipment located on customers' premises and related products and professional services, such as network management, installation and maintenance of data equipment, the building of proprietary fiber-optic broadband networks for our governmental and business customers and the reselling of software; and

- Other operating revenues, which consists primarily of Connect America Fund ("CAF") support payments, Universal Service Fund ("USF") support payments and USF surcharges. We receive federal support payments from both Phase 1 and Phase 2 of the CAF program, and support payments from both federal and state USF programs. These support payments are government subsidies designed to reimburse us for various costs related to certain telecommunications services, including the costs of deploying, maintaining and operating voice and broadband infrastructure in high-cost rural areas where we are not able to fully recover our costs from our customers. We also collect USF surcharges based on specific items we list on our customers' invoices to fund the Federal Communications Commission's ("FCC") universal service programs. We also generate other operating revenues from the leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, these revenues are not included in our segment revenues.

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

	Three Months Ended June 30,		Increase / (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Strategic services	$1,915	2,042	(127)	(6)%
Legacy services	1,740	1,926	(186)	(10)%
Data integration	133	123	10	8 %
Other	302	307	(5)	(2)%
Total operating revenues	$4,090	4,398	(308)	(7)%

	Six Months Ended June 30,		Increase / (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Strategic services	$3,928	4,043	(115)	(3)%
Legacy services	3,530	3,902	(372)	(10)%
Data integration	251	239	12	5 %
Other	590	615	(25)	(4)%
Total operating revenues	$8,299	8,799	(500)	(6)%

Our total operating revenues decreased by $308 million, or 7%, and by $500 million, or 6%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The decrease in our total operating revenues for both periods was primarily due to lower legacy services revenues, which decreased by $186 million, or 10%, and by $372 million, or 10%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. Our total operating revenues were also impacted from the sale of our data centers and colocation business, which closed on May 1, 2017, and resulted in a reduction of colocation revenues of approximately $100 million for both the three and six months ended June 30, 2017 as compared to the comparable prior year periods. Our colocation revenues are reported in our strategic services revenue.

The decline in our legacy services revenues for both periods reflects the continuing loss of access lines and loss of long-distance revenues primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including data and wireless communication services, and reductions in the volume of our private line (including special access) services. We estimate that the rate of our access lines losses will be between 4.5% and 6.5% over the full year of 2017.

Excluding the above-referenced reduction in colocation revenues, our strategic services revenues decreased by $22 million for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 primarily due to the loss of broadband subscribers, declines in our satellite video services revenues due to the restructuring of one of our contractual agreements and reductions in Ethernet rates and managed hosting volumes. These declines were partially offset by increased demand for our MPLS and cloud hosting services. Excluding the reduction in colocation revenues, our strategic services revenues decreased by $10 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to the same factors decreasing second quarter 2017 strategic services revenues. These declines were partially offset by increased demand for our MPLS, facilities-based video services and cloud hosting services.

Data integration revenues, which are typically more volatile than our other sources of revenues, increased by $10 million, or 8%, and by $12 million, or 5%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The increase in our data integration revenues for both periods was primarily due to increases in equipment and software sales to IT and managed services customers.
Other operating revenues decreased by $5 million, or 2%, and by $25 million, or 4%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016 primarily due to a reduction in high-cost support revenues and lower federal USF surcharge revenues as a result of decreases in rates for both periods. These decreases were partially offset by an increase in imputed rental income required to be reflected in our consolidated statement of operations as a result of the application of failed-sale-leaseback accounting as further described in Note 3—Sale of Data Centers and Colocation Business.
Further analysis of our segment operating revenues and trends impacting our performance are provided below in "Segment Results."
Operating Expenses
The following tables summarize our consolidated operating expenses:

	Three Months Ended June 30,		Increase / (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	$1,890	1,949	(59)	(3)%
Selling, general and administrative	884	815	69	8 %
Depreciation and amortization	949	987	(38)	(4)%
Total operating expenses	$3,723	3,751	(28)	(1)%

	Six Months Ended June 30,		Increase / (Decrease)	% Change
	2017	2016		
	(Dollars in millions)			
Cost of services and products (exclusive of depreciation and amortization)	$3,778	3,849	(71)	(2)%
Selling, general and administrative	1,694	1,652	42	3 %
Depreciation and amortization	1,829	1,963	(134)	(7)%
Total operating expenses	$7,301	7,464	(163)	(2)%

Cost of Services and Products (exclusive of depreciation and amortization)
Cost of services and products (exclusive of depreciation and amortization) decreased by $59 million, or 3%, and by $71 million, or 2%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The decrease in our cost of services and products for both periods was primarily due to reductions in salaries and wages and employee benefits from lower headcount, real estate and power expenses from the sale of the colocation business and data centers and USF rates, which were partially offset by increases in network expense, facility costs and content costs for Prism TV.
Selling, General and Administrative
Selling, general and administrative expenses increased by $69 million, or 8%, and by $42 million, or 3%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The increase in our selling, general and administrative expenses was primarily due to losses recognized from the sale of our data centers and colocation business and the related failed-sale-leaseback as further described in Note 3—Sale of Data Centers and Colocation Business and increases in Level 3 acquisition and integration costs described above under "Pending Acquisition of Level 3". These increases were partially offset by reductions in salaries and wages from lower headcount, external commissions and bad debt expense.

Depreciation and Amortization

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

	Three Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Depreciation	$673	675	(2)	— %
Amortization	276	312	(36)	(12)%
Total depreciation and amortization	$949	987	(38)	(4)%

	Six Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Depreciation	$1,278	1,336	(58)	(4)%
Amortization	551	627	(76)	(12)%
Total depreciation and amortization	$1,829	1,963	(134)	(7)%

Depreciation expense decreased by $2 million, or less than 1%, and by $58 million, or 4%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. Depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain network assets, the addition of new plant and our agreement to sell our data centers and colocation business. The depreciation expense related to our plant for the three and six months ended June 30, 2017 was lower than the depreciation expense for the three and six months ended June 30, 2016 due to full depreciation and retirement of certain plant placed in service prior to 2017. Additionally, we ceased depreciating property, plant and equipment assets of our data centers and colocation business when we entered into the agreement to sell that business. We estimate that we would have recorded additional depreciation expense of $14 million from April 1, 2017 to May 1, 2017 and $54 million from January 1, 2017 through May 1, 2017, related to the property, plant and equipment sold to Cyxtera Technologies. These decreases were partially offset by a $54 million increase in depreciation expense attributable to new plant placed in service since June 30, 2016 and as a result of not meeting sale-leaseback accounting requirements, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera, therefore we are required to reflect a portion of the real estate assets on our consolidated balance sheet and depreciate these assets over its useful life. As further described in Note 3—Sale of Data Centers and Colocation Business, of the $54 million increase in depreciation expense on these real estate assets, $44 million will not recur in future periods.

Amortization expense decreased by $36 million, or 12%, and by $76 million, or 12%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The decrease in amortization expense was primarily due to the use of accelerated amortization for a portion of our customer relationship assets and our agreement to sell our data centers and colocation business. The effect of using an accelerated amortization method results in an incremental decline in expense each period as the intangible assets amortize. We ceased amortizing the intangible assets of our data centers and colocation business when we entered into the agreement to sell that business. We estimate that we would have recorded additional amortization expense of $3 million from April 1, 2017 to May 1, 2017 and $13 million from January 1, 2017 through May 1, 2017, related to the intangible assets included in the colocation business sold to Cyxtera Technologies. In addition, amortization of capitalized software was lower due to software becoming fully amortized faster than new software was acquired or developed.

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

Other Consolidated Results

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

	Three Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Interest expense	$(320)	(340)	(20)	(6)%
Other (expense) income, net	(7)	10	(17)	nm
Total other expense, net	$(327)	(330)	(3)	(1)%
Income tax expense	$23	121	(98)	(81)%

	Six Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Interest expense	$(638)	(671)	(33)	(5)%
Other (expense) income, net	(13)	33	(46)	nm
Total other expense, net	$(651)	(638)	13	2 %
Income tax expense	$167	265	(98)	(37)%

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

Interest Expense

Interest expense decreased by $20 million, or 6%, and by $33 million, or 5%, for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The decline in interest expense was primarily due to a reduction in the amount of coupon interest on senior notes, including a decrease in interest due to the issuance of $1 billion of new debt in April 2016 in advance of a debt maturity in June 2016, and an increase in the amount of interest capitalized as a component of property, plant and equipment, which were partially offset by the recognition of imputed interest expense resulting from the failed-sale-leaseback as further described in Note 3—Sale of Data Centers and Colocation Business.

Other (Expense) Income, Net

Other (expense) income, net reflects certain items not directly related to our core operations, including our share of income from partnerships we do not control, interest income, gains and losses from non-operating asset dispositions, foreign currency gains and losses and components of net periodic pension and postretirement benefit costs. Other (expense) income, net decreased by $17 million and by $46 million for the three and six months ended June 30, 2017, respectively, as compared to the three and six months ended June 30, 2016. The expected return on assets for our pension and post-retirement plans was lower in 2017 as compared to 2016, which resulted in us recording pension and post-retirement expense in 2017 as compared to recording pension and post-retirement income in 2016. See Note 1—Background, "Recently Adopted Accounting Pronouncements" on our adoption of ASU 2017-07 and Note 6—Employee Benefits for additional information.

Income Tax Expense

For the three months ended June 30, 2017 and 2016, our effective income tax rate was 57.5% and 38.2%, respectively. For the six months ended June 30, 2017 and 2016, our effective income tax rate was 48.1% and 38.0%, respectively. The effective tax rates for the three and six months ended June 30, 2017 were significantly impacted by the sale and related restructure actions we have taken with respect to the data centers and colocation business as described in Note 3—Sale of Data Centers and Colocation Business. These restructure actions resulted in rate increases of 20.5% and 7.9% for the three and six months ended June 30, 2017. Additionally, the effective tax rates for the three and six months ended June 30, 2017, include the tax impact of certain employee stock-based compensation transactions and the effects of changes in state apportionment factors. The effective tax rates for the three and six months ended June 30, 2016 include the effects of changes in state apportionment factors and research and development credits.

Segment Results
General
For financial reporting purposes, we have determined that we have two reportable segments, enterprise and consumer. The results of our reportable segments, enterprise and consumer, are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(Dollars in millions)			
Total reportable segment revenues	$3,617	3,929	7,385	7,860
Total reportable segment expenses	1,877	2,011	3,807	3,941
Total reportable segment income	1,740	1,918	3,578	3,919
Total margin percentage	48 %	49 %	48 %	50 %
Enterprise segment:				
Revenues	$2,215	2,435	4,571	4,877
Expenses	1,285	1,372	2,615	2,691
Income	930	1,063	1,956	2,186
Margin percentage	42 %	44 %	43 %	45 %
Consumer segment:				
Revenues	$1,402	1,494	2,814	2,983
Expenses	592	639	1,192	1,250
Income	810	855	1,622	1,733
Margin percentage	58 %	57 %	58 %	58 %

Allocation of Revenues and Expenses
Our segment revenues include all revenues from our sale of strategic services, legacy services and data integration products and services as described in more detail above under "Operating Revenues." Segment revenues are based upon each customer's classification. We report our segment revenues based upon all services provided to that segment's customers. For information on how we allocate expenses to our segments, as well as other additional information about our segments, see Note 9—Segment Information to our consolidated financial statements in Item 1 of Part I of this report.
Enterprise Segment
The operations of our enterprise segment have been impacted by several significant trends, including those described below:

- Strategic services. Our mix of total enterprise segment revenues continues to migrate from legacy services to strategic services as our small, medium and enterprise business, wholesale and governmental customers increasingly demand integrated communications services. Competition is generally intense with respect to all of our strategic services, and particularly competitive with regards to broadband, hosting, MPLS and Ethernet services. We compete against other telecommunication providers, as well as other regional and national carriers, other data transport providers, cable companies, technology companies, cloud companies, wireless companies, CLECs and other enterprises, some of whom are substantially larger than us. Competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. Customers' demand for new technology has also increased the number of competitors offering strategic services similar to ours. Price compression resulting from these above-mentioned competitive pressures has negatively impacted the operating margins of our strategic services, and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services, but to a lesser extent than price compression and customer disconnects. These operating costs include employee costs, sales commissions, software costs on selected services, installation costs and third-party facility costs. We believe increases in operating costs have generally had a greater impact on the operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed support functions.

- Legacy services. We continue to experience customers migrating away from our higher margin legacy services into lower margin strategic services. Our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression. In particular, our access, local services and long-distance revenues have been, and we expect will continue to be, adversely affected by customer migration to more technologically advanced services offered by us and our competitors, an increase in the use of non-voice communications and a related decrease in the demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, many of our enterprise segment customers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued declines of our legacy services revenues. Demand for our private line services (including special access) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration to higher-speed services. Although our legacy services generally face fewer direct competitors than certain of our strategic services, customer migration and, to a lesser degree, price compression from competitive pressures have negatively impacted our legacy revenues and the operating margins of our legacy services. We expect this trend to continue. Operating costs, such as installation costs and third-party facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer loss, customer migration and price compression. Operating costs also tend to impact our legacy services to a lesser extent than strategic services as noted above.
- Data integration. We expect both data integration revenue and the related costs will fluctuate from year to year as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have experienced substantial budget cuts over the past several years, with the possibility of additional future budget cuts. Our data integration operating margins are typically smaller than most of our other offerings.
- Operating efficiencies. We continue to evaluate our segment operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas. We also expect our enterprise segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

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

	Enterprise Segment Three Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Segment revenues:				
Strategic services				
High-bandwidth data services (1)	$760	753	7	1 %
Other strategic services (2)	225	328	(103)	(31)%
Total strategic services revenues	985	1,081	(96)	(9)%
Legacy services				
Voice services (3)	558	611	(53)	(9)%
Low-bandwidth data services (4)	302	352	(50)	(14)%
Other legacy services (5)	247	269	(22)	(8)%
Total legacy services revenues	1,107	1,232	(125)	(10)%
Data integration	123	122	1	1 %
Total revenues	2,215	2,435	(220)	(9)%
Segment expenses	1,285	1,372	(87)	(6)%
Segment income	$930	1,063	(133)	(13)%
Segment margin percentage	42 %	44 %		

(1) Includes MPLS and Ethernet revenue
(2) Includes primarily colocation, broadband, VOIP, video and fiber lease revenue
(3) Includes local and long-distance voice revenue
(4) Includes private line (including special access) revenue
(5) Includes UNEs, public access, switched access and other ancillary revenue

	Enterprise Segment Six Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Segment revenues:				
Strategic services				
High-bandwidth data services (1)	$1,529	1,491	38	3 %
Other strategic services (2)	553	655	(102)	(16)%
Total strategic services revenues	2,082	2,146	(64)	(3)%
Legacy services				
Voice services (3)	1,131	1,233	(102)	(8)%
Low-bandwidth data services (4)	616	717	(101)	(14)%
Other legacy services (5)	502	544	(42)	(8)%
Total legacy services revenues	2,249	2,494	(245)	(10)%
Data integration	240	237	3	1 %
Total revenues	4,571	4,877	(306)	(6)%
Segment expenses	2,615	2,691	(76)	(3)%
Segment income	$1,956	2,186	(230)	(11)%
Segment margin percentage	43 %	45 %		

(1) Includes MPLS and Ethernet revenue
(2) Includes primarily colocation, broadband, VOIP, video and fiber lease revenue
(3) Includes local and long-distance voice revenue
(4) Includes private line (including special access) revenue
(5) Includes UNEs, public access, switched access and other ancillary revenue

Segment Revenues

Enterprise segment revenues decreased by $220 million, or 9%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $306 million, or 6%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease in enterprise segment revenues for both periods was primarily due to declines in our legacy services revenues and a reduction of $103 million in our colocation revenues resulting from the sale of the colocation business and data centers on May 1, 2017. The decline in legacy services revenues was attributable to a reduction in local service access lines and lower volumes of long-distance and access services resulting from the competitive and technological factors noted above and to reductions in the volume of private line (including special access) services. Excluding the reduction in colocation revenues, our strategic services revenues for the three months ended June 30, 2017 increased by $9 million primarily due to an increase in MPLS unit growth, and for the six months ended June 30, 2017 increased by $41 million primarily due to an increase in MPLS unit growth and higher VOIP volumes. For both periods, these increases were partially offset by reductions in Ethernet rates and losses of broadband subscribers.

Segment Expenses

Enterprise segment expenses decreased by $87 million, or 6%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $76 million, or 3%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease in our enterprise segment expenses for the three months ended June 30, 2017 was primarily due to decreases in salaries and wages and employee benefits, real estate and power costs due to the sale of the colocation business and data centers and bad debt expense, which were partially offset by increases in facility costs. The decrease in our enterprise segment expenses for the six months ended June 30, 2017 was primarily due to decreases in salaries and wages and employee benefits, real estate and power costs due to the sale of the colocation business and data centers and marketing and advertising expenses, which were partially offset by increases in facility costs.

Segment Income

Enterprise segment income decreased by $133 million, or 13%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $230 million, or 11%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decline in our enterprise segment income for both periods was due predominantly to the loss of customers and lower service volumes in our legacy services.

Consumer Segment

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

- Strategic services. In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. As a result, we continue to invest in our broadband network, which allows for the delivery of higher-speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most consumers already have broadband services and growth opportunities are limited. Moreover, as described further in Item 1A of Part II of this report, certain of our competitors continue to provide broadband services at higher average transmission speeds than ours or through advanced wireless data service offerings, both of which we believe have impacted the competitiveness of certain of our broadband offerings. Our associated content costs continue to increase and the video business has become more competitive as more options become available to customers to access video services through new technologies. The demand for new technology has increased the number of competitors offering strategic services similar to ours. Price compression and new technology from our competitors have negatively impacted the operating margins of our strategic services, and we expect this trend to continue. Operating costs also impact the operating margins of our strategic services. These operating costs include employee costs, marketing and advertising expenses, sales commissions, Prism TV content costs and installation costs. We believe increases in operating costs have generally had a greater impact on our operating margins of our strategic services as compared to our legacy services, principally because our strategic services rely more heavily upon the above-listed costs.
- Legacy services. Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses and lower long-distance voice service volumes. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of higher margin services associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below. Customer migration and price compression from competitive pressures have not only negatively impacted our legacy revenues, but they have also negatively impacted the operating margins of our legacy services and we expect this trend to continue. Operating costs, such as installation costs and facility costs, have also negatively impacted the operating margins of our legacy services, but to a lesser extent than customer migration and price compression. Operating costs also tend to impact our legacy services margins to a lesser extent than our strategic services margins as noted above.
- Service bundling and product promotions. We offer our customers the ability to bundle multiple products and services. These customers can bundle broadband services with other services such as local voice, video, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment due to the related discounts.
- Operating efficiencies. We continue to evaluate our segment operating structure and focus. This involves balancing our workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

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

	Consumer Segment Three Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Segment revenues:				
Strategic services				
Broadband services (1)	$661	682	(21)	(3)%
Other strategic services (2)	107	118	(11)	(9)%
Total strategic services revenues	768	800	(32)	(4)%
Legacy services				
Voice services (3)	562	615	(53)	(9)%
Other legacy services (4)	71	79	(8)	(10)%
Total legacy services revenues	633	694	(61)	(9)%
Data integration	1	—	1	nm
Total revenues	1,402	1,494	(92)	(6)%
Segment expenses	592	639	(47)	(7)%
Segment income	$810	855	(45)	(5)%
Segment margin percentage	58 %	57 %		

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

(1) Includes broadband and related services revenue
(2) Includes video and other revenue
(3) Includes local and long-distance voice revenue
(4) Includes other ancillary revenue

	Consumer Segment Six Months Ended June 30, 2017	2016	Increase / (Decrease)	% Change
	(Dollars in millions)			
Segment revenues:				
Strategic services				
Broadband services (1)	$1,322	1,349	(27)	(2)%
Other strategic services (2)	210	225	(15)	(7)%
Total strategic services revenues	1,532	1,574	(42)	(3)%
Legacy services				
Voice services (3)	1,137	1,249	(112)	(9)%
Other legacy services (4)	144	159	(15)	(9)%
Total legacy services revenues	1,281	1,408	(127)	(9)%
Data integration	1	1	—	nm
Total revenues	2,814	2,983	(169)	(6)%
Segment expenses	1,192	1,250	(58)	(5)%
Segment income	$1,622	1,733	(111)	(6)%
Segment margin percentage	58%	58%		

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

(1) Includes broadband and related services revenue
(2) Includes video and other revenue
(3) Includes local and long-distance voice revenue
(4) Includes other ancillary revenue

Segment Revenues

Consumer segment revenues decreased by $92 million, or 6%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $169 million, or 6%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease in our strategic services revenues for the three months ended June 30, 2017 was primarily due to a decline in the number of broadband subscribers and a reduction in our satellite video services revenues due to the restructuring of one of our contractual agreements. The decrease in our strategic services revenues for the six months ended June 30, 2017 was primarily due to the same factors decreasing our second quarter revenues, which were partially offset by an increase in our Prism TV revenues due to an increase in subscription rates. The decrease in our legacy services revenues for both periods was primarily due to lower local and long-distance voice service volumes associated with access line losses resulting from the competitive and technological factors noted above.

Segment Expenses

Consumer segment expenses decreased by $47 million, or 7%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $58 million, or 5%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease in our consumer segment expenses for the three months ended June 30, 2017 was primarily due to decreases in salaries and wages and employee benefits, external commissions and bad debt expense, which were partially offset by increases in costs related to Prism TV (resulting from higher content volume and rates). The decrease in our consumer segment expenses for the six months ended June 30, 2017 was primarily due to the same factors decreasing our second quarter expenses, as well as reductions in facility costs. These decreases were partially offset by increases in costs related to Prism TV as noted above.

Segment Income

Consumer segment income decreased by $45 million, or 5%, for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016 and decreased by $111 million, or 6%, for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016. The decrease for both periods was primarily due to loss of customers for our strategic and legacy services.

Liquidity and Capital Resources

Overview

At June 30, 2017, we held cash and cash equivalents of $342 million, and we had $2 billion of borrowing capacity available under our $2 billion amended and restated revolving credit facility (referred to as our "Credit Facility", which is described further below). At June 30, 2017, cash and cash equivalents of $46 million were held in foreign bank accounts for the purpose of funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

Our executive officers and our Board of Directors periodically review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from operating activities, and our principal cash requirements include operating expenses, capital expenditures, income taxes, debt repayments, dividends, periodic stock repurchases, periodic pension contributions and other benefits payments. As discussed further below, the amount of cash we paid during the first half of 2017 for income taxes and retiree healthcare benefits increased substantially compared to prior periods, and we currently expect these spending levels to remain at higher levels during the second half of 2017, although lower than the first half 2017 levels. The impact of the sale of our data centers and colocation business and the potential impact of the pending acquisition of Level 3 are further described below.

Based on our current capital allocation objectives, during the last six months of 2017 we anticipate expending approximately $1 billion of cash for capital investment in property, plant and equipment and almost $293 million per quarter of dividends on our common stock (based on the assumptions described below under "Dividends"), assuming solely for these purposes no impact from the Level 3 acquisition. During the remainder of 2017, we have debt maturities of $71 million, scheduled debt principal payments of $11 million and capital lease and other fixed payments of $38 million, excluding liabilities that we expect to assume later in 2017 in connection with consummating the Level 3 acquisition.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We typically use our Credit Facility as a source of liquidity for operating activities and our other cash requirements. For additional information, see "Risk Factors".

Impact of the Sale of Our Data Centers and Colocation Business

As discussed in Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 1 of Part I of this report, we sold our data centers and colocation business on May 1, 2017 and received pre-tax cash proceeds of $1.8 billion from the sale. Based on preliminary estimates, the cumulative current tax impact of this transaction is $65 million; of which $18 million, was recognized as current tax expense in 2016 and $47 million in 2017. The 2016 current tax expense amount impacted our cash taxes paid in the second quarter of 2017, while the 2017 current tax expense amount is expected to impact our cash taxes paid in the third and fourth quarters of 2017. The tax amounts were triggered by the sale and certain corporate restructuring actions we took regarding certain subsidiaries involved in the colocation business. In addition to no longer receiving the cash flows generated by the colocation business, we also make ongoing rent payments to lease back a portion of the data center space from Cyxtera to provide data hosting services to our customers, thereby, reducing our future profitability and liquidity.

Potential Impact of the Pending Acquisition of Level 3

If, as anticipated, we complete the acquisition of Level 3 by the end of third quarter of 2017 in the manner discussed in Note 2—Pending Acquisition of Level 3 to our consolidated financial statements in Item 1 of Part I of this report, we expect our operations, financial position and cash flows to be significantly impacted following the closing of the transaction. As discussed in greater detail in Note 4—Long-Term Debt and Credit Facilities, we expect to borrow a significant amount of new debt to finance the Level 3 acquisition, and expect to assume approximately $11 billion of Level 3's outstanding debt upon consummating the acquisition. With this additional debt, we would expect our cash paid for interest payments to be significantly higher following the closing of the transaction. We project that our capital expenditures would increase significantly. Based on information included in Level 3's publicly available annual guidance regarding its estimated 2017 capital expenditures, we anticipate that Level 3 will spend approximately $100 million to $125 million per month on average, in the period prior to closing, but that amount could be significantly different than amounts that we expect to spend in the months following the closing of the transaction. In connection with consummating the acquisition, we would expect to issue approximately 538 million shares of our common stock to Level 3 stockholders (including shares of CenturyLink common stock expected to be issued in exchange for outstanding Level 3 equity awards), based on the number of Level 3 shares held of record on January 25, 2017. Based on our current quarterly common stock dividend rate of $0.54 per share, this issuance of additional CenturyLink shares would result in an additional incremental dividend payment of approximately $290 million per quarter. Also, we expect our upcoming cash payments for transaction costs, and integration and acquisition costs to be material primarily following the closing of the transaction. These above factors may result in a net cash outflow for the period of 2017 following the closing. However, we expect we will have sufficient liquidity to more than offset the impact of the net cash outflows. As noted below under "Debt and Other Financing Arrangements," the Level 3 transaction is expected to adversely impact our credit ratings.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations (such as our CAF Phase 2 infrastructure buildout requirements). Based on current circumstances, we estimate that our total capital expenditures for the last half of 2017 will be approximately $1 billion, inclusive of CAF Phase 2 related capital expenditures, but exclusive of additional capital expenditures with respect to Level 3's operations that we expect to acquire later this year.

Our capital expenditures continue to be focused on our strategic services. For more information on our capital spending, see "Historical Information—Investing Activities" below and Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Debt and Other Financing Arrangements

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

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

Agency	CenturyLink, Inc.	Qwest Corporation
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc.	Ba3	Ba1
Fitch Ratings	BB+	BBB-

Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades of CenturyLink, Inc.'s senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of our borrowing under the Credit Facility. Moreover, any additional downgrades of CenturyLink, Inc.'s or Qwest

Corporation's senior unsecured debt ratings could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

Following the announcement of our pending acquisition of Level 3, Standard & Poor's indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB has been placed on watch with negative implications, Moody’s Investors Service, Inc. indicated that CenturyLink, Inc.'s current senior unsecured debt rating of Ba3 has been placed on review for downgrade and Fitch Ratings indicated that CenturyLink, Inc.'s current unsecured senior debt rating of BB+ has been placed on negative watch. Additionally, Qwest Corporation's current unsecured senior debt rating of Ba1 has been placed on review for downgrade by Moody's Investors Service, Inc. and its current unsecured senior debt rating of BBB- has been placed on negative watch by Fitch Ratings. A downgrade of Qwest Corporation's rating by Fitch Ratings (or Standard & Poor's) would result in Qwest Corporation no longer being viewed as an "investment grade" issuer under the prevailing definition of that term. It is expected that any downgrades would be made only following the completion of the Level 3 acquisition.

Net Operating Loss Carryforwards

In recent years, we have been using Net Operating Loss ("NOL") carryforwards to offset a large portion of our federal taxable income. As of December 31, 2016, we have substantially utilized our federal NOL carryforwards. A portion of these remaining NOL carryforwards are subject to the limitations imposed by section 382 of the Internal Revenue Code ("Code"). As a result of the substantial utilization of our NOL carryforwards in prior years and the limitations imposed on portions of the remaining NOL carryforwards, the amounts of our cash flows dedicated to or required for the payment of federal taxes has increased and is expected to continue to increase substantially during 2017 prior to our anticipated acquisition of additional NOLs later this year in connection with the Level 3 acquisition, as described further below. The amounts of our near-term tax payments will depend upon many factors, including our future earnings and tax circumstances. Based on current laws (including the extension of bonus depreciation) and our current estimates of 2017 earnings, we estimate our cash income tax liability related to 2017 will be between $400 million to $500 million, exclusive of (i) our preliminary estimate of the cumulative current tax impacts of $65 million relating to the sale of our data centers and colocation business and (ii) the impact of acquiring Level 3.

Based on information publicly available, as of December 31, 2016, Level 3 had approximately $9.0 billion of NOL carryforwards that we expect to acquire in connection with the Level 3 transaction. We cannot assure you that we will be able to use these NOL carryforwards fully. See "Risk Factors—Risk Relating to Our Pending Acquisition of Level 3—We cannot assure you, whether, when or in what amounts we will be able to use Level 3's net operating loss carryforwards following the Level 3 acquisition" in Item 1A of Part II of this report.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate is $0.54 per share, as approved by our Board of Directors, which we believe is a dividend rate per share that gives us the flexibility to balance our multiple objectives of managing our business, paying our fixed commitments and returning cash to our shareholders. Assuming continued payment during 2017 at this rate of $0.54 per share, our average total dividends paid each quarter prior to the Level 3 acquisition would be $293 million based on our current number of outstanding shares (which does not reflect shares that we expect to issue in connection with the Level 3 acquisition or any other shares that we might issue or repurchase in future periods). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part II of this report.

Credit Facility

Our $2 billion Credit Facility has 16 lenders, each with commitments ranging from $3.5 million to $198.5 million. The Credit Facility allows us to obtain revolving loans and to issue up to $400 million of letters of credit, which upon issuance reduces the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.00% and 2.25% per annum for LIBOR loans and 0.00% and 1.25% per annum for base rate loans depending on CenturyLink's senior unsecured long-term debt rating. Our obligations under the Credit Facility are guaranteed by nine of our subsidiaries. At June 30, 2017, we had no borrowings and no amounts of letters of credit outstanding under the Credit Facility.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in our Credit Facility) ratio of not more than 4.0:1.0 and 2.85:1.0, respectively, as of the last day of each fiscal quarter for the four quarters then ended. The Credit Facility also contains a negative pledge covenant, which generally requires us to secure equally and ratably any advances under the Credit Facility if we pledge assets or permit liens on our property for the benefit of other debtholders. The Credit Facility also has a cross payment default provision, and the Credit Facility and certain of our debt securities also have cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. Our debt to EBITDA ratios could be adversely affected by a wide variety of events, including unforeseen expenses or contingencies. This could reduce our financing flexibility due to potential restrictions on incurring additional debt under certain provisions of our debt agreements or, in certain circumstances, could result in a default under certain provisions of such agreements.

Term Loans and Revolving Letter of Credit Facility

At June 30, 2017, CenturyLink, Inc. owed $325 million under a term loan scheduled to mature in 2019, and Qwest Corporation owed $100 million under a term loan scheduled to mature in 2025. Both of these term loans include covenants substantially similar to those set forth in the Credit Facility. Upon consummation of the Level 3 acquisition, in accordance with the Credit Agreement, CenturyLink, Inc. will pay off its above-referenced term loan and enter into term loan "A-1", a $370 million senior secured term loan. For additional information, see Note 4—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part 1 of this report.

We have a $160 million uncommitted unsecured 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 June 30, 2017, our outstanding letters of credit totaled $99 million under this facility. We currently plan to replace this facility with a secured revolving letter of credit facility upon the consummation of the Level 3 acquisition.

For information on our outstanding debt securities, see Note 4—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report.

Level 3 Financing Credit Agreement

To fund our pending acquisition of Level 3, on June 19, 2017, one of our affiliates entered into a credit agreement providing for $9.945 billion in senior secured credit facilities, consisting of a new $2.0 billion revolving credit facility (which is designed to replace the Credit Facility upon consummation of the Level 3 acquisition) and $7.945 billion of term loan facilities, $6.0 billion of which were funded into escrow on such date. For additional information, see (i) Note 4—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report and (ii) our current report on Form 8-K filed with the SEC on June 20, 2017.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. At December 31, 2016, the accounting unfunded status of our qualified and non-qualified defined benefit pension plans and qualified post-retirement benefit plans was $2.409 billion and $3.360 billion, respectively. See Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2016 for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plan are paid through a trust that holds all of the plan's assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during the remainder of 2017. The amount of required contributions to our qualified pension plan in 2018 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations. We occasionally make voluntary contributions in addition to required contributions. We currently expect to make a voluntary contribution of $100 million to the trust for our qualified pension plan in the third quarter of 2017.

Substantially all of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that have been used to help cover the health care costs of certain retirees. As of December 31, 2016, assets in the post-retirement trusts had been substantially depleted and had a fair value of $53 million (a portion of which was comprised of investments with restricted liquidity), which has significantly limited our ability to continue paying benefits from the trusts; however, we will continue to pay certain benefits through the trusts. Benefits not paid from the trusts are expected to be paid directly by us with available cash. As described further in Note 6—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our most recent annual report on Form 10-K, aggregate benefits paid by us under these plans (net of participant contributions and direct subsidy receipts) were $129 million, $116 million and $88 million for the years ended December 31, 2016, 2015 and 2014, respectively, while the amounts paid from the trust were $145 million, $163 million and $219 million, respectively. For additional information on our expected future benefits payments for our post-retirement benefit plans, please see Note 9—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our annual report Form 10-K.

For 2017, our estimated annual long-term rates of return are 6.5% and 5.0% for the pension plan trust assets and post-retirement plans trust assets, respectively, based on the assets currently held. However, actual returns could be substantially different.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2016.

Connect America Fund

As a result of accepting CAF Phase 2 support payments we will be obligated to make substantial capital expenditures to build broadband infrastructure in 33 states over the next several years. See "Capital Expenditures" above.

For additional information on the FCC's CAF order and the USF program, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016 and see "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

In 2013, under the CAF Phase 1 Round 2 program, we received $40 million in funding for deployment of broadband services in rural areas. In compliance with program terms, during the second half of 2016 we returned $23 million for failing to timely meet interim buildout milestones, but thereafter continued our deployment efforts, which resulted in us ultimately fulfilling the total broadband enablement target. In the second quarter of 2017, we filed a claim with the FCC, in which we sought to recover the funding returned to the FCC in the second half of 2016 as noted above. If the claim is accepted by the FCC, we expect to recover the $23 million in funding in the second half of 2017. As of June 30, 2017, we included $16 million of funding in deferred credits and other liabilities - other on our consolidated balance sheet.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Six Months Ended June 30, 2017	2016	Increase / (Decrease)
	(Dollars in millions)		
Net cash provided by operating activities	$1,742	2,601	(859)
Net cash used in investing activities	(94)	(1,279)	(1,185)
Net cash provided by (used in) financing activities	4,485	(1,257)	(5,742)

Operating Activities

Net cash provided by operating activities decreased by $859 million for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 primarily due to negative variances in net income adjusted for non-cash items, other current assets and liabilities, net, accounts payable and accrued income and other taxes, which were partially offset with a positive variance in accounts receivable. Our net cash flows from operating activities were significantly impacted by the increase in cash tax payments and our decline in earnings in 2017, as well as the sale of the data center and colocation business, which included the loss of cash generated from this business as well as impacting the change in other current assets and liabilities.

Investing Activities

Net cash flows from our investing activities decreased by $1.185 billion for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 substantially due to the cash proceeds received from the sale of our data centers and colocation business, which was partially offset by an increase in payments for property, plant and equipment and capitalized software. The increase in the payments for property, plant and equipment are directly related to our CAF Phase 2 broadband infrastructure buildout initiatives.

Financing Activities

Net cash flows from our financing activities changed by $5.742 billion for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 substantially due to our receipt of escrowed proceeds pursuant to a term loan associated with the pending Level 3 acquisition. Also, as discussed in Note 3—Sale of Data Centers and Colocation Business to our consolidated financial statements in Item 1 of Part 1 of this report, GAAP requires us to treat $378 million of cash proceeds received from the sale of our data centers and colocation business, as a financing obligation.

On June 19, 2017, CenturyLink Escrow, LLC entered into a $6 billion term loan, net of an original issue discount of 0.5%.

On June 15, 2017, CenturyLink, Inc. paid at maturity the $350 million principal and accrued and unpaid interest due under its 5.15% Notes.

On May 9, 2017, Qwest Corporation redeemed $125 million aggregate principal amount of the remaining $288 million of its 7.5% Notes due 2051, which resulted in an immaterial loss.

On May 4, 2017, Qwest Corporation redeemed all $500 million of its 6.5% Notes due 2017, which resulted in an immaterial loss.

On April 27, 2017, Qwest Corporation issued $575 million aggregate principal amount of 6.75% Notes due 2057 and, on May 5, 2017, issued an additional $85 million aggregate principal amount of such notes pursuant to an over-allotment option in exchange for aggregate net proceeds, after deducting underwriting discounts and other expenses, of $638 million. All of the 6.75% Notes are senior unsecured obligations and may be redeemed by Qwest Corporation, in whole or in part, on or after June 15, 2022, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On April 3, 2017, CenturyLink, Inc. paid at maturity the $500 million principal and accrued and unpaid interest due under its 6.00% Notes.

See Note 4—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 1 of Part I of this report for additional information on our outstanding debt securities.

Other Matters

In February 2015, the FCC adopted new regulations that regulate broadband services as a public utility service under Title II of the Communications Act. In light of pending litigation and substantial changes in the composition of the FCC, we believe it is premature for us to determine the ultimate impact of the new regulations on our operations. For additional information, see “Risk Factors—Risks Relating to Legal and Regulatory Matters” in Item 1A of Part II of this report.

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

We also are involved in various legal proceedings that could substantially impact our financial position or future financial performance. See Note 10—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report for the current status of such legal proceedings.

Market Risk

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

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of June 30, 2017, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

As further discussed in Note 4—Long-Term Debt and Credit Facilities, on June 19, 2017, we entered into a credit agreement with various lending institutions to provide funding for the Level 3 acquisition. Under the credit agreement, we borrowed $6 billion under a term loan agreement ("Term Loan B" facility), which has been funded into an escrow account. Borrowings under the Term Loan B facility bore interest at 1.375% per annum through July 18, 2017 and will bear interest at 2.75% per annum thereafter through the consummation date of the Level 3 acquisition. Upon consummation of the Level 3 acquisition, borrowings under the Term Loan B facility will bear interest at LIBOR plus 2.75% per annum.

By operating internationally, we are exposed to the risk of fluctuations in the foreign currencies used by our international subsidiaries, primarily the British Pound and secondarily the Canadian Dollar, the Japanese Yen, the Hong Kong Dollar and the Singapore Dollar. Although the percentages of our consolidated revenues and costs that are denominated in these currencies are currently immaterial, our consolidated results of operations could be adversely impacted by volatility in exchange rates or an increase in the number of foreign currency transactions, which we expect will substantially increase upon consummation of our pending acquisition of Level 3 discussed elsewhere herein.

The new Term Loan B facility discussed above will increase our market risk arising from changes in interest rates upon the consummation of the Level 3 acquisition, when at such a time, the term loan facility will bear interest at LIBOR plus 2.75% annum. We do not believe that there were any material changes to market risks arising from changes fluctuations in foreign currencies for the six months ended June 30, 2017, when compared to the disclosures provided in our annual report on Form 10-K for the year ended December 31, 2016.

Certain shortcomings are inherent in the method of analysis presented in the computation of exposures to market risks. Actual values may differ materially from those disclosed by us from time to time if market conditions vary from the assumptions used in the analyses performed. These analyses only incorporate the risk exposures that existed at June 30, 2017.

Off-Balance Sheet Arrangements

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we do not engage in leasing, hedging, or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended December 31, 2016, or in the Future Contractual Obligations table included in Item 7 of Part II of the same report, or (iii) discussed under the heading "Market Risk" above.

Other Information

Our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC. From time to time, we also use our website to webcast our earnings calls and certain of our meetings with investors or other members of the investment community.

In addition to historical information, this quarterly report includes certain forward-looking statements that are based upon our judgment and assumptions as of the date of this report 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 not guarantees of future results, 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 underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the effects of competition from a wide variety of competitive providers, including decreased demand for our legacy offerings and increased pricing pressures; the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete; the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, access charges, universal service, broadband deployment, data protection and net neutrality; our ability to successfully fund and complete our pending acquisition of Level 3, including the timely receipt of all regulatory approvals free of any detrimental conditions, and to timely realize the anticipated benefits of the transaction, including our ability to attain anticipated cost savings, to use Level 3’s net operating losses in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions; our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix; possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service; our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them efficiently to our customers, and to introduce new offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, service outages, security breaches or similar events impacting our network; our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, periodic share repurchases, dividends, debt repayments, pension contributions and other benefits payments, changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise; our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations; adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise; our ability to maintain favorable relations with our key business partners, customers, suppliers, vendors, landlords and financial institutions; our ability to effectively manage our network buildout project and our other expansion opportunities; our ability to collect our receivables from financially troubled customers; any adverse developments in legal or regulatory proceedings involving us; changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels; the effects of changes in accounting policies or practices, including potential future impairment charges; the effects of adverse weather or other natural or man-made disasters; the effects of more general factors such as changes in interest rates, in operating costs, in general market, labor, economic or geo-political conditions, or in public policy; and other risks referenced in Item 1A or elsewhere in this quarterly report or other of our filings with the SEC. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. Given these uncertainties, we caution investors not to unduly rely upon our forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of this report, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or stock repurchase plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Liquidity and Capital Resources—Market Risk" in Item 2 of Part I above for quantitative and qualitative disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to provide reasonable assurance that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. These include controls and procedures designed to ensure that this information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Management, with the participation of our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., evaluated the effectiveness of the Company’s disclosure controls and procedures as of June 30, 2017. Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective, as of June 30, 2017, in providing reasonable assurance that the information required to be disclosed by us in this report was accumulated and communicated in the manner provided above.

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of 2017 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 10—Commitments and Contingencies included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following discussion identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with the other portions of this report, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 2 of Part 1 and our consolidated financial statements and related notes in Item 1 of Part 1. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial, that arise in the future or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

We may not be able to compete successfully against current or future competitors.

Each of our offerings to our residential and business customers face increasingly intense competition from a variety of sources under evolving market conditions. We expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from several other sources, including cable and satellite companies, wireless providers, technology companies, cloud companies, broadband providers, device providers, resellers, sales agents and facilities-based providers using their own networks as well as those leasing parts of our network. In particular, (i) intense competition from wireless and other communications providers has led to a long-term systemic decline in the number of our wireline voice customers, (ii) strong competition from cable companies and others has impacted the growth of our broadband operations and (iii) aggressive competition from a wide range of technology companies and other market entrants has limited the prospects for our hosting operations. For more detailed information, see "Business—Competition" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Some of our current and potential competitors (i) offer products or services that are substitutes for our legacy wireline voice services, including wireless voice and non-voice communication services, (ii) offer a more comprehensive range of communications products and services, (iii) offer products or services with features that we cannot readily match in some or all of our markets, (iv) offer shorter installation intervals, allowing customers to begin receiving services sooner after ordering, (v) have greater marketing, engineering, research, development, technical, financial and other resources, (vi) have larger or more diverse networks with greater transmission capacity, (vii) conduct operations or raise capital at a lower cost than us, (viii) are subject to less regulation, which we believe enables such competitors to operate more flexibly than us with respect to certain offerings, (ix) offer services nationally or internationally to a larger geographic area or larger base of customers, (x) have substantially stronger brand names, which may provide them with greater pricing power than ours, or (xi) have larger operations than ours, which may enable them to compete more successfully in recruiting top talent, entering into operational or strategic partnerships or acquiring companies. Consequently, these competitors may be better equipped to provide more attractive offerings, to charge lower prices for their products and services, to develop and expand their communications and network infrastructure more quickly, to adapt more swiftly to changes in technologies or customer requirements, to devote greater resources to the marketing and sale of their products and services, to provide more comprehensive customer service, to provide greater resources to research and development initiatives and to take advantage of business or other opportunities more readily. In the past, several of our competitors and their operations have grown through acquisitions and aggressive product development. The continued growth of our competitors could further enhance their competitive positions.

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

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

Rapid technological changes could significantly impact our competitive and financial position.

The communications industry has been and continues to be impacted by significant technological changes, which in general are enhancing wireless services and enabling a broader array of companies to compete with us. Many of these technological changes are (i) enabling customers to reduce or bypass use of our networks, (ii) displacing or reducing demand for our services, or (iii) enabling the development of competitive products or services. For years, improvements in wireless and Internet-based voice communications technologies have reduced demand for our legacy voice services, and these trends continue. More recently, continuous improvements in wireless data technologies have enabled wireless carriers to offer competing products, and we expect this trend to continue as technological advances enable these carriers to carry greater amounts of data faster and with less latency. Technological advancements have also permitted cable companies and other of our competitors to deliver faster average broadband transmission speeds than ours. Rapid changes in technology have also placed competitive pressures on our video, cloud and hosting businesses, and enabled new competitors to enter our markets. To enhance the competitiveness of certain of our services, we will likely be required to spend additional capital to install more fiber optic cable or to augment the capabilities of our copper-based services.

We may not be able to accurately predict or respond to changes in technology or industry standards, or to the introduction of newly-offered services. Any of these developments could make some or all of our offerings less desirable or even obsolete, which would place downward pressure on our market share and revenues. These developments could also require us to (i) expend capital or other resources in excess of currently contemplated levels, (ii) forego the development or provision of products or services that others can provide more efficiently, or (iii) make other changes to our operating plans, corporate strategies or capital allocation plans, any of which could be contrary to the expectations of our security holders or could adversely impact our operations. Our inability to effectively respond to technological changes could adversely affect our operating results and financial condition, as well as our ability to service debt and fund other commitments or initiatives.

Even if we succeed in adapting to changes in technology or industry standards by developing new products or services, there is no assurance that the new products or services would have a positive impact on our profit margins or financial performance.

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

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

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

Primarily as a result of the competitive and technological changes discussed above, we have experienced a prolonged systemic decline in our local voice, long-distance voice, network access, private line and other legacy revenues. Consequently, we have experienced lower consolidated revenues in each of our last several years.

We have taken a variety of steps to counter these declines in our legacy services revenues, including:

- an increased focus on selling a broader range of higher-growth strategic services, which are described in detail elsewhere in this report;
- an increased focus on serving a broader range of business, governmental and wholesale customers;
- greater use of service bundles; and
- acquisitions to increase our scale, enhance our enterprise segment and strengthen our product offerings.

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

54

Our failure to develop new products and services could adversely impact our competitive position.

In order to compete effectively and respond to the changing communication needs of our customers, we continuously develop, test and introduce new products and services. Our ability to successfully introduce new product or service offerings on a timely and cost-effective basis could be constrained by a range of factors, including network limitations, support system limitations, limited capital, an inability to attract key personnel with the necessary skills, intellectual property constraints, testing delays, technological limits or an inability to act as quickly or efficiently as other competitors. In addition, new product or service offerings may not be widely accepted by our customers. Our business could be materially adversely affected if we are unable to timely and successfully develop and introduce new products or services.

Our failure to continuously develop effective service support systems could adversely impact our competitive position.

For many of our services, we can effectively compete only if we can quickly and efficiently (i) quote and accept customer orders, (ii) provision and initiate ordered services, (iii) provide customers with adequate means to manage their services and (iv) accurately bill for our services. Development of systems designed to support these tasks is a significant undertaking that continuously requires our personnel and third-party vendors to adjust to changes in our offerings and customers' preferences, to eliminate inconsistencies between the practices of our legacy operations and newly-acquired operations, to eliminate older support systems that are costly or obsolete, to develop uniform practices and procedures, and to automate them as much as possible. Our failure to continuously develop service support systems that are satisfactory to our current and potential customers and capable of being utilized by our workforce could adversely impact our competitive position.

We may not be able to successfully adjust to changes in our industry, our markets and our product mix.

Ongoing changes in the communications industry have fundamentally changed consumers’ communications expectations and requirements. In response to these changes, we have substantially altered our product and service offerings through acquisitions and internal product development. Many of these changes have placed a higher premium on sales, marketing and product development functions, and necessitated ongoing changes in our processes and operating protocols, as well as periodic reorganizations of our sales and leadership teams. In addition, we now offer a more complex range of products and services, operate larger and more complex networks and serve a much larger and more diverse set of customers. Consequently, we now face greater challenges in effectively managing and administering our operations and allocating capital and other resources to our various offerings. For all these reasons, we cannot assure you that our efforts to adjust to these changes will be timely or successful.

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

As noted in the risk factor disclosures appearing above and below, changes in competition, technology, regulation and demand for our legacy services continue to place downward pressure on our consolidated revenues and cash flows. During each of 2016, 2015, 2014 and 2013, we experienced declines in revenues and net cash provided by operating activities as compared to prior periods. Our cash flows will be further impacted by other changes discussed herein, including anticipated increases in our cash tax payments prior to the pending Level 3 acquisition and additional post-retirement health care payments as a result of the depletion in 2016 of substantially all of the post-retirement benefit plan trust assets.

We rely upon our consolidated revenues and cash flows to fund our commitments and business objectives, including without limitation, funding our capital expenditures, operating costs, debt repayments, dividends, periodic share repurchases, periodic pension contributions and other benefits payments. We cannot assure you that our future cash flows will be sufficient to fund all of our cash requirements in the manner currently contemplated. Our inability to fund certain of these payments could have an adverse impact on our business, operations or competitive position or on the value of our securities.

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

We are materially reliant upon our networks, information technology infrastructure and related technology systems (including our billing and provisioning systems) to provide products and services to our customers and to manage our operations and affairs. We face the risk, as does any company, of a security breach or significant disruption of our information technology infrastructure and related systems. As a communications company that transmits large amounts of information over communications networks, we face an added risk that a security breach or other significant disruption of our public networks or information technology infrastructure and related systems that we develop, install, operate and maintain for certain of our business customers (which includes our wholesale and governmental customers) could lead to material interruptions or curtailments of service. Moreover, in connection with processing and storing sensitive and confidential customer data, we face a heightened risk that a security breach or disruption could result in unauthorized access to our customers' proprietary information on our public networks or internal systems or the systems that we operate and maintain for certain of our customers.

We strive to maintain the security and integrity of information and systems under our control, and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential customer information), account takeovers, unavailability of service, computer viruses, malware, ransomware, distributed denial-of-service attacks, or other forms of cyber-attacks or similar events. These threats may derive from human error, hardware or software vulnerabilities, fraud, malice or sabotage on the part of employees, third parties or foreign nations, or could result from aging equipment or accidental technological failure. These threats may also arise from failure or breaches of systems owned, operated or controlled by other unaffiliated operators to the extent we rely on such other systems to deliver services to our customers.

Similar to other large telecommunications companies, we are a constant target of cyber-attacks of varying degrees. Although some of these attacks have resulted in security breaches, to date, none of these breaches have resulted in a material adverse effect on our operating results or financial condition. You should be aware, however, that defenses against cyber-attacks currently available to U.S. companies are unlikely to prevent intrusions by a highly-determined, highly-sophisticated hacker. Consequently, you should assume that we will be unable to implement security barriers or other preventative measures that repel all future cyber-attacks. Any such future security breaches or disruptions could materially adversely affect our business, results of operations or financial condition, especially in light of the growing frequency, scope and well-documented sophistication of cyber-attacks and intrusions.

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

Additional risks to our network, infrastructure and related systems include:

- power losses or physical damage, whether caused by fire, flood, adverse weather conditions, terrorism, sabotage, vandalism or otherwise;
- capacity or system configuration limitations, including those resulting from changes in our customer's usage patterns, the introduction of new technologies or products, or incompatibilities between our newer and older systems;
- theft or failure of our equipment;
- software or hardware obsolescence, defects or malfunctions;
- deficiencies in our processes or controls;
- our inability to hire and retain personnel with the requisite skills to adequately maintain our systems;
- programming, processing and other human error; and
- service failures of our third-party vendors and other disruptions that are beyond our control.

Due to these factors, from time to time in the ordinary course of our business we experience disruptions in our service, and could experience more significant disruptions in the future.

Disruptions, security breaches and other significant failures of the above-described networks and systems could:

- disrupt the proper functioning of these networks and systems, which could in turn disrupt (i) our operational or administrative functions or (ii) the operations of certain of our customers who rely upon us to provide services critical to their operations;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive, classified or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention or financial resources to remedy the resulting damages or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;
- require us to notify customers, regulatory agencies or the public of data breaches;
- require us to provide credits for future service under certain service level commitments we have provided contractually to our customers or to offer expensive incentives to retain customers;
- subject us to claims for damages, fines, penalties, termination or other remedies under our customer contracts or service standards set by state regulatory commissions, which in certain cases could exceed our insurance coverage; or
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to prolonged litigation.

We could experience difficulties in expanding and updating our technical infrastructure.

Our ability to expand and update our systems and information technology infrastructure in response to our growth and changing business needs is important to our ability to maintain and develop attractive product and service offerings. As discussed further under "Business—Network Architecture" in Item 1 of Part I of our annual report on Form 10-K for year ended December 31, 2016, we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which combines our legacy network and the networks of companies we have acquired in the past. Unanticipated delays in the completion of these projects may lead to increased project costs or operational inefficiencies. In addition, there may be issues related to our expanded or updated infrastructure that are not identified by our testing processes, and which may only become evident after we have started to fully utilize the redesigned systems. Our failure to modernize and upgrade our technology infrastructure could have adverse consequences, including the delayed implementation of new service offerings, decreased competitiveness of existing service offerings, network instabilities, increased operating or acquisition integration costs, service or billing interruptions or delays, service offering inconsistencies and the diversion of development resources.

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

Negative publicity may adversely impact us.

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

Market prices for many of our services have decreased in the past, and any similar price decreases in the future will adversely affect our revenues and margins.

Over the past several years, a range of competitive and technological factors, including robust network construction and intense competition, have lowered market prices for many of our products and services. If these market conditions persist, we may need to continue to reduce prices to retain customers and revenue. If future price reductions are necessary, our operating results will suffer unless we are able to offset these reductions by reducing our operating expenses or increasing our sales volumes.

Our future growth potential will depend in part on the continued development and expansion of the Internet.

Our future growth potential will depend in part upon the continued development and expansion of the Internet as a communication medium and marketplace for the distribution of data, video and other products by businesses, consumers, and governments. The use of the Internet for these purposes may not grow and expand at the rate anticipated by us or others, or may be restricted by factors outside of our control, including (i) actions by other carriers or governmental authorities that restrict us from delivering traffic over other parties' networks, (ii) changes in regulations, (iii) technological stagnation or (iv) changes in consumers' preferences or data usage.

If we fail to hire and retain qualified executives, managers and employees, our operating results could be harmed.

Our future success depends on our ability to identify, hire, train and retain executives, managers and employees with technological, engineering, product development, operational, provisioning, marketing, sales, administrative, managerial and other key skills. There is a shortage of qualified personnel in several of these fields. We compete with several other companies for this limited pool of potential employees. As our industry increasingly becomes more competitive, it could become especially difficult to attract and retain top personnel with skills in high demand. Our workforce reduction initiatives over the past couple of years have further increased the challenges of attracting and retaining talented individuals. In addition, subject to limited exceptions, none of our executives or domestic employees have long-term employment agreements. For all these reasons, there is no assurance that our efforts to recruit and retain qualified personnel will be successful.

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

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

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

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

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

We may not be successful in protecting and enforcing our intellectual property rights.
We rely on various patents, copyrights, trade names, trademarks, service marks, trade secrets and other similar intellectual property rights, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Others may independently develop technologies that are substantially equivalent, superior to, or otherwise competitive to the technologies we employ in our services or that infringe on our intellectual property. We may be unable to prevent competitors from acquiring proprietary rights that are similar to or infringe upon our proprietary rights, or to prevent our current or former employees from using or disclosing to others our proprietary information. Enforcement of our intellectual property rights may depend on initiating legal actions against parties who infringe or misappropriate our proprietary information, but these actions may not be successful, even when our rights have been infringed. If we are unsuccessful in protecting or enforcing our intellectual property rights, our business, competitive position, results of operations and financial condition could be adversely affected.
Our operations, financial performance and liquidity are materially reliant on various third parties.
Reliance on other communications providers. To offer certain services in certain of our markets, we must either purchase services or lease network capacity from, or interconnect our network with the infrastructure of, other communications carriers or cloud companies who typically compete against us in those markets. Our reliance on these supply or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that our ability to market our services could be adversely impacted by changes in the plans or properties of the carriers upon which we are reliant. In addition, we are exposed to the risk that the other carriers may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all. This risk is heightened when the other carrier is a competitor of ours and may benefit from terminating the agreement. If we lose these arrangements and cannot timely replace them, our ability to provide services to our customers and conduct our business could be materially adversely affected.
Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues. For additional information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Business Trends” included in Item 2 of Part I of this report.
We also rely on reseller and sales agency arrangements with other communications companies to provide some of the services that we offer to our customers, including video services and wireless products and services. As a reseller or sales agent, we do not control the availability, retail price, design, function, quality, reliability, customer service or branding of these products and services, nor do we directly control all of the marketing and promotion of these products and services. Similar to the risks described above regarding our reliance upon other carriers, we could be adversely affected if these communication companies fail to maintain competitive products or services, or fail to continue to make them available to us on attractive terms, or at all.
Our operations and financial performance could be adversely affected if our relationships with any of these other communications companies are disrupted or terminated for any other reason, including if such other companies:

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

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

Reliance on utility providers and landlords. Our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs, which we may not be able to pass on to our customers.
We lease many of our office facilities. Although the majority of these leases provide us with the opportunity to renew the lease, many of these renewal options provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. Any resulting increases in our rent costs could have a negative impact on our financial results.
Reliance on governmental payments. We receive a material amount of revenue or government subsidies under various government programs, which are further described under the heading “Risk Factors—Risks Relating to Legal and Regulatory Matters." We also provide products or services to various federal, state and local agencies. Our failure to comply with complex governmental regulations and laws applicable to these programs, or the terms of our governmental contracts, could result in us being suspended or disbarred from future governmental programs or contracts for a significant period of time. Moreover, certain governmental agencies frequently reserve the right to terminate their contracts for convenience. If our governmental contracts are terminated for any reason, or if we are suspended or debarred from governmental programs or contracts, our results of operations and financial condition could be materially adversely affected.
Reliance on financial institutions. We rely on a number of financial institutions to provide us with short-term liquidity under our credit facilities. If one or more of these lenders default on their funding commitments, our access to credit could be adversely affected.
Rising costs, changes in consumer behaviors and other industry changes may adversely impact our video business. The costs of purchasing video programming have risen significantly in recent years and continue to rise. Moreover, an increasing number of consumers are receiving access to video content through video streaming or other services pursuant to new technologies for a nominal or no fee, which will likely reduce demand for more traditional video products, such as the satellite TV services that we resell and our Prism TV services.
New technologies are also affecting consumer behavior in ways that are changing how content is delivered and viewed. Increased access to various media through wireless devices has the potential to reduce the viewing of our content through traditional distribution outlets. These new technologies have increased the number of entertainment choices available to consumers and intensified the challenges posed by audience fragmentation. Some of these newer technologies also give consumers greater flexibility to watch programming on a time-delayed or on-demand basis. All of these changes, coupled with changing consumer preferences and other related developments, could reduce demand for our video products and services.
If we fail to extend or renegotiate our collective bargaining agreements with our labor unions as they expire from time to time, or if our unionized employees were to engage in a strike or other work stoppage, our business and operating results could be materially harmed.
As of June 30, 2017, approximately 36% of our employees were members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire. Although we typically are able to negotiate new bargaining agreements, we cannot predict the outcome of our future negotiations of these agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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

We rely on rights-of-way, colocation agreements and other authorizations granted by governmental bodies, railway companies, carriers and other third parties to locate our cable, conduit and other network equipment on or under their respective properties. A significant number of these authorizations are scheduled to lapse over the next five to ten years, unless we are able to extend or renew them. Our operations could be adversely affected if any of these authorizations terminate or lapse, or if the landowner requests price increases.

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

Our business customers may seek to shift risk to us.

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

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

Our international operations are subject to U.S. and other laws and regulations regarding operations in foreign jurisdictions in which we provide services. These numerous and sometimes conflicting laws and regulations include anti-corruption laws, anti-competition laws, trade restrictions, tax laws, immigration laws, privacy laws and accounting requirements. Many of these laws are complex and change frequently. Regulations that require the awarding of contracts to local contractors or the employment of local citizens may adversely affect our flexibility or competitiveness in these jurisdictions. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions. There is a risk that these laws or regulations may materially restrict our ability to deliver services in various foreign jurisdictions or could be breached through inadvertence or mistake, fraudulent or negligent behavior of our employees or agents, failure to comply with certain formal documentation or technical requirements, or otherwise. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us or our personnel, or prohibitions on the conduct of our business or our ability to operate in one or more countries, any of which could have a material adverse effect on our business, reputation, results of operations, financial condition or prospects.

Many foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to privacy rights and data retention. For example, all 28 member states of the European Union have adopted new European data protection laws that we believe could impact our operations in Europe and could potentially expose us to an increased risk of litigation or significant regulatory fines. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products and services we seek to offer.

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

- tax, licensing, political or other business restrictions or requirements;
- uncertainty concerning import and export restrictions, including the risk of fines or penalties assessed for violations;
- longer payment cycles and problems collecting accounts receivable;
- domestic and foreign regulation of overseas operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- currency and exchange controls, repatriation restrictions and fluctuations in currency exchange rates;
- challenges in securing and maintaining the necessary physical and telecommunications infrastructure;
- the inability in certain jurisdictions to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;

- the inability in certain jurisdictions to adequately protect intellectual property rights;
- laws, policies or practices that restrict with whom we can contract or otherwise limit the scope of operations that can legally or practicably be conducted within any particular country;
- potential submission of disputes to the jurisdiction of a foreign court or arbitration panel;
- reliance on third parties, including those with which we have limited experience;
- limitations in the availability, amount or terms of insurance coverage;
- the imposition of unanticipated or increased taxes, increased communications or privacy regulations or other forms of public or governmental regulation that increase our operating expenses; and
- challenges in staffing and managing foreign operations.

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

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

We may not be able in the future to acquire new businesses on attractive terms.

Historically, much of our growth has been attributable to acquisitions. Our future ability to grow through additional acquisitions could be limited by several factors, including our leverage, debt covenants and inability to identify attractively-priced target companies. Moreover, we generally must devote significant management attention and resources to evaluate acquisition opportunities, which could preclude us from evaluating acquisition opportunities during periods when management is committed to other opportunities, tasks or activities. Accordingly, we cannot assure you that we will be able to attain future growth through acquisitions. See "Risks Relating to Our Pending Acquisition of Level 3" for a discussion of certain specific risks raised by our pending acquisition of Level 3 and see the next risk factor immediately below for a discussion of certain general risks raised by acquisitions.

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

In an effort to implement our business strategies, we may from time to time in the future pursue other acquisition or expansion opportunities, including strategic investments. These transactions could involve acquisitions of entire businesses or investments in start-up or established companies, and could take several forms, including mergers, joint ventures, investments in new lines of business, or the purchase of equity interests or assets. These types of transactions may present significant risks and uncertainties, including the difficulty of identifying appropriate companies to acquire or invest in on acceptable terms, distraction of management from current operations, insufficient revenue acquired to offset liabilities assumed, unexpected expenses, inadequate return of capital, regulatory or compliance issues, potential infringements, potential violations of covenants in our debt instruments and other unidentified issues not discovered in due diligence. To the extent we acquire part or all of a business that is financially unstable or is otherwise subject to a high level of risk, we may be affected by currently unascertainable risks of that business. Accordingly, there is no current basis for you to evaluate the possible merits or risks of the particular business or assets that we may acquire. Moreover, we cannot guarantee that any such transaction will ultimately result in the realization of the benefits of the transaction originally anticipated by us or that any such transaction will not have a material adverse impact on our financial condition or results of operations. In particular, we can provide no assurances that we will be able to successfully integrate the technology systems, billing systems, accounting processes, sales force, cost structure, product development and service delivery processes, standards, controls, policies, strategies and culture of the acquired company with ours. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure as any such financing would likely include the issuance of additional securities or the borrowing of additional funds.

Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

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

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

For additional information about our business and operations, see "Business" in Item 1 of Part I of our annual report on Form 10-K for year ended December 31, 2016.

Risks Relating to Our Pending Acquisition of Level 3

The completion of the Level 3 acquisition is subject to several conditions, including the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on the combined company or could cause the proposed transaction to be abandoned.

The completion of the Level 3 acquisition is subject to a number of conditions, including, among others, the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and the receipt of approvals from the FCC and certain other governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the transaction is in the public interest. We cannot provide any assurance that the necessary approvals will be obtained.

In addition, regulatory entities may impose certain requirements or obligations as conditions for their approval or in connection with their review. The merger agreement may require CenturyLink or Level 3 to accept conditions from these regulators that could adversely affect the combined company without either of CenturyLink or Level 3 having the right to refuse to close the acquisition on the basis of those regulatory conditions. While we are not required to accept conditions that would or would reasonably be likely to have a material adverse effect on the combined company (assuming for these purposes that the combined company is the size of CenturyLink), this assessment will be made at or prior to the closing and we cannot provide any assurance that any required conditions will not have a material adverse effect on the combined company following the proposed acquisition. In addition, we cannot provide any assurance that these conditions will not result in a delay or an abandonment of the acquisition.

It could take longer to receive the requisite governmental consents and approvals than currently anticipated. Any delay in completing the acquisition, whether caused by regulatory delays or otherwise, could cause us, Level 3, as well as the combined company, to incur extra transaction expenses or to delay or fail to realize fully the benefits that we currently expect to receive if the acquisition is successfully completed within the expected time frame.

Failure to complete the acquisition could negatively affect our stock price and our future business and financial results.

If the Level 3 acquisition is not completed, our ongoing businesses may be adversely affected and we will be subject to several risks, including the following:

- the possibility that we could be required to pay Level 3 a substantial termination fee and, in some cases, certain expenses of Level 3 if the acquisition is terminated under certain qualifying circumstances;
- the incurrence of costs and expenses relating to the proposed acquisition, such as financing, legal, accounting, financial advisor, filing, printing and mailing fees and expenses, including the potential expense reimbursement obligations described above;
- the possibility of a change in the trading price of our common stock to the extent current trading prices reflect a market assumption that the acquisition will be completed;
- the possibility that we could suffer potential negative reactions from our employees, customers or vendors; and
- the possibility that we could suffer adverse consequences associated with our management's focus on the acquisition instead of on pursuing other opportunities that could have been beneficial to us, without realizing any of the benefits contemplated by the acquisition.

In addition, if the acquisition is not completed, we could be subject to litigation related to any failure to complete the acquisition or to perform our obligations under the merger agreement.

If the acquisition is not completed, we cannot assure you that these risks will not materialize and will not materially affect our business financial results and stock price.

Our merger agreement with Level 3 contains provisions that could discourage a potential competing acquirer of us or could result in any competing proposal being at a lower price than it might otherwise be.

Our merger agreement with Level 3 contains "no-shop" provisions that, subject to limited exceptions, restrict our ability to solicit, encourage, facilitate or discuss competing third-party proposals to acquire all or a significant part of CenturyLink. In some circumstances on termination of the merger agreement, we may be required to pay a termination fee or expenses to Level 3. These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of us from considering or proposing that acquisition, even if it were prepared to pay an attractive purchase price, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee or expenses that may become payable in certain circumstances. If the merger agreement is terminated and we attempt to seek another business acquisition, we may not be able to negotiate a transaction with another party on terms comparable or better than the terms of the Level 3 acquisition.

The pendency of the Level 3 acquisition could adversely affect the business and operations of CenturyLink or Level 3.

In connection with the pending Level 3 acquisition, some of the customers or vendors of CenturyLink or Level 3 may delay or defer decisions or reduce their level of business with either or both of the companies, any of which could negatively affect the revenues, earnings, cash flows and expenses of CenturyLink or Level 3, regardless of whether the acquisition is completed. Similarly, current and prospective employees of CenturyLink and Level 3 may experience uncertainty about their future roles with the combined company following the acquisition, which may materially adversely affect the ability of each of CenturyLink or Level 3 to attract and retain key management, sales, marketing, operational and technical personnel during the pendency of the acquisition. In addition, due to operating covenants in the merger agreement, each of CenturyLink and Level 3 may be unable, during the pendency of the acquisition, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial. Any of these effects could have an adverse effect on the ability to generate revenue at anticipated levels prior to the completion of the acquisition. Moreover, the pursuit of the acquisition and the preparation for the integration of the companies may place a significant burden on the management and personnel of both companies. The diversion of management's attention away from operating the companies in the ordinary course could adversely affect CenturyLink's and Level 3's financial results.

Current CenturyLink shareholders may have a reduced ownership and voting interest in the combined company after the Level 3 acquisition.

CenturyLink expects to issue or reserve for issuance approximately 538 million shares of CenturyLink common stock to Level 3 stockholders in connection with the acquisition (including shares of CenturyLink common stock to be issued in connection with outstanding Level 3 equity awards). Upon completion of the Level 3 acquisition, each CenturyLink shareholder will remain a shareholder of CenturyLink with a percentage ownership of the combined company that may be smaller than the shareholder's percentage of CenturyLink prior to the transaction, depending upon such shareholder's current ownership of Level 3 shares. As a result of these potentially reduced ownership percentages, CenturyLink shareholders may have less voting power in the combined company than they now have with respect to CenturyLink.

We expect to incur substantial expenses related to the Level 3 acquisition.

We expect to incur substantial expenses in connection with completing the acquisition and integrating our business, operations, networks, systems, technologies, policies and procedures with those of Level 3. There are a large number of systems that will likely be integrated, including management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance systems. While we have assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Due to these factors, the transaction and integration expenses associated with the acquisition are likely in the near term to exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses following the completion of the acquisition. As a result of these expenses, we expect to take charges against our earnings before and after the completion of the acquisition. The charges taken after the acquisition are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

Following the Level 3 acquisition, the combined company may be unable to integrate successfully our business and Level 3’s business and realize the anticipated benefits of the acquisition.

The proposed transaction involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Level 3. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine our business and Level 3’s business in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisition, which would result in the anticipated benefits of the acquisition not being realized in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding to terminate or reduce their business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to (i) provide consistent, high quality products and services under a unified culture and (ii) focus on other on-going transactions;
- the additional complexities of combining two companies with different histories, regulatory restrictions, operating structures and markets;
- the failure to retain key employees of either of the two companies;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the acquisition; and
- performance shortfalls at one or both of the two companies as a result of the diversion of management’s attention caused by completing the acquisition and integrating the companies’ operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the combined company’s management, the disruption of the combined company’s ongoing business or inconsistencies in the combined company’s products, services, standards, controls, procedures and policies, any of which could adversely affect the ability of the combined company to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the acquisition, or could otherwise adversely affect the business and financial results of the combined company.

Following the Level 3 acquisition, we may be unable to retain key employees.
The success of the combined company after the acquisition will depend in part upon its ability to retain key Level 3 and CenturyLink employees. Key employees may depart either before or after the acquisition because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company following the acquisition. Accordingly, no assurance can be given that we, Level 3 and, following the acquisition, the combined company will be able to retain key employees to the same extent as in the past.
Although we have arranged financing to fund our acquisition of Level 3, we cannot assure you that such funding will be available when needed or at all.
On June 19, 2017, one of our affiliates entered into a credit agreement providing financing for our pending acquisition of Level 3 and a substantial portion of such financing was funded into escrow. Our ability to obtain and utilize such funds, however, is subject to various conditions. If these conditions are not satisfied or duly waived, we will not be able to borrow funds under the new facilities or obtain the release of the funds currently held in escrow. Consequently, we cannot assure you that our acquisition financing will be available when needed or at all.
In connection with the Level 3 acquisition, we expect to incur and assume a substantial amount of indebtedness and the agreements that will govern the indebtedness to be incurred or assumed by us are expected to contain various covenants and other provisions that impose restrictions on our ability to operate.
As a result of borrowing funds for the Level 3 acquisition and assuming Level 3's existing consolidated indebtedness in connection with the acquisition, we will become more leveraged. This could have material adverse consequences for us, including those listed below under the heading "Risks Affecting Our Liquidity and Capital Resources—Our high debt levels expose us to a broad range of risks."
The agreements that will govern the indebtedness to be incurred or assumed by us in connection with the acquisition are expected to contain certain affiliate guarantees, all or most of which are expected to be secured by a first priority security interest in substantially all assets directly owned by them, subject to certain exceptions and limitations. These finance agreements are further expected to contain various affirmative and negative covenants that may, subject to certain significant exceptions, restrict the ability of us and certain of our subsidiaries to, among other things, pledge property, incur additional indebtedness, enter into sale and lease-back transactions, make loans, advances or other investments, make non-ordinary course asset sales, declare or pay dividends or make other distributions with respect to equity interests, merge or consolidate with any other person or sell or convey certain assets, among various other things. In particular, certain covenants contained in Level 3's indebtedness to be assumed by us may restrict our ability to distribute cash from Level 3 to other of our affiliated entities, or enter into other transactions among our wholly owned subsidiaries. In addition, the agreement we have entered into that governs the debt financing, as well as the finance agreements we will assume, contain financial covenants that will require us and certain of our subsidiaries to maintain certain financial ratios. The ability of us and our subsidiaries to comply with these provisions may be affected by events beyond our and their control. Failure to comply with these covenants could result in an event of default, which, if not cured or waived, could accelerate our debt repayment obligations. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. For additional information, see "Risks Affecting Our Liquidity and Capital Resources" and Note 4—Long-Term Debt and Credit Facilities.
Following the Level 3 acquisition, we plan to conduct rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.
Prior to the Level 3 acquisition, CenturyLink and Level 3 will each continue to market their respective products and services using the “CenturyLink” and “Level 3” brand names and logos. Following the acquisition, “CenturyLink” will be the brand name of the combined company. As a result, we expect to incur substantial costs in rebranding the combined company’s products and services in those markets that previously used the "Level 3" name, and may incur write-offs associated with the discontinued use of Level 3's brand names. We cannot assure you that customers will be receptive to our proposed rebranding efforts. The failure of any of these initiatives could adversely affect our ability to attract and retain customers after the acquisition, resulting in reduced revenues.

Consummation of the Level 3 acquisition will increase our exposure to the risk of operating internationally.
CenturyLink and, to a greater extent, Level 3 conduct international operations, which expose each of them to the risks described under the heading "Risks Effecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks." Consummation of the Level 3 acquisition will generally increase our exposure to these risks. In particular, we expect that our acquisition of Level 3 will increase our exposure to currency exchange rate risks and currency transfer restrictions. Moreover, the acquisition of Level 3's Latin American operations will expose CenturyLink to the economic and political risks of operating in those markets.
Level 3 has only recently generated net income, and has generated substantial net losses in the past.
As indicated in Level 3's consolidated financial statements included in its reports filed with the Securities and Exchange Commission ("SEC"), Level 3 has only generated net income for its three most recently completed full fiscal years, and generated substantial losses prior to then.
Counterparties to certain significant agreements with Level 3 may exercise contractual rights to terminate such agreements following the Level 3 acquisition.
Level 3 is a party to certain agreements that give the counterparty a right under certain conditions to terminate the agreement following a "change in control" of Level 3. Under most such agreements, the Level 3 acquisition will constitute a change in control and therefore the counterparty may terminate the agreement upon the closing of the acquisition, subject to the terms and conditions specified in such agreements. Level 3 has agreements subject to such termination provisions with significant customers, major suppliers and providers of services where Level 3 has acted as reseller or sales agent. In addition, certain Level 3 customer contracts, including those with state or federal government agencies, allow the customer to terminate the contract at any time for convenience, which would allow the customer to terminate its contract before, at or after the closing of the acquisition. Any such counterparty may request modifications of their respective agreements as a condition to foregoing exercise of their termination rights. There is no assurance that such agreements will not be terminated, that any such terminations will not result in a material adverse effect, or that any modifications of such agreements to avoid termination will not result in a material adverse effect.
We may be unable to obtain security clearances necessary to perform certain Level 3 government contracts.
Certain Level 3 legal entities and officers have security clearances required for Level 3's performance of customer contracts with various government entities. Following the acquisition, it may be necessary for us to obtain comparable security clearances. If we or our officers are unable to qualify for such security clearances, we may not be able to continue to perform such contracts.
We cannot assure you whether, when or in what amounts we will be able to use Level 3’s net operating loss carryforwards following the Level 3 acquisition.
As of December 31, 2016, Level 3 had approximately $9.0 billion of net operating loss carryforwards, ("NOLs"), which for U.S. federal income tax purposes can be used to offset future taxable income, subject to certain limitations under Section 382 of the Code and related Treasury regulations. Our ability to use these NOLs following the Level 3 acquisition would likely be further limited by Section 382 if Level 3 is deemed to undergo an ownership change as a result of the acquisition or CenturyLink is deemed to undergo an ownership change following the acquisition, either of which could restrict use of a material portion of the NOLs. Determining the limitations under Section 382 is technical and highly complex. Although the parties, based on their review to date, currently believe that Level 3 will undergo an ownership change as a result of the acquisition, neither company has definitively completed the analysis necessary to confirm this. Moreover, issuances or sales of our stock following the acquisition (including certain transactions outside of our control) could result in an ownership change of CenturyLink under Section 382, which may further limit its use of the NOLs. For these and other reasons, we cannot assure you that we will be able to use the NOLs after the acquisition in the amounts we project.

Our pending acquisition of Level 3 raises other risks.

Our pending acquisition of Level 3 and, upon completion thereof, our ownership of Level 3 raise additional risks not described above. For additional information, see (i) the definitive joint proxy statement/prospectus filed with the SEC by us on February 13, 2017 and (ii) Level 3's most recently filed annual report on Form 10-K, as updated by its subsequent quarterly reports on Form 10-Q.

Risks Relating to Legal and Regulatory Matters

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

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

Regulation of the telecommunications industry continues to change, and the regulatory environment varies substantially from jurisdiction to jurisdiction. A substantial portion of our local voice services revenue remains subject to FCC and state utility commission pricing regulation, which periodically exposes us to pricing or earnings disputes and could expose us to unanticipated price declines. In addition, from time to time carriers or other third parties refuse to pay for certain of our services, challenge our rights to receive certain service payments, file complaints requesting rate reductions or take other similar actions that have the potential to reduce our revenues. Our future revenues, costs, and capital investment could be adversely affected by material changes to or decisions regarding the applicability of government requirements, including, but not limited to, changes in rules governing intercarrier compensation, state and federal USF support, competition policies, pricing limitations or operational restrictions. There can be no assurance that future regulatory, judicial or legislative activities will not have a material adverse effect on our operations, or that regulators or third parties will not raise material issues with regard to our compliance or noncompliance with applicable regulations.

Changes in the composition and leadership of the FCC, state commissions and other agencies that regulate our business could have significant impacts on our revenues, expenses, competitive position and prospects. Changes in the composition and leadership of these agencies are often difficult to predict, and make future planning more difficult.

Risks associated with recent changes in regulation. Changes in regulation can have a material impact on our business, revenues or financial performance. Recent changes in federal regulations have substantially impacted our operations. In October 2011, the FCC adopted an order providing for a multi-year transition to a regulatory structure that reduces intercarrier compensation charges, redeploys universal service funding to newer technologies, and increases certain end-user charges. These changes, coupled with our participation in the new FCC support programs, has significantly impacted various aspects of our operations, financial results and capital expenditures, including the amount of revenues we collect from our wholesale customers and our receipt of federal support payments. We expect these impacts will continue in the future. For more information, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report.

In addition, during the last few years Congress or the FCC has initiated various other changes, including various broadband and Internet regulation initiatives and actions that will restrict our ability to discontinue or reduce certain services, even if unprofitable. Many of the FCC’s regulations adopted in recent years remain subject to judicial review and additional rulemakings, thus increasing the difficulty of determining the ultimate impact of these changes on us and our competitors.

Certain states have recently taken steps that could reduce the amount of their universal service support payments to incumbent local exchange companies. If these trends continue, we would suffer a reduction in our revenues from state support programs.

Risks of higher costs. Regulations continue to create significant operating and capital costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers.
Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to regulating broadband services, storing records, bolstering homeland security or cyber security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, restricting data collection, protecting intellectual property rights of third parties, or addressing other issues that impact our business, including (i) the Communications Assistance for Law Enforcement Act, which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance, (ii) the USA Freedom Act, which requires communication companies to store records of communications of their customers, and (iii) laws that have significantly enhanced our responsibilities relating to data security in certain jurisdictions. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations.
Increased risks of fines. We have recently paid certain regulatory fines associated with network or service outages, particularly with respect to outages impacting the availability of emergency - 911 services. Over the past couple of years, we believe that regulators have assessed substantially higher fines than in the past for these types of incidents, and it is possible this trend will continue.
Risks of reduced flexibility. As a diversified full service incumbent local exchange carrier in many of our key operating markets, we have traditionally been subject to significant regulation that does not apply to many of our competitors. This regulation in many instances restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. In particular, cable television companies in recent years have been able to exploit differences in regulatory oversight, which we believe has helped them to develop service offerings competitive with ours. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could increasingly impede our ability to compete.
Risks posed by other regulations. All of our operations are also subject to a variety of environmental, safety, health and other governmental regulations. We monitor our compliance with federal, state and local regulations governing the management, discharge and disposal of hazardous and environmentally sensitive materials. Although we believe that we are in compliance with these regulations in all material respects, our management, discharge or disposal of hazardous and environmentally sensitive materials might expose us to claims or actions that could potentially have a material adverse effect on our business, financial condition and operating results. For a discussion of regulatory risks associated with our international operations, see "Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks."
Our participation in the FCC's Connect America Fund ("CAF") Phase 2 support program poses certain risks.
Our participation in the FCC's CAF Phase 2 support program subjects us to certain financial risks. If we fail to attain certain specified infrastructure buildout requirements, the FCC could withhold future CAF support payments until these shortcomings are rectified. In addition, if we are not in compliance with FCC measures by the end of the CAF Phase 2 program, we would incur substantial penalties. To comply with the FCC's buildout requirements, we believe we will need to dedicate a substantial portion of our future capital expenditure budget to the construction of new infrastructure. The CAF-related expenditures could reduce the amount of funds we are willing or able to allocate to other initiatives or projects.
Regulation of the Internet could limit our ability to operate our broadband business profitably and to manage our broadband facilities efficiently.
In order to continue to provide quality broadband service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently for the benefit of all customers and to invest in our networks. In 2015, the FCC adopted new regulations that regulate broadband services as a public utility under Title II of the Communications Act. The ultimate impact of the new regulations will depend on several factors, including the manner in which the new regulations are implemented and enforced and whether those regulations are altered by the newly-constituted FCC or Congress. Although it is premature for us to determine the ultimate impact of the new regulations upon our operations, we currently anticipate that implementation of the

proposed rules could hamper our ability to operate our data networks efficiently, restrict our ability to implement network management practices necessary to ensure quality service, increase the cost of network extensions and upgrades, and otherwise negatively impact our current operations. Our service offerings could become subject to additional laws and regulations as they are adopted or applied to the Internet. As the significance of the Internet expands, federal, state, local or foreign governments may adopt new laws or regulations, or apply existing laws and regulations to the Internet. We cannot predict the outcome of any such changes.

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

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

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

There are several material proceedings pending against us, as described in Note 10—Commitments and Contingencies to our consolidated financial statements included in Item 1 of Part I of this report. Results of these legal proceedings cannot be predicted with certainty. Irrespective of its merits, litigation may be both lengthy and disruptive to our operations and could cause significant expenditure and diversion of management attention. Any of the proceedings described in Note 10, as well as current litigation not described therein or future litigation, could have a material adverse effect on our business, reputation, financial position or operating results. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

We are subject to franchising requirements that could impede our expansion opportunities or result in potential fines or penalties.

We may be required to obtain from municipal authorities operating franchises to install or expand certain facilities related to our fiber transport operations, our competitive local exchange carrier operations, and our facilities-based video services. Some of these franchises may require us to pay franchise fees. Many of our franchise agreements have compliance obligations and failure to comply may result in fines or penalties. In some cases, certain franchise requirements could delay us in expanding our operations or increase the costs of providing these services.

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

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

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see "Business—Regulation" in Item 1 of Part I of our annual report on Form 10-K for year ended December 31, 2016.

Risks Affecting Our Liquidity and Capital Resources

Our high debt levels expose us to a broad range of risks.

We continue to carry significant debt. As of June 30, 2017, the aggregate principal amount of our consolidated long-term debt, excluding unamortized discounts, net, unamortized debt issuance costs and capital lease and other obligations, was $24.683 billion. As of the date of this report, $1.984 billion aggregate principal amount of this long-term debt is scheduled to mature prior to June 30, 2020 (excluding debt that we expect to assume upon acquiring Level 3). While we currently believe we will have the financial resources to meet or refinance our obligations when they come due, we cannot fully anticipate our future performance or financial condition, the future condition of the credit markets or the economy generally.

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

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, refinancings or other general corporate purposes, particularly if, as discussed further in the risk factor disclosure below, (i) the ratings assigned to our debt securities by nationally recognized credit rating organizations are revised downward or (ii) we seek capital during periods of turbulent or unsettled market conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to the payment of interest and principal on our debt, thereby reducing the funds available to us for other purposes, including acquisitions, capital expenditures, strategic initiatives, dividends, stock repurchases, marketing and other potential growth initiatives;
- hindering our ability to capitalize on business opportunities and to plan for or react to changing market, industry, competitive or economic conditions;
- increasing our future borrowing costs;
- increasing the risk that third parties will be unwilling or unable to engage in hedging or other financial or commercial arrangements with us;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell securities or assets, possibly on unfavorable terms, or take other unfavorable actions to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments, either of which could result in the acceleration of some or all of our outstanding indebtedness.

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

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

Our current debt agreements and the debt agreements of our subsidiaries allow us to incur additional debt, which could exacerbate the other risks described in this report.

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

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

We have a significant amount of indebtedness that we intend to refinance over the next several years, principally through the issuance of debt securities of CenturyLink, Inc., Qwest Corporation or both. Our ability to arrange additional financing will depend on, among other factors, our financial position, performance, and credit ratings, as well as prevailing market conditions and other factors beyond our control. Global financial markets continue to be unpredictable and volatile. Prevailing market conditions could be adversely affected by (i) general market conditions, such as disruptions in domestic or overseas sovereign or corporate debt markets, geo-political instabilities, contractions or limited growth in the economy or other similar adverse economic developments in the U.S. or abroad and (ii) specific conditions in the communications industry. Volatility in the global markets could limit our access to the credit markets, leading to higher borrowing costs or, in some cases, the inability to obtain financing on terms that are as favorable as those from which we previously benefited, on terms that are acceptable to us, or at all. Any such failure to obtain additional financing could jeopardize our ability to repay, refinance or reduce our debt obligations.

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

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;
- we engage in additional acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;

- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal income taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements, including in connection with one or more of the matters discussed in Note 10—Commitments and Contingencies to our consolidated financial statements included elsewhere in this report.

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

In addition, our ability to borrow funds in the future will depend in part on the satisfaction of the covenants in our credit facilities and other debt instruments. If we are unable to satisfy the covenants contained in those instruments, or are unable to generate cash sufficient to make required debt payments, the parties to whom we are indebted could accelerate the maturity of some or all of our outstanding indebtedness. Certain of our debt instruments have cross-default or cross-acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument.

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

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

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

A downgrade of any of these credit ratings could:

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

Following the announcement of our pending acquisition of Level 3, the three principal domestic credit rating organizations placed CenturyLink's senior unsecured debt ratings on review for downgrade, on negative watch or on watch with negative implications. For more information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Debt and Other Financing Arrangements” in Item 2 of Part I of this report.

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

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

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

Our business is capital intensive, and we anticipate that our capital requirements will continue to be significant in the coming years.

We expect to invest additional capital to expand and enhance our network infrastructure as a result of several factors, including:

- our regulatory commitments, including infrastructure construction requirements arising out of our participation in the FCC's CAF Phase 2 program, which are discussed further herein;
- increased demands by customers to transmit larger amounts of data at faster speeds;
- changes in customers' service requirements;
- technological advances of our competitors; or
- the development and launch of new services.

We may be unable to expand or adapt our network infrastructure to respond to these developments in a timely manner, at a commercially reasonable cost or on terms producing satisfactory returns on our investment.

In addition to investing in expanded networks, new products or new technologies, we must from time to time invest capital to (i) replace some of our aging equipment that supports many of our legacy services that are experiencing revenue declines or (ii) convert older systems to simplify and modernize our network. While we believe that our currently planned level of capital expenditures will meet both our maintenance and core growth requirements, this may not be the case if demands on our network continue to accelerate or other circumstances underlying our expectations change. Increased spending could, among other things, adversely affect our operating margins, cash flows, results of operations and financial position.

Similarly, we continue to anticipate incurring substantial operating expenses to support our incumbent services and growth initiatives. We may be unable to sufficiently manage or reduce these costs, even if revenues in some of our lines of business are decreasing. If so, our operating margins will be adversely impacted.

Our senior notes are unsecured and will be effectively subordinated to any secured indebtedness.

Our currently outstanding senior notes are unsecured and are effectively subordinated to any of our existing or future secured indebtedness, to the extent of the value of the assets securing such indebtedness. In the event of a bankruptcy or similar proceeding, collateral for any secured indebtedness would generally be available to satisfy our obligations under such secured indebtedness, and would not be expected to be available to satisfy other claims.

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

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

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

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

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

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

- our supply of cash or other liquid assets is anticipated to remain under pressure due to declining cash flows from operating activities, increased payments of post-retirement benefits and our projected payment of higher cash taxes prior to the pending Level 3 acquisition and might be further negatively impacted by any of the potential adverse events or developments described in this report, including (i) changes in competition, regulation, federal and state support, technology, taxes, capital markets, operating costs or litigation costs, or (ii) the impact of any liquidity shortfalls caused by the below-described restrictions on the ability of our subsidiaries to lawfully transfer cash to us;
- our cash requirements or plans might change for a wide variety of reasons, including changes in our capital allocation plans (including a desire to retain or accumulate cash), capital spending plans, stock purchase plans, acquisition strategies, strategic initiatives, debt payment plans (including a desire to maintain or improve credit ratings on our debt securities), pension funding payments, or financial position;
- our ability to service and refinance our current and future indebtedness and our ability to borrow or raise additional capital to satisfy our capital needs;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and restrictions imposed by our existing or future credit facilities, debt securities, outstanding preferred stock securities, leases and other agreements, including restricted payment and leverage covenants; and
- the amount of cash that our subsidiaries may make available to us, whether by dividends, loans or other payments, may be subject to the legal, regulatory and contractual restrictions described in the immediately preceding risk factor.

Based on its evaluation of these and other relevant factors, our Board of Directors may, in its sole discretion, decide not to declare a dividend on our common stock or our outstanding shares of preferred stock for any period for any reason without prior notice, regardless of whether we have funds legally available for such purposes. Holders of our equity securities should be aware that they have no contractual or other legal right to receive dividends.

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

Our current dividend practices could limit our ability to deploy cash for other beneficial purposes.
The current practice of our Board of Directors to pay common share dividends reflects a current intention to distribute to our shareholders a substantial portion of our cash flow. As a result, we may not retain a sufficient amount of cash to apply to other transactions that could be beneficial to our shareholders or debtholders, including stock buybacks, debt prepayments or capital expenditures that strengthen our business. In addition, our ability to pursue any material expansion of our business through acquisitions or increased capital spending may depend more than it otherwise would on our ability to obtain third party financing.
We cannot assure you whether, when or in what amounts we will be able to use our state net operating loss carryforwards, or when they will be depleted.
At December 31, 2016, we had state NOL carryforwards of approximately $11.9 billion. A significant portion of the state NOL carryforwards are generated in states where separate company income tax returns are filed and our subsidiaries that generated the losses may not have the ability to generate income in sufficient amounts to realize these losses. In addition, certain of these state NOL carryforwards will be limited by state laws related to ownership changes. As a result, we expect to utilize only a small portion of the state NOL carryforwards, and consequently have determined that as of December 31, 2016, these state NOL carryforwards, net of federal benefit, had a net tax benefit (after giving effect to our valuation allowance) of $131 million.
Increases in costs for pension and healthcare benefits for our active and retired employees may reduce our profitability and increase our funding commitments.
With approximately 36,000 active employees, approximately 72,000 active and retired employees and surviving spouses eligible for post-retirement benefits, approximately 68,000 pension retirees and approximately 14,000 former employees with vested pension benefits participating in our benefit plans as of December 31, 2016, the costs of pension and healthcare benefits for our active and retired employees have a significant impact on our profitability. Our costs of maintaining our pension and healthcare plans, and the future funding requirements for these plans, are affected by several factors, most of which are outside our control, including:

- decreases in investment returns on funds held by our pension and other benefit plan trusts;
- changes in prevailing interest rates and discount rates or other factors used to calculate the funding status of our pension and other post-retirement plans;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- increasing longevity of our employees and retirees;
- the impact of the continuing implementation, modification or potential repeal of current federal healthcare legislation and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- increases in insurance premiums we are required to pay to the Pension Benefit Guaranty Corporation, an independent agency of the United States government that must cover its own underfunded status by collecting premiums from an ever shrinking population of pension plans that are qualified under the U.S. tax code;
- changes in plan benefits; and
- changes in funding laws or regulations.

Increased costs under these plans could reduce our profitability and increase our funding commitments to our pension plans. Any future material cash contributions could have a negative impact on our liquidity by reducing our cash flows available for other purposes. Similarly, depletion of assets placed in trust by us to fund these benefits, such as those discussed elsewhere herein, will similarly reduce our liquidity by reducing our cash flows available for other purposes.
As of December 31, 2016, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 9—Employee Benefits to our consolidated financial statements included in Item 8 of our annual report on Form 10-K for the year ended December 31, 2016. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations" included in Item 2 of Part I of this report.

For additional information concerning our liquidity and capital resources, see Item 2 of Part I of this report. For a discussion of certain currency and liquidity risks associated with our international operations, see "Risk Factors—Risks Affecting Our Business—Our international operations expose us to various regulatory, currency, tax, legal and other risks."

Other Risks

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

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

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

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. Our critical accounting policies, which are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in Item 7 of Part II of our annual report on Form 10-K for the year ended December 31, 2016, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered “critical” because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

While frequently presented with numeric specificity, the guidance and other forward-looking statements that we disseminate from time to time is based on numerous variables and assumptions (including, but not limited to, those related to industry performance and competition and general business, economic, market and financial conditions and additional matters specific to our business, as applicable) that are inherently subjective and speculative and are largely beyond our control. As a result, actual results may differ materially from our guidance or other forward-looking statements. For additional information, see "Special Note Regarding Forward-Looking Statements and Related Matters" in Item 1 of Part I of our annual report on Form 10-K for the year ended December 31, 2016.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect our operations, profitability or reputation.

There can be no assurance that our disclosure controls and procedures will be effective in the future or that we will not experience a material weakness or significant deficiency in internal control over financial reporting. Any such lapses or deficiencies may materially and adversely affect our business, operating results or financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, including litigation brought by private individuals, subject us to fines, penalties or judgments, harm our reputation, or otherwise cause a decline in investor confidence and our stock price.

If our goodwill or other intangible assets become impaired, we may be required to record a significant charge to earnings and reduce our stockholders' equity.

As of June 30, 2017, approximately 46% of our total consolidated assets reflected on the consolidated balance sheet included in this report consisted of goodwill, customer relationships and other intangible assets. Under U.S. generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time (most recently for the third quarter of 2013), we have recorded large non-cash charges to earnings in connection with required reductions of the value of our intangible assets. If our intangible assets are determined to be impaired in the future, we may be required to record additional significant, non-cash charges to earnings during the period in which the impairment is determined to have occurred. Any such charges could, in turn, have a material adverse effect on our results of operation, financial condition or ability to comply with financial covenants in our debt instruments.

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

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

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

Legislators and regulators at all levels of government may from time to time change existing tax laws or regulations or enact new laws or regulations that could negatively impact our operating results or financial condition. The new U.S. Presidential administration has proposed changes to fiscal and tax policies, which may include comprehensive tax reform. Although we cannot at this time predict the impact of these changes on our business, they could be material.

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

A number of provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyLink unless the takeover is approved by our Board of Directors. These provisions could deprive our shareholders of any related takeover premium. For additional information, please see our Registration Statement on Form 8-A/A filed with the SEC on March 2, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table contains information about shares of our previously-issued common stock that we withheld from employees upon vesting of their stock-based awards during the second quarter of 2017 to satisfy the related minimum tax withholding obligations:

Period	Total Number of Shares Withheld for Taxes	Average Price Paid Per Share
April 2017	20,621	$ 23.82
May 2017	1,403	23.60
June 2017	11,918	25.41
Total	33,942	

ITEM 6. EXHIBITS

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

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of October 31, 2016, by and among CenturyLink, Inc., Level 3 Communications, Inc., Wildcat Merger Sub 1 LLC and WWG Merger Sub LLC (incorporated by reference to Exhibit 2.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 3, 2016).
3.1	Amended and Restated Articles of Incorporation of CenturyLink, Inc., as amended through May 23, 2012 (incorporated by reference to Exhibit 3.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on May 30, 2012).
3.2	Bylaws of CenturyLink, Inc., as amended and restated through February 4, 2016 (incorporated by reference to Exhibit 3.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).
4.1	Form of common stock certificate (incorporated by reference to Exhibit 4.10 of CenturyLink, Inc.'s Registration Statement on Form S-3 filed with the Securities and Exchange Commission on March 2, 2012 (Registration No. 333-179888)).
4.2	Instrument relating to CenturyLink Escrow, LLC's Credit Agreement
	a. Credit Agreement, dated as of June 19, 2017, by and among CenturyLink Escrow, LLC and the lenders and agents named

therein (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 20, 2017).

4.3	Instruments relating to CenturyLink, Inc.'s Revolving Credit Facility.	
	a.	Amended and Restated Credit Agreement, dated as of April 6, 2012, by and among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012, as amended by the First Amendment to Amended and Restated Credit Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the lenders and agents named therein (incorporated by reference to Exhibit 4.3 of

CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).

b. Guarantee Agreement, dated as of April 6, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 11, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.2(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the Amendment to Guarantee Agreement and Reaffirmation

		Agreement, dated as of December 3, 2014, among CenturyLink, Inc. and the affiliated guarantors named therein (incorporated by reference to Exhibit 4.4 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on December 5, 2014).
4.4	Instruments relating to CenturyLink, Inc.'s Term Loan.	
	a.	Credit Agreement, dated as of April 18, 2012, by and among CenturyLink, Inc., the several banks and other financial institutions or entities from time to time parties thereto, and CoBank, ACB, as administrative agent (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as amended by the amendment dated as of March 13, 2015 (incorporated by reference to Exhibit 4.3(a) of

CenturyLink's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (File No. 001-07784) filed with the Securities and Exchange Commission on May 6, 2015).

Exhibit Number	Description
	b. Guarantee Agreement, dated as of April 18, 2012, by and among the original guarantors named therein (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 20, 2012), as assumed by two additional guarantors under an assumption agreement, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.3(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013), as amended by the amendment dated as of March 13, 2015 (incorporated by reference to Exhibit 4.3(b) of CenturyLink's Quarterly Report on Form 10-Q for the period ended March 31, 2015 (File No. 001-07784) filed with the Securities and Exchange Commission on May 6, 2015).
4.5	Instruments relating to CenturyLink, Inc.'s public senior debt.[1]
	a. Indenture, dated as of March 31, 1994, by and between Century Telephone Enterprises, Inc. (currently named CenturyLink, Inc.) and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana), as Trustee.
	(i). Form of 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996).
	(ii). Form of 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on March 16, 1998).
	b. Fifth Supplemental Indenture, dated as of September 21, 2009, by and between CenturyTel, Inc. (currently named CenturyLink, Inc.) and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
	(i). Form of 7.60% Senior Notes, Series P, due 2039 and 6.15% Senior Notes, Series Q, due 2019 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on September 22, 2009).
	c. Sixth Supplemental Indenture, dated as of June 16, 2011, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
	(i). Form of 5.15% Senior Notes, Series R, due 2017 and 6.45% Senior Notes, Series S, due 2021 (incorporated by reference to Exhibit A to Exhibit 4.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 16, 2011).
	d. 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).
	e. Eighth Supplemental Indenture, dated as of March 21, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on

Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).

(i). Form of 5.625% Senior Notes, Series V, due 2020 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 21, 2013).

f. Ninth Supplemental Indenture, dated as of November 27, 2013, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit 4.1 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).

Exhibit Number	Description
	(i). Form of 6.75% Senior Notes, Series W, due 2023 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on November 27, 2013).
	g. Tenth Supplemental Indenture, dated as of March 19, 2015, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit 4.2 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).
	(i). Form of 5.625% Senior Notes, Series X, due 2025 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on March 19, 2015).
	h. Eleventh Supplemental Indenture, dated as of April 6, 2016, by and between CenturyLink, Inc. and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyLink's 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit 4.2 of CenturyLink's Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).
	(i). Form of 7.5% Senior Notes, Series Y, due 2024 (incorporated by reference to Exhibit A to Exhibit 4.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on April 6, 2016).
4.6	Instruments relating to indebtedness of Qwest Communications International, Inc. and its subsidiaries.[(1)]
	a. Indenture, dated as of April 15, 1990, by and between The Mountain States Telephone and Telegraph Company (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.2 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
	(i). First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
	b. Indenture, dated as of April 15, 1990, by and between Northwestern Bell Telephone Company (predecessor to Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.5(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on May 10, 2012).
	(i). First Supplemental Indenture, dated as of April 16, 1991, by and between U S WEST Communications, Inc. (currently named Qwest Corporation) and The First National Bank of Chicago (incorporated by reference to Exhibit 4.3 of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 2002 (File No. 001-03040) filed with the Securities and Exchange Commission on January 13, 2004).
	c. Indenture, dated as of June 29, 1998, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and The First National Bank of Chicago, as trustee (incorporated by reference to Exhibit 4(a) of U S WEST, Inc.'s Current Report on Form 8-K (File No. 001-14087) filed with the Securities and Exchange Commission on November 18, 1998).
	(i). First Supplemental Indenture, dated as of June 30, 2000, by and among U S WEST Capital Funding, Inc. (currently named Qwest Capital Funding, Inc.), U S WEST, Inc. (predecessor to Qwest Communications International Inc.) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4.10 of Qwest Communications International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2000 (File No. 001-15577) filed with the Securities and Exchange Commission on August 11, 2000).

d. Indenture, dated as of October 15, 1999, by and between US West Communications, Inc. (currently named Qwest Corporation) and Bank One Trust Company, N.A., as trustee (incorporated by reference to Exhibit 4(b) of Qwest Corporation's annual report on Form 10-K for the year ended December 31, 1999 (File No. 001-03040) filed with the Securities and Exchange Commission on March 3, 2000).

(i). 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).

Exhibit Number	Description
	(ii). 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).
	(iii). Tenth Supplemental Indenture, dated as of April 2, 2012, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.11 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on March 30, 2012).
	(iv). 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).
	(v). Twelfth Supplemental Indenture, dated as of May 23, 2013, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.13 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on May 22, 2013).
	(vi). Thirteenth Supplemental Indenture, dated as of September 29, 2014, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.14 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 26, 2014).
	(vii). Fourteenth Supplemental Indenture, dated as of September 21, 2015, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.15 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on September 21, 2015).
	(viii). Fifteenth Supplemental Indenture, dated as of January 29, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.16 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with the Securities and Exchange Commission on January 29, 2016).
	(ix). Sixteenth Supplemental Indenture, dated as of August 22, 2016, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.17 of Qwest Corporation's Form 8-A (File No. 001-03040) filed with Securities and Exchange Commission on August 22, 2016).
	(x). Seventeenth Supplemental Indenture dated as of April 27, 2017, by and between Qwest Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.18 of Qwest Corporation's Form 8-A (File No. 03040) filed with the Securities and Exchange Commission on April 27, 2017.
	e. Credit Agreement, dated as of February 20, 2015, by and among Qwest Corporation, the several lenders from time to time parties thereto, and CoBank, ACB, as administrative agent.
4.7	Instruments relating to indebtedness of Embarq Corporation.[1]
	a. Indenture, dated as of May 17, 2006, by and between Embarq Corporation and J.P. Morgan Trust Company, National Association, a national banking association, as trustee (incorporated by reference to Exhibit 4.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32732) filed with the Securities and Exchange Commission on May 18, 2006).
	b. 7.995% Global Note due 2036 of Embarq Corporation (incorporated by reference to Exhibit 4.4 to Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-32372) filed with the Securities and Exchange Commission on March 9, 2007).
4.8	Intercompany debt instruments.
	a. Revolving Promissory Note, dated as of April 2, 2012 pursuant to which Embarq Corporation may borrow from an affiliate of CenturyLink, Inc. up to $2.5 billion on a revolving basis (incorporated by reference to

Exhibit 4.7(a) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).

b. Revolving Promissory Note, dated as of April 18, 2012, pursuant to which Qwest Corporation may borrow from an affiliate of CenturyLink, Inc. up to $1.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(b) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2012 (File No. 001-07784) filed with the Securities and Exchange Commission on November 8, 2012).

Exhibit Number	Description
	c. Revolving Promissory Note, dated as of September 27, 2012, pursuant to which Qwest Communications International, Inc. may borrow from an affiliate of CenturyLink, Inc. up to $3.0 billion on a revolving basis (incorporated by reference to Exhibit 4.7(c) of CenturyLink Inc.'s annual report on Form 10-K for the year ended December 31, 2012 (File No. 001-07844) filed with the Securities and Exchange Commission on March 1, 2013).
10.1	CenturyLink 2011 Equity Incentive Plan, as amended through May 18, 2016 (incorporated by reference to Appendix A of CenturyLink, Inc.'s Proxy Statement for its 2016 Annual Meeting of Shareholders (File No. 001-07784) filed with the Securities and Exchange Commission on April 5, 2016).
	(i). Form of Restricted Stock Agreement for non-management directors used since 2011 (incorporated by reference to Exhibit 10.1(a) (ii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on August 9, 2011).
	(ii). Form of Restricted Stock Agreement for executive officers used for annual recurring grants since May 2013 (incorporated by reference to Exhibit 10.2(i) (iii) of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2013).
	(iii).* Form of Restricted Stock Agreement for special retention award grants made to certain executive officers on June 1, 2017.
	(iv).* Form of Restricted Stock Agreement for special integration award grants made to certain executive officers on June 1, 2017.
10.2	Key Employee Incentive Compensation Plan, dated as of January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1995 (File No. 001-07784) filed with the Securities and Exchange Commission on March 18, 1996) and amendment thereto dated as of November 21, 1996 (incorporated by reference to Exhibit 10.1(f) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1996 (File No. 001-07784) filed with the Securities and Exchange Commission on March 17, 1997), amendment thereto dated as of February 25, 1997 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 1997 (File No. 001-07784) filed with the Securities and Exchange Commission on May 8, 1997), amendment thereto dated as of April 25, 2001 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on May 15, 2001), amendment thereto dated as of April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2001 (File No. 001-07784) filed with the Securities and Exchange Commission on March 15, 2002) and amendment thereto dated as of February 27, 2007 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on August 8, 2007).
10.3	Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2007 (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2008) and amendment thereto dated as of October 24, 2008 (incorporated by reference to Exhibit 10.3(c) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on February 27, 2009) and amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.4	Supplemental Defined Benefit Pension Plan, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File

	No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
10.5	Amended and Restated Salary Continuation (Disability) Plan for Officers, dated as of November 26, 1991 (incorporated by reference to Exhibit 10.16 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 1991).
10.6	2015 Executive Officer Short-Term Incentive Program (incorporated by reference to Exhibit A of CenturyLink's 2015 Proxy Statement on Form 14A (File No. 001-07784) filed with the Securities and Exchange Commission on April 8, 2015).
10.7	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its directors as of February 24, 2016 (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).
10.8	Form of Indemnification Agreement entered into between CenturyLink, Inc. and each of its officers as of February 24, 2016 (incorporated by reference to Exhibit 10.2 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on February 29, 2016).

Exhibit Number	Description
10.9	Change of Control Agreement, effective January 1, 2011, by and between Glen F. Post, III and CenturyLink, Inc. (incorporated by reference to Exhibit 10.11 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.10	Form of Change of Control Agreement, effective January 1, 2011 between CenturyLink, Inc. and each of its other executive officers (incorporated by reference to Exhibit 10.12 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on March 1, 2011).
10.11	CenturyLink Executive Severance Plan (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2014 (File No. 001-07784) filed with the Securities and Exchange Commission on February 24, 2015.)
10.12	Amended and Restated CenturyLink, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008 (incorporated by reference to Exhibit 10.4 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2008 (File No. 001-07784) filed with the Securities and Exchange Commission on May 7, 2008) and First Amendment thereto (incorporated by reference to Exhibit 10.13 of CenturyLink, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2010 (File No. 001-07784) filed with the Securities and Exchange Commission on November 5, 2010).

10.13	Form of integration award grant letter, dated June 1, 2017, entered into between CenturyLink, Inc. and certain officers (incorporated by reference to Exhibit 10.1 of CenturyLink, Inc.'s Current Report on Form 8-K (File No. 001-07784) filed with the Securities and Exchange Commission on June 1, 2017).	
10.14	Certain Material Agreements and Plans of Key Subsidiaries	
	a.	Embarq Corporation 2006 Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 99.1 of the Registration Statement on Form S-8 filed by CenturyLink, Inc. (File No. 001-07784) filed with the Securities and Exchange Commission on July 1, 2009).
	b.	Form of 2007 Award Agreement for executive officers of Embarq Corporation (incorporated by reference to Exhibit 10.1 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on February 27, 2007).
	c.	Form of Stock Option Award Agreement

(incorporated by reference to Exhibit 10.3 of Embarq Corporation's Current Report on Form 8-K (File No. 001-32372) filed with the Securities and Exchange Commission on March 4, 2008).

d. Embarq Supplemental Executive Retirement Plan, as amended and restated as of January 1, 2009 (incorporated by reference to Exhibit 10.27 of Embarq Corporation's annual report on Form 10-K for the year ended December 31, 2008 (File No. 001-32372) filed with the Securities and Exchange Commission on February 13, 2009), amendment thereto dated as of December 27, 2010 (incorporated by reference to Exhibit 10.14(o) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-07784) filed with the Securities and

	Exchange Commission on March 1, 2011) and second amendment thereto as of dated as of November 15, 2011 (incorporated by reference to Exhibit 10.14(k) of CenturyLink, Inc.'s annual report on Form 10-K for the year ended December 31, 2011 (File No. 001-07784) filed with the Securities and Exchange Commission on February 28, 2012).
e.	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).
f.	Forms of restricted stock, performance share and option agreements used under Equity Incentive Plan, as amended and restated (incorporated by reference to Exhibit 10.2 of Qwest

Communications International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on October 24, 2005; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2005 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 001-15577) filed with the Securities and Exchange Commission on May 3, 2006; Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2006 (File No. 001-15577) filed with the

Securities and Exchange Commission on February 8, 2007; Exhibit 10.3 of Qwest Communication International Inc.'s Current Report on Form 8-K (File No. 001-15577) filed with the Securities and Exchange Commission on September 15, 2008; Exhibit 10.2 of Qwest Communication International Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on April 30, 2009; and Exhibit 10.2 of Qwest Communication International Inc.'s annual report on Form 10-K for the year ended December 31, 2010 (File No. 001-15577) filed with the Securities and Exchange Commission on February 15, 2011).

Exhibit Number	Description	
	g.	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).
h.	Qwest Nonqualified Pension Plan (incorporated by reference to Exhibit 10.9 of Qwest Communications International Inc.'s annual report on Form 10-K for the year ended December 31, 2009 (File No. 001-15577) filed with the Securities and Exchange Commission on February 16, 2010).
i.	SAVVIS, Inc. Amended and Restated 2003 Incentive Compensation Plan (incorporated by reference to Exhibit 10.4 of SAVVIS, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2006 (File No. 000-29375) filed with the Securities and

Exchange
Commission on
May 5, 2006), as
amended by
Amendment No. 1
(incorporated by
reference to
Exhibit 10.6 of
SAVVIS, Inc.'s
annual report on
Form 10-K for the
year ended
December 31, 2006
(File
No. 000-29375)
filed with the
Securities and
Exchange
Commission on
February 26, 2007);
Amendment No. 2
(incorporated by
reference to
Exhibit 10.1 of
SAVVIS, Inc.'s
Current Report on
Form 8-K (File
No. 000-29375)
filed with the
Securities and
Exchange
Commission on
May 15, 2007);
Amendment No. 3
(incorporated by
reference to
Exhibit 10.3 of
SAVVIS, Inc.'s
Quarterly Report
on Form 10-Q for
the period ended
June 30, 2007 (File
No. 000-29375)
filed with the
Securities and
Exchange
Commission on
July 31, 2007;
Amendment No. 4
(incorporated by
reference to Exhibit

	10.1 of SAVVIS, Inc.'s Current Report on Form 8-K (file No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009); and Amendment No. 5 (incorporated by reference to Exhibit 10.2 of SAVVIS, Inc.'s Current Report on Form 8-K (File No. 000-29375) filed with the Securities and Exchange Commission on May 22, 2009).
12*	Ratio of Earnings to Fixed Charges
31.1*	Certification of the Chief Executive Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Chief Financial Officer of CenturyLink, Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Certification of the Chief Executive Officer and Chief Financial Officer of CenturyLink, Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Financial statements from the Quarterly Report on Form 10-Q of CenturyLink, Inc. for the period ended June 30, 2017, 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 Consolidated Financial Statements.

*Exhibit filed herewith.

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(1)

Certain of the items in Sections 4.5, 4.6 and 4.7 (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.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 4, 2017.

CENTURYLINK, INC.

By: /s/ DAVID D. COLE
David D. Cole
Executive Vice President, Controller and Operations Support
(Chief Accounting Officer)

86