CENTURYLINK, INC
Form 10-K
February 27, 2014
Table of Contents

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
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 | 72-0651161 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 100 CenturyLink Drive, Monroe, Louisiana | 71203 |
| (Address of principal executive offices) | (Zip Code) |

(318) 388-9000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: Stock Options
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý
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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

| | | | |
|---|---|---|---|
| Large accelerated filer ý | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company 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 February 18, 2014, 577,955,329 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2013 was $21.3 billion.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2014 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

Table of Contents

TABLE OF CONTENTS


| | |
|---|---|
| PART I | |
| Item 1. Business | 3 |
| Item 1A. Risk Factors | 17 |
| Item 1B. Unresolved Staff Comments | 32 |
| Item 2. Properties | 33 |
| Item 3. Legal Proceedings | 34 |
| Item 4. Mine Safety Disclosures | 36 |
| PART II | |
| Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 37 |
| Item 6. Selected Financial Data | 39 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 41 |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk | 69 |
| Item 8. Consolidated Financial Statements and Supplementary Data | 70 |
| Consolidated Statements of Operations | 73 |
| Consolidated Statements of Comprehensive Income (Loss) | 74 |
| Consolidated Balance Sheets | 75 |
| Consolidated Statements of Cash Flows | 76 |
| Consolidated Statements of Stockholders' Equity | 77 |
| Notes to Consolidated Financial Statements | 78 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 127 |
| Item 9A. Controls and Procedures | 127 |
| Item 9B. Other Information | 127 |
| PART III | |
| Item 10. Directors, Executive Officers and Corporate Governance | 127 |
| Item 11. Executive Compensation | 127 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 128 |
| Item 13. Certain Relationships and Related Transactions and Director Independence | 128 |
| Item 14. Principal Accountant Fees and Services | 128 |
| PART IV | |
| Item 15. Exhibits and Financial Statement Schedules | 129 |
| Signatures | 142 |

Table of Contents

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

# PART I

## ITEM 1. BUSINESS

### Overview

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

Based on our approximately 13.0 million total access lines at December 31, 2013, we believe we are the third largest wireline telecommunications company in the United States. We operate almost 75% of our total access lines in portions of Colorado, Arizona, Washington, Florida, Minnesota, North Carolina, Oregon, Utah, Iowa, New Mexico, Missouri, and Nevada. We also provide local service in portions of Idaho, Ohio, Wisconsin, Virginia, Texas, Pennsylvania, Alabama, Montana, Nebraska, Indiana, Arkansas, Tennessee, Wyoming, New Jersey, South Dakota, North Dakota, Kansas, Louisiana, Michigan, South Carolina, Illinois, Georgia, Mississippi, Oklahoma, and California. In the portion of these 37 states where we have access lines, which we refer to as our local service area, we are the incumbent local telephone company.

At December 31, 2013 we served approximately 6.0 million broadband subscribers. We also operate 55 data centers throughout North America, Europe and Asia. We define a data center as any facility where we market, sell and deliver either colocation services, multi-tenant managed services, or both.

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

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

### Acquisitions

#### Acquisition of Savvis

On July 15, 2011, we acquired all of the outstanding common stock of Savvis, a provider of cloud hosting, managed hosting, colocation and network services in domestic and international markets. We believe this acquisition enhanced our ability to provide information technology services to our existing business customers and strengthened our ability to attract new business customers. The aggregate consideration paid for Savvis was $2.382 billion (determined in the manner described in Note 2—Acquisitions to our consolidated financial statements in Item 8 of this annual report), which consisted of converting each share of Savvis common stock outstanding immediately prior to the acquisition into $30 per share in cash and 0.2479 shares of CenturyLink common stock. Upon completing the acquisition, we also paid $547 million to retire certain pre-existing Savvis debt and accrued interest.

Table of Contents

Acquisition of Qwest

On April 1, 2011, we acquired all of the outstanding common stock of Qwest, a provider of data, broadband, video and voice services nationwide and globally. We entered into this acquisition, among other things, to realize certain strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks. As of the acquisition date, Qwest served approximately 9.0 million access lines and approximately 3.0 million broadband subscribers across 14 states. The aggregate consideration paid for Qwest was $12.273 billion (determined in the manner described in Note 2—Acquisitions to our consolidated financial statements in Item 8 of this annual report), which consisted of converting each share of Qwest common stock outstanding immediately prior to the acquisition into 0.1664 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. We assumed approximately $12.7 billion of long-term debt in connection with our acquisition of Qwest.

Other Acquisitions

During 2013, we acquired two technology companies for $160 million in cash to expand and strengthen the product offerings of our data hosting operations. For additional information, see Note 2—Acquisitions to our consolidated financial statements in Item 8 of this annual report.

Impact of Recent Acquisitions

Prior to our acquisition of Embarq Corporation (“Embarq”) in 2009, we provided traditional voice and Internet services mainly to residential customers in predominantly rural areas and small to mid-size cities in 25 states. As a result of our 2009 Embarq acquisition and 2011 Qwest and Savvis acquisitions, we now (i) serve residential and business customers in several major U.S. cities, including Denver, Colorado, Phoenix, Arizona, Minneapolis - St. Paul, Minnesota, Seattle, Washington, Portland, Oregon, Las Vegas, Nevada and Salt Lake City, Utah and (ii) conduct international operations in several locations throughout Europe, Asia and Canada. Although almost a quarter of the total square miles located within the local service area of our U.S. wireline operations is rural, over 95% of our residential customers live in urban areas. In addition, the portion of our aggregate revenues derived from business, governmental and wholesale consumers has increased substantially since 2009. For more information, see “Risk Factors—Risks Relating to our Recent Acquisitions” in Item 1A of this annual report.

Potential Acquisitions

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

References to Acquired Businesses

In the discussion that follows, we refer to the incremental business activities that we now operate as a result of the Savvis acquisition and the Qwest acquisition as "Legacy Savvis" and "Legacy Qwest", respectively. References to "Legacy CenturyLink", when used in reference to a comparison of our consolidated results for the year ended December 31, 2011, mean the business we operated prior to the Qwest and Savvis acquisitions.

Financial and Operational Highlights

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Dollars in millions) | | |
| Statements of operations summary data: | | | |
| Operating revenues | $18,095 | 18,376 | 15,351 |
| Operating expenses | 16,642 | 15,663 | 13,326 |
| Operating income | $1,453 | 2,713 | 2,025 |
| Net (loss) income | $(239) | 777 | 573 |

Table of Contents

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

| | December 31, 2013 | December 31, 2012 |
|---|---|---|
| | (Dollars in millions) | |
| Balance sheets summary data: | | |
| Total assets | $51,787 | 53,940 |
| Total long-term debt (1) | 20,966 | 20,605 |
| Total stockholders' equity | 17,191 | 19,289 |

(1) Total long-term debt is the sum of current maturities of long-term debt and long-term debt on our consolidated balance sheets. For total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of this annual report.

The following table summarizes certain of our operational metrics:

| | As of December 31, 2013 | 2012 (2) | 2011 (2) |
|---|---|---|---|
| | (in thousands except for data centers, which are actuals) | | |
| Operational metrics: | | | |
| Total broadband subscribers (1) | 5,991 | 5,851 | 5,655 |
| Total access lines (1) | 13,002 | 13,751 | 14,587 |
| Total data centers (3) | 55 | 54 | 51 |

(1) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables, and access lines are lines reaching from the customers' premises to a connection with the public network.

(2) The prior year numbers have been adjusted to include the operational metrics of our wholly owned subsidiary, El Paso County Telephone Company, which had been previously excluded. The increase (in thousands) related to including El Paso County Telephone Company's broadband subscribers and access lines, in the table above, is approximately 3 and 3, respectively.

(3) Data centers are located throughout North America, Europe and Asia.

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

Operations

Segments

During the first quarter of 2013, we announced a reorganization of our operating segments. Consequently, we now report the following four segments in our consolidated financial statements:

- Consumer. Consists generally of providing strategic and legacy products and services to residential consumers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance service;
- Business. Consists generally of providing strategic and legacy products and services to commercial, enterprise, global and governmental customers. Our strategic products and services offered to these customers include our private line, broadband, Ethernet, MPLS, Voice over Internet Protocol ("VoIP"), and network management services. Our legacy services offered to these customers include local and long-distance service;

Table of Contents

- Wholesale. Consists generally of providing strategic and legacy products and services to other communications providers. Our strategic products and services offered to these customers are mainly private line (including special access), dedicated internet access, digital subscriber line ("DSL") and MPLS. Our legacy services offered to these customers include the resale of our services, the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services and other services, including billing and collection, pole rental, floor space and database services; and
- Data hosting. Consists primarily of providing colocation, managed hosting and cloud hosting services to commercial, enterprise, global and governmental customers.

The following tables shows the composition of our revenues by segment under our current segment categorization as of December 31, 2013, 2012 and 2011.

| | Years Ended December 31, | | | Percent Change | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 vs 2012 | 2012 vs 2011 |
| Percentage of revenue: | | | | | |
| Consumer | 33 % | 34 % | 35 % | (1 )% | (1 )% |
| Business | 34 % | 33 % | 34 % | 1 % | (1 )% |
| Wholesale | 20 % | 20 % | 22 % | — % | (2 )% |
| Data hosting | 7 % | 7 % | 4 % | — % | 3 % |
| Other operating revenues | 6 % | 6 % | 5 % | — % | 1 % |
| Total | 100 % | 100 % | 100 % | | |

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

Products and Services

Our products and services include local and long-distance, broadband, private line (including special access, which we market to wholesale and business customers), MLPS, data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, public access, wireless, video services and other ancillary services.

We offer our customers the ability to bundle together several products and services. For example, we offer integrated and unlimited local and long-distance services. Our customers can also bundle two or more services such as broadband, video (including DIRECTV through our strategic partnership), voice and Verizon Wireless (through our strategic partnership) services. We believe our customers value the convenience and price discounts associated with receiving multiple services through a single company.

Most of our products and services are provided using our telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. Our network serves approximately 13.0 million access lines and forms a portion of the public switched telephone network, or PSTN. For more information on our network, see “Business—Network Architecture” below.

Described below are our key products and services.

Strategic Services

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

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

Table of Contents

- Private line. Private line (including special access, which we market to wholesale and business customers) is a direct circuit or channel specifically dedicated for the purpose of directly connecting two or more sites. Private line offers a high-speed, secure solution for frequent transmission of large amounts of data between sites. We also provide private line transmission services to wireless service providers that use our fiber-optic cables connected to their towers, commonly referred to as fiber to the tower or wireless backhaul services, to support their next generation wireless networks;
- MPLS. Multi-Protocol Label Switching is standards-approved data networking technology that we provide to support real-time voice and video. This technology allows network operators flexibility to divert and route traffic around link failures, congestion and bottlenecks;
- Managed Hosting. Managed hosting includes provision of centralized information technology ("IT") infrastructure and a variety of managed services including cloud and traditional computing, application management, back-up, storage, and advanced services including planning, design, implementation and support services;
- Colocation. Colocation services enable our customers to install their own IT equipment in our state-of-the art facilities through our centralized IT infrastructure;
- Ethernet. Ethernet services include point-to-point and multi-point configurations that facilitate data transmissions across metropolitan areas and wide area networks. Ethernet services are also used to provide transmission services to wireless service providers that use our fiber-optic cables connected to their towers;
- Video. Our video services include our facilities-based video, marketed as CenturyLink™ Prism™, which is a premium entertainment service that allows our customers to watch hundreds of television or cable channels and record up to four shows on one home digital video recorder. We also offer satellite digital television under an arrangement with DIRECTV that allows us to market, sell and bill for its services under its brand name;
- VoIP. Voice over Internet Protocol, or VoIP, is a real-time, two-way voice communication service (similar to our traditional voice services) that originates over a broadband connection and often terminates on the PSTN;
- Managed Services. Managed services represents a blend of network, hosting, cloud, and IT solutions, typically combined with customer premise equipment. These services include development of solutions to customers' communications requirements, end to end deployment and the ongoing operation and proactive management of the solution for the customer. Managed services may also include extensive consulting and complex software development; and
- Wireless Services. Our wireless services are offered under an agency arrangement with Verizon Wireless that allows us to market, sell and bill for its services under its brand name, primarily to our residential customers who buy these services as part of a bundle with one or more of our other products and services. This arrangement allows us to sell the full complement of Verizon Wireless services. Our current five-year arrangement with Verizon Wireless runs through 2015 and is terminable by either party thereafter.

Legacy Services

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

- Local. We offer local calling services for our residential and business customers within the local service area of our wireline markets, generally for a fixed monthly charge. These services include a number of enhanced calling features and other services, such as call forwarding, caller identification, conference calling, voice mail, selective call ringing and call waiting, for which we generally charge an additional monthly fee. We also generate revenues from non-recurring services, such as inside wire installation, maintenance services, service activation and reactivation. For our wholesale customers, our local calling service offerings include primarily the resale of our voice services and the sale of UNEs, which allow our wholesale customers to use our network or a combination of our network and their own networks to provide voice and data services to their customers. Local calling services provided to our wholesale customers allow other telecommunications companies the ability to originate or terminate telecommunications services on our network;
- Long-distance. We offer our residential, business and wholesale customers domestic and international long-distance services and toll-free services. Our international long-distance services include voice calls that either terminate or originate with our customers in the United States;
- 

ISDN. We offer integrated services digital network ("ISDN") services, which uses regular telephone lines to support voice, video and data applications;

Table of Contents

- WAN. We offer wide area network ("WAN") services, which allow a local communications network to link to networks in remote locations; and
- Switched access services. As a part of our wholesale segment operations, we provide various forms of switched access services to wireline and wireless service providers for the use of our facilities to originate and terminate their interstate and intrastate voice transmissions.

Data Integration

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

Other Revenues

We also generate other operating revenues from Universal Service Fund ("USF") revenues and surcharges and the leasing and subleasing of space in our office buildings, warehouses and other properties. The majority of our real estate properties are located in the local service area of our wireline operations.

Additional Information

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

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

Patents, Trade Names, Trademarks and Copyrights

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

We periodically receive offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices, or are named in lawsuits, alleging that our products or services infringe on patents or other intellectual property rights of third parties. In certain instances, these matters can potentially adversely impact our operations, operating results or financial position. For additional information, see “Risk Factors—Risks Impacting our Business” in Item 1A of this annual report, and “Legal Proceedings—Other Matters” in Item 3 of this annual report.

Sales and Marketing

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

We conduct most of our operations under the brand name "CenturyLink." Our satellite television service is offered on a co-branded basis under the "DIRECTV" name. Our switched digital television service offering is branded under the name "Prism™." The wireless service that we offer under our agency agreement with Verizon Wireless is marketed under the "Verizon Wireless" brand name. Since January 2014, we have marketed certain data hosting, IT and other services furnished through our data hosting operations under the “CenturyLink Technology Solutions” brand name.

Table of Contents

Our approach to our residential customers emphasizes customer-oriented sales, marketing and service with a local presence. We market our products and services primarily through direct sales representatives, inbound call centers, local retail stores, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper and television advertising, website promotions, public relations activities and sponsorship of community events and sports venues.
Our approach to our business and governmental customers includes a commitment to deliver communications and network products and services that meet existing and future business needs through bundles of services and integrated service offerings. Our focus is to be a comprehensive communications solution for our small office, mid-sized and select enterprise business and governmental customers. We market our products and services primarily through direct sales representatives, inbound call centers, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper and television advertising, website promotions, telemarketing and third parties.
Our approach to our wholesale customers includes a commitment to deliver communications solutions that meet existing and future needs of national network telecommunications providers through bandwidth growth and quality of services.
Our data hosting operations utilize a solution-based selling approach. By working directly with potential and existing clients, we are able to understand our clients' IT infrastructure and long-term goals. We also market through indirect channels, including collaborations with existing clients and technology providers, telecommunications companies and system integrators.

Network Architecture

Most of our products and services are provided using our telecommunications network, which consists of voice and data switches, copper cables, fiber-optic cables and other equipment. Our local exchange carrier networks also include central offices and remote sites, all with advanced digital switches and operating with licensed software. Our fiber-optic cable is the primary transport technology between our central offices and interconnection points with other incumbent carriers. As of December 31, 2013, we maintained over 1.03 million miles of copper plant and approximately 168 thousand miles of fiber-optic plant in our local exchange networks.
Most of our long distance service is provided directly through CenturyLink's own switches and network equipment, with the balance being provided through reselling arrangements with other long distance carriers. All of our satellite television and wireless voice service is provided by other carriers under agency agreements.
We continue to enhance and expand our network by deploying broadband-enabled technologies to provide additional capacity to our customers. Rapid and significant changes in technology are expected to continue in the telecommunications industry. Our future success will depend, in part, on our ability to anticipate and adapt to changes in customer demands and technology. In particular, we anticipate that continued increases in broadband usage by our customers will require us to make significant capital expenditures to increase network capacity or to implement network management practices to alleviate network capacity shortages, either of which could adversely impact our results of operation and financial condition. For additional information, see "Risk Factors", generally, in Item 1A of this annual report, and, in particular, "Risk Factors—Risks Affecting Our Business—Increases in broadband usage may cause network capacity limitations, resulting in service disruptions, reduced capacity or slower transmission speeds for our customers."
Similarly, we continue to take steps to simplify and modernize our network, which is comprised of our legacy network combined with the network of several companies we have acquired in the past. To attain our objectives, we plan to continue to undertake several complex projects that we expect will be costly and take several years to complete.
For more information on our properties, see Item 2 of this annual report.

Regulation

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

Table of Contents

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

Federal Regulation

General

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

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

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

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

Intercarrier Compensation

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

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

10

Table of Contents

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

We received approximately $534 million, $543 million and $510 million of revenue from federal and state universal service programs for the years ended December 31, 2013, 2012 and 2011, respectively. Such amounts represented approximately 3.0%, 3.0% and 3.3% of our 2013, 2012 and 2011 total operating revenues, respectively.

Broadband Deployment

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

State Regulation

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

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

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

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

For several years, we have faced various carrier complaints, legislation or other investigations regarding our intrastate switched access rates in several of our states. On October 27, 2011, the FCC adopted an order that, among other things, preempted state regulatory commissions' jurisdiction over all terminating access charges, including intrastate access charges that have historically been subject to exclusive state jurisdiction. Excluding the rate implications contemplated on a prospective basis by this FCC order, we will continue to vigorously defend and seek to collect our intrastate switched access revenue subject to outstanding disputes. The outcomes of these disputes cannot be determined at this time. If we are required to reduce our intrastate switched access rates as a result of any of these disputes or state initiatives, we will seek to recover displaced switched access revenues from state universal service funds or other services. However, the amount of such recovery, particularly from residential customers, is not assured.

Table of Contents

Other Regulations

Certain of our telecommunications and data hosting services conducted in foreign countries are or may become subject to various foreign laws, including those regulating the protection and retention of data. Some of the legal requirements governing our foreign operations conflict with those governing our domestic operations, which raises our compliance costs and regulatory risks. For additional information, see “Risk Factors—Risks Relating to Recent Acquisitions—Our acquisitions of Qwest and Savvis have increased our exposure to the risks of operating internationally.”

Competition

General

We compete in a rapidly evolving and highly competitive market and we expect intense competition to continue. We compete with cable and satellite companies, wireless providers, national telecommunications providers (such as AT&T, Inc. and Verizon Communications Inc.) and a variety of other competitors. Technological advances and regulatory and legislative changes have increased opportunities for a wide range of alternative communications service providers, which in turn have increased competitive pressures on our business. These alternate providers often face fewer regulations and have lower cost structures than we do. In addition, the telecommunications industry has experienced substantial consolidation over the past decade and some of our competitors in one or more lines of our business are generally larger, have stronger brand names, have more financial and business resources and have broader service offerings than we currently do.

Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

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

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

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

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

Table of Contents

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

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

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

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

Consumer

Strategic Services

With respect to our strategic services, competition is based on price, bandwidth, quality and speed of service, promotions and bundled offerings. Wireless carriers' fourth generation, or 4G, services are allowing them to more directly compete with our strategic services. In providing broadband services, we compete primarily with cable companies, wireless providers and other broadband service providers. In reselling DIRECTV video services, we compete primarily with cable and other satellite companies as well as other sales agents and resellers. Our Prism™ residential video service faces substantial competition from a variety of competitors, including well-established cable companies, satellite companies and several national companies that deliver content over the Internet and on mobile devices at little or no cost to their customers. Many of our competitors for these strategic services are not subject to the same regulatory requirements as we are, and therefore are able to avoid significant regulatory costs and obligations.

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

Legacy Services

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

Our strategy to reduce access line loss is based primarily on our pricing, packaging of services and features, quality of service and meeting customer care needs. While bundle price discounts have resulted in lower average revenues for our individual services, we believe service bundles continue to positively impact our customer retention. In addition to our bundle discounts, we also offer limited time promotions on our broadband service for prospective customers who want our broadband service in their bundle, which further aids our ability to attract and retain customers and increase usage of our services.

Table of Contents

Business

Strategic Services

In connection with providing strategic services, we compete against other telecommunication providers, cable companies, CLECs and other enterprises, some of whom are substantially larger than us. Competition is based on price, bandwidth, service, promotions and bundled offerings. Private line services also compete on network reach and reliability, while broadband services compete on a bandwidth and quality of service. In providing broadband services, we compete with cable companies, wireless providers and other broadband service providers.

Our competitors for integrated data, Internet, voice services and other IT services range from mid-sized businesses to large enterprises. Due to the size and capacity of some of these companies, they may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing complex, secure and performance-driven services to our business customers through our global infrastructure. Our network services continue to see pricing pressures on virtual private network and bandwidth services offset by increases in network services that support our colocation and managed hosting service offerings.

The number of companies providing business services has grown and increased competition for these services, particularly with respect to smaller business customers. Many of our competitors for strategic services are not subject to the same regulatory requirements as we are and therefore they are able to avoid significant regulatory costs and obligations. Our keys to growth include targeting the right clients, offering targeted business solutions to solve specific client needs and delivering compelling and comprehensive technical capabilities.

Legacy Services

For all the reasons noted in "Business—Competition—Consumer—Legacy Services" we face intense competition with respect to our legacy services and continue to see customers migrating away from these services and into strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price competition.

Data Integration

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

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

Wholesale

Strategic Services

In providing private line (including special access) services to our wholesale markets customers, we compete with cable companies, as well as other regional and national carriers, other fiber providers and CLECs. Demand for our private line services continues to increase, despite our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors will continue to impact our wholesale markets segment, we believe the forecasted growth in fiber-based special access provided to wireless carriers for backhaul will, over time, ultimately offset the decline in copper-based special access provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain.

Legacy Services

For the same reasons noted above, the provision of our legacy services to other communications providers is highly competitive, and has been and will continue to be adversely affected by product substitution, technological migration, industry consolidation and mandated rate reductions. We face significant competition for access services from CLECs, cable companies, resellers and wireless service providers as well as some of our own wholesale markets customers, which are deploying their own networks to provide customers with local services. By doing so, these competitors reduce traffic on our network.

Table of Contents

Data Hosting

Strategic Services

Our competitors for cloud, hosting, colocation and other IT services include telecommunications companies, hardware manufacturers and system integrators that support the in-house IT operations for a business or offer outsourcing solutions. Due to the size and capacity of some of these companies, they may be able to offer more inexpensive solutions to our customers. To compete, we focus on providing complex, secure and performance-driven services to our business customers through our global infrastructure platforms (virtual, dedicated and collocated) on the same terms outlined above under the heading "Business—Operations—Products and Services" in Item I of this annual report. For our colocation services, we continue to see pricing pressures with respect to these services as low-cost wholesale colocation providers continue to enter our market, and we expect this trend to continue. Our services can be purchased individually or as part of a total outsourcing arrangement.

Environmental Compliance

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

Seasonality

Overall, our business is not significantly impacted by seasonality. From time to time weather related problems have resulted in increased costs to repair our network and respond to service calls in some of our markets. The amount and timing of these costs are subject to the weather patterns of any given year, but have generally been highest during the third quarter and have been related to damage from severe storms, including hurricanes, tropical storms and tornadoes in our markets along the lower Atlantic and Gulf of Mexico coastlines.

Employees

At December 31, 2013, we had approximately 47,000 employees, of which approximately 17,000 are members of either the International Brotherhood of Electrical Workers ("IBEW") or the Communications Workers of America ("CWA"). See the discussion of risks relating to our labor relations in "Risk Factors—Risks Affecting Our Business" in Item 1A of this annual report.

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

Website Access and Important Investor Information

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

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

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

Table of Contents

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and its related regulations. In addition, during 2013, our chief executive officer certified to the New York Stock Exchange that he was unaware of any violations by us of the New York Stock Exchange's corporate governance listing standards.

Special Note Regarding Forward-Looking Statements and Related Matters

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

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

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

- the timing, success and overall effects of competition from a wide variety of competitive providers;
- the risks inherent in rapid technological change, including product displacement;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality;
- our ability to effectively adjust to changes in the communications industry, and changes in our markets, product mix and network caused by our recent acquisitions;
- our ability to successfully integrate recently-acquired operations into our incumbent operations, including the possibility that the anticipated benefits from our recent acquisitions cannot be fully realized in a timely manner or at all;
- our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel;
- possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis;
- the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network;
- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- our ability to use our net operating loss carryforwards in projected amounts;
- our continued access to credit markets on favorable terms;
- our ability to collect our receivables from financially troubled communications companies;

Table of Contents

- our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;
- any adverse developments in legal or regulatory proceedings involving us;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, cash flows, or financial position, or other similar changes;
- the effects of adverse weather;
- other risks referenced in this annual report or other of our filings with the SEC; and
- the effects of more general factors such as changes in interest rates, in tax laws, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy.

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

These factors should be considered in connection with any written or oral forward-looking statements that we or persons acting on our behalf may issue. Additional factors or risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from our expected results. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, the existing regulatory and technological environment, industry and competitive conditions, and economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or stock repurchase plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

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

Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management’s knowledge and experience in the markets in which we operate and the communications industry generally. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness.

## ITEM 1A. RISK FACTORS

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

Table of Contents

Risks Affecting Our Business

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

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

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

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

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

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

The communications industry is experiencing significant technological changes, which in general are enhancing non-voice communications and enabling a broader array of companies to offer services competitive with ours. Many of those technological changes are (i) displacing or reducing demand for our traditional voice services, (ii) enabling the development of competitive products or services, or (iii) enabling our current customers to reduce or bypass use of our networks. Similarly, demand for our broadband services could be adversely affected by advanced wireless data transmission technologies being developed by wireless providers and by certain technologies permitting cable companies and other competitors to deliver faster broadband speeds than ours. Rapid changes in technology are also increasing the competitiveness of the information technology services industry.

We may not be able to accurately predict technological trends or the success of newly-offered services. Further technological change could require us to expend capital or other resources in excess of currently contemplated levels, or to forego the development or provision of products or services that others can provide more efficiently. If we are not able to develop new products and services to keep pace with technological advances, or if those products and services are not widely accepted by customers, our ability to compete could be adversely affected and our market share could decline. Any inability to effectively respond to technological changes could also adversely affect our operating results and financial condition, as well as our ability to service debt and pay other obligations.

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.

Table of Contents

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.

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

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

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

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

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

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

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

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

Table of Contents

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

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

We make significant efforts to maintain the security and integrity of these types of information and systems and maintain contingency plans in the event of security breaches or other system disruptions. Nonetheless, we cannot assure you that our security efforts and measures will prevent unauthorized access to our systems, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses, malware, or other forms of cyber attacks or similar events. These threats may derive from human error, fraud, malice or sabotage on the part of employees, third parties or other nations, or could result from accidental technological failure. Similar to other large telecommunications companies, we have been subject to a variety of security breaches and cyber attacks, although to date none of these have resulted in a material adverse effect on our operating results or financial condition. We cannot assure you, however, that future security breaches or disruptions would not be successful or damaging, especially in light of the growing frequency, scope and sophistication of cyber attacks and intrusions. We may be unable to anticipate all potential types of attacks or intrusions or to implement adequate security barriers or other preventative measures, and any resulting damages could be material.

Additional risks to our network and infrastructure include:

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

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

- disrupt the proper functioning of these networks and systems and therefore our operations or those of certain of our customers;
- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our customers' end users, including trade secrets, which others could use for competitive, disruptive, destructive or otherwise harmful purposes and outcomes;
- require significant management attention or financial resources to remedy the damages that result or to change our systems, including expenses to repair systems, add new personnel or develop additional protective systems;
- require us to offer expensive incentives to retain existing customers or subject us to claims for contract breach, damages, credits, fines, penalties, termination or other remedies, particularly with respect to service standards set by state regulatory commissions; or
- result in a loss of business, damage our reputation among our customers and the public generally, subject us to additional regulatory scrutiny or expose us to litigation.

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

20

Table of Contents

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

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

Video streaming services and peer-to-peer file sharing applications use significantly more bandwidth than traditional Internet activity such as web browsing and email. As use of these newer services continues to grow, our high-speed Internet customers will likely use much more bandwidth than in the past. If this occurs, we could be required to make significant capital expenditures to increase network capacity in order to avoid service disruptions, service degradation or slower transmission speeds for our customers. Alternatively, we could choose to implement network management practices to reduce the network capacity available to bandwidth-intensive activities during certain times in market areas experiencing congestion, which could negatively affect our ability to retain and attract customers in affected markets. While we believe demand for these services may drive high-speed Internet customers to pay for faster broadband speeds, we may not be able to recover the costs of the necessary network investments. This could result in an adverse impact to our operating margins, results of operations and financial condition.

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

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

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

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

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

To offer voice or data services in certain of our markets, we must either lease network capacity from, or interconnect our network with the infrastructure of, other communications companies who typically compete against us in those markets. Similar to the risks summarized in the prior paragraph, our reliance on these lease or interconnection arrangements limits our control over the quality of our services and exposes us to the risk that the other carrier may be unwilling to continue or renew these arrangements in the future on terms favorable to us, or at all.

Conversely, certain of our operations carry a significant amount of voice or data traffic for other communications providers. Their reliance on our services exposes us to the risk that they may transfer all or a portion of this traffic from our network to networks built, owned or leased by them, thereby reducing our revenues.

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:

- go bankrupt or experience substantial financial difficulties;

Table of Contents

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

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

Reliance on governmental payments. We receive a material amount of revenue or government subsidies under various government programs or our service contracts with federal, state and local agencies. Governmental agencies frequently reserve the right to terminate their contacts for convenience, or to suspend or debar companies from receiving future subsidies or contracts under certain circumstances. If our governmental contacts are terminated for any reason, or if we are suspended or debarred from governmental programs or contacts, our results of operations and financial condition could be materially adversely affected.

Reliance on financial institutions. We rely on 18 financial institutions to provide us with short-term liquidity under our credit facility. If one or more of these lenders default on their funding commitments, our access to revolving credit could be adversely affected.

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

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

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.

Approximately 36% of our employees are members of various bargaining units represented by the Communications Workers of America or the International Brotherhood of Electrical Workers. From time to time, our labor agreements with unions expire and we typically negotiate the terms of new bargaining agreements. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services and result in increased cost to us. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. To the extent they contain benefit provisions, these agreements may also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements could cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

Table of Contents

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

Over 55% of our total consolidated assets reflected on the balance sheet included in this annual report consist of goodwill or other intangible assets. Under generally accepted accounting principles, most of these intangible assets must be tested for impairment on an annual basis or more frequently whenever events or circumstances indicate that their carrying value may not be recoverable. From time to time (most recently for the third quarter of 2013), we or our predecessors 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.

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

Decisions on whether, when and in which amounts to make any future dividend distributions will remain at all times entirely at the discretion of our Board of Directors, which reserves the right to change or terminate our dividend practices at any time and for any reason. Based on current circumstances, we plan to continue our current dividend practices. However, you should be aware that these practices are reviewed periodically and are subject to change for reasons that may include any of the following factors:

- we may not have enough cash to pay such dividends due to changes in our cash requirements, capital spending plans, stock repurchase plans, cash flows or financial position;
- the effects of regulatory reform, including any changes to intercarrier compensation, Universal Service Fund or special access rules;
- our desire to maintain or improve the credit ratings on our debt;
- the amount of dividends that we may distribute to our shareholders is subject to restrictions under Louisiana law and is limited by restricted payment and leverage covenants in our credit facilities and, potentially, the terms of any future indebtedness that we may incur; and
- the amount of dividends that our subsidiaries may distribute to us is subject to restrictions imposed by state law, restrictions that have been or may be imposed by state regulators in connection with obtaining necessary approvals for our acquisitions, and restrictions imposed by the terms of credit facilities applicable to certain subsidiaries and, potentially, the terms of any future indebtedness that these subsidiaries may incur.

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

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

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

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

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

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

Table of Contents

We depend on key members of our senior management team.

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

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 agreements applicable to certain of our subsidiaries may limit the amount of funds that our subsidiaries are permitted to transfer to us, including the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” included elsewhere in this annual report for further discussion of these matters.

Risks Relating to our Recent Acquisitions

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

We acquired Embarq, Qwest and Savvis during a roughly 24-month period between mid-2009 to mid-2011. These acquisitions involved the combination of companies which previously operated as independent public companies. We have devoted, and will continue to devote, significant management attention and resources to integrating the business practices and operations of Legacy CenturyLink and the acquired companies. We may encounter difficulties in the integration process, including the following:

- the inability to successfully combine our businesses in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the acquisitions, either due to technological challenges, personnel shortages, strikes or otherwise, any of which would result in the anticipated benefits of the acquisitions not being realized partly or wholly in the time frame anticipated or at all;
- delays or limitations in connection with offering new products or providing current ones arising out of the multiplicity of different legacy systems, network and processes used by each of the companies;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from multiple companies, while at the same time attempting to provide consistent, high-quality products and services under a unified culture;
- the difficulties of producing combined financial information using dispersed personnel with different past practices, including the attendant risk of errors;
- the complexities of combining companies with different histories, regulatory restrictions, cost structures, products, sales forces, markets, marketing strategies, and customer bases;
- the failure to retain key employees, some of whom could be critical to integrating, operating or expanding the companies;
- potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the acquisitions; and
- performance shortfalls at one or all of the companies as a result of the diversion of management’s attention caused by integrating the companies’ operations.

In the last couple of years we have purchased several other businesses to augment our data hosting segment. Integrating these newly-acquired businesses into our data hosting operations will give rise to similar challenges and risks.

Table of Contents

As discussed further under "Business—Network Architecture," we are currently undertaking several complex, costly and time-consuming projects to simplify and modernize our network, which is an amalgam of our legacy network and the networks of companies we have acquired in the past.

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

We may be unable to successfully adjust to the substantial change in our markets and operations caused by our recent acquisitions.

Prior to our acquisition of Embarq, we provided principally local exchange and internet services to consumers in predominantly rural areas and small to mid-sized cities in 25 states. As a result of our recent acquisitions, we now provide a diversified array of communications services to residential, business, governmental and wholesale customers in a wide range of markets throughout the United States and internationally. While we believe we have adequately adjusted our strategies, management, operating models and organizational structures to address these changes, we cannot assure you that further adjustments will not be required in the future.

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

Prior to 2011, substantially all of our operations were historically conducted within the continental United States. Our acquisitions of Qwest and Savvis in 2011 increased the importance of international operations to our future operations, growth and prospects.

Our foreign operations are subject to varying degrees of regulation in each of the foreign jurisdictions in which we provide services. Local laws and regulations, and their interpretation and enforcement, differ significantly among those jurisdictions, and can change significantly over time. Future regulatory, judicial and legislative changes or interpretations may have a material adverse effect on our ability to deliver services within various foreign jurisdictions. Many of these foreign laws and regulations relating to communications services are more restrictive than U.S. laws and regulations, particularly those relating to content distributed over the Internet. For example, the European Union has enacted a data retention system that, once implemented by individual member states, will involve requirements to retain certain Internet protocol, or IP, data that could have an impact on our operations in Europe. Moreover, national regulatory frameworks that are consistent with the policies and requirements of the World Trade Organization have only recently been, or are still being, enacted in many countries. Accordingly, many countries are still in the early stages of providing for and adapting to a liberalized telecommunications market. As a result, in these markets we may encounter more protracted and difficult procedures to obtain licenses necessary to provide the full set of products we offer.

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

- tax, licensing, currency, political or other business restrictions or requirements;
- import and export restrictions;
- longer payment cycles and problems collecting accounts receivable;
- additional U.S. and other regulation of non-domestic operations, including regulation under the Foreign Corrupt Practices Act, or FCPA, as well as other anti-corruption laws;
- economic, social and political instability, with the attendant risks of terrorism, kidnapping, extortion, civic unrest and potential seizure or nationalization of assets;
- fluctuations in currency exchange rates;
- the ability to secure and maintain the necessary physical and telecommunications infrastructure;
- the inability to enforce contract rights either due to underdeveloped legal systems or government actions that result in a deprivation of contract rights;
- laws, policies or practices that limit the scope of operations that can legally or practicably be conducted within any particular country; and

25

• challenges in staffing and managing foreign operations.

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

Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. 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 expect to incur substantial expenses related to the completion of the integration of Qwest.

We have incurred, and expect to continue to incur, substantial expenses in connection with the integration of Qwest's business, operations, networks, systems, technologies, policies and procedures with our own. We have integrated a number of our systems, and we continue to work towards completing the planned integration of our remaining systems. Until this integration is completed, we cannot accurately predict the total amount or the timing of our integration expenses.

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

Through the acquisitions of Qwest and Savvis, we have added a significant number of data center facilities, which are susceptible to regional costs and supply of power and electrical power outages. In addition, our energy costs can fluctuate significantly or increase for a variety of reasons, including changes in legislation and regulation. Several pending proposals designed to reduce greenhouse emissions could substantially increase our energy costs. As energy costs increase, we may not always be able to pass on the increased costs of energy to our clients, which could harm our business. Our clients' demand for power may also exceed the power capacity in older data centers, which may limit our ability to fully utilize these data centers. Moreover, the increasing power demands of today's servers may cause our demand for power in certain of our data centers to exceed the supply available from third parties. Any one or more of these developments could adversely affect our relationships with our clients and hinder our ability to run our data centers, which could harm our business.

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

A significant majority of the data centers we acquired in the Qwest and Savvis acquisitions are leased and have lease terms that expire between 2013 and 2031. The majority of these leases provide us with the opportunity to renew the lease at our option for periods generally ranging from five to ten years. Many of these renewal options, however, provide that rent for the renewal period will be equal to the fair market rental rate at the time of renewal. If the fair market rental rates are significantly higher than our current rental rates, we may be unable to offset these costs by charging more for our services, which could have a negative impact on our financial results. Also, it is possible that a landlord may insist on other financially unfavorable renewal terms or, where no further option to renew exists, elect not to renew altogether.

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

From time to time in the future we may pursue other acquisition opportunities. To the extent we acquire a business that is highly leveraged or is otherwise subject to a high level of risk, we may be affected by the currently unascertainable risks of that business. In addition, the financing of any future acquisition completed by us could adversely impact our capital structure or financial position, as any such financing would likely include the issuance of additional securities or the borrowing of additional funds. Except as required by law or applicable securities exchange listing standards, we do not expect to ask our shareholders to vote on any proposed acquisition. Moreover, we generally do not announce our acquisitions until we have entered into a preliminary or definitive agreement.

Risks Relating to Legal and Regulatory Matters

Any adverse outcome of the KPNQwest litigation, or other material litigation of Qwest, Savvis or CenturyLink, could have a material adverse impact on our financial condition and operating results, on the trading price of our securities and on our ability to access the capital markets.

As described in Note 15—Commitments and Contingencies to our consolidated financial statements included elsewhere in this annual report, the KPNQwest lawsuit brought against us by Cargill Financial Markets, Plc and Citibank, N.A. presents significant risk to us. The plaintiffs seek hundreds of millions of dollars in damages. We continue to vigorously defend the company in that lawsuit.

Table of Contents

We are currently unable to provide an estimate as to the timing of the resolution of this matter. We can give no assurance as to the impacts on our financial results or financial condition that may ultimately result from the Cargill/Citibank lawsuit. The ultimate outcome remains uncertain, and a substantial settlement or judgment in this matter could have a significant impact on us. The magnitude of such a settlement or judgment could materially and adversely affect our financial condition and ability to meet our debt obligations, potentially impacting our credit ratings, our ability to access capital markets and our compliance with debt covenants. In addition, the magnitude of a settlement or judgment may cause us to draw down significantly on our cash balances, which might force us to obtain additional financing or explore other methods to generate cash. Such methods could include issuing additional debt securities or selling assets.

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

In order to continue to provide quality high-speed data service at attractive prices, we believe we need the continued flexibility to respond to changing consumer demands, to manage bandwidth usage efficiently and to invest in our networks. In 2010, the FCC adopted “net neutrality” regulations that curtailed our operational flexibility. Although a federal appeals court vacated these rules in January 2014, the FCC or Congress could adopt similar measures in the future. Any such measures could adversely impact our ability to operate our high-speed data network profitably and to implement the upgrades and network management practices that may be needed to continue to provide high quality high-speed data services, and could therefore negatively impact our ability to compete effectively.

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

Although we believe our liability for third party information carried on, stored or disseminated through our networks is limited, the law relating to the liability of private network operators, such as us, is not entirely clear. As such, we could be exposed to legal claims relating to third party content disseminated on our networks. Claims could challenge the accuracy of materials on our network, or could involve matters such as defamation, invasion of privacy or copyright infringement. If we need to take costly measures to reduce our exposure to these risks, or are required to defend ourselves against such claims, our financial results could be negatively affected.

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

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

Table of Contents

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

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

For a more thorough discussion of the regulatory issues that may affect our business, see “Regulation” in Item 1 of Part I of this annual report.

Risks Affecting our Liquidity and Capital Resources

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

We continue to carry significant debt. As of December 31, 2013, our consolidated debt was approximately $21.0 billion. Approximately $2.6 billion of our consolidated debt securities come due over the 36 months following the date of this annual report.

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

- limiting the ability of CenturyLink and its subsidiaries to access the capital markets;
- exposing CenturyLink and its subsidiaries to the risk of credit rating downgrades, as described further below;
- hindering our flexibility to plan for or react to changing market, industry or economic conditions;
- limiting the amount of cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses;
- making us more vulnerable to economic or industry downturns, including interest rate increases;
- placing us at a competitive disadvantage compared to less leveraged competitors;
- increasing the risk that we will need to sell securities or assets, possibly on unfavorable terms, or reduce or terminate our dividend payments, to meet payment obligations; or
- increasing the risk that we may not meet the financial covenants contained in our debt agreements or timely make all required debt payments.

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

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

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

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

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

- revenues and cash provided by operations decline;
- economic conditions weaken, competitive pressures increase or regulatory requirements change;

Table of Contents

- we engage in any acquisitions or undertake substantial capital projects or other initiatives that increase our cash requirements;
- we are required to contribute a material amount of cash to our pension plans;
- we are required to begin to pay other post-retirement benefits earlier than anticipated;
- our payments of federal taxes increase faster or in greater amounts than currently anticipated; or
- we become subject to significant judgments or settlements in one or more of the matters discussed in Note 15—Commitments and Contingencies to our consolidated financial statements included elsewhere in this annual report.

For all the reasons mentioned in the prior paragraph, 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 agreements. If we are unable to satisfy the financial covenants contained in those agreements, or are unable to generate cash sufficient to make required debt payments, the parties to whom we are indebted could accelerate the maturity of some or all of our outstanding indebtedness. Certain of our debt instruments have cross payment default or cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" elsewhere in this annual report for additional information about our credit facility.

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

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

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

A downgrade of any of these credit ratings could:

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

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

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

Table of Contents

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

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

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

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

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

At December 31, 2013, we had approximately $2.9 billion of federal net operating losses, or NOLs, which relate primarily to pre-acquisition losses of Qwest. Under certain circumstances, these NOLs can be used to offset our future federal and certain taxable income.

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

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 47,000 current employees, and approximately 66,000 pension retirees and approximately 35,000 former employees with vested benefits as of December 31, 2013 participating in our benefit plans, 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 the discount rate used to calculate pension and other post-retirement expenses;
- increases in healthcare costs generally or claims submitted under our healthcare plans specifically;
- the continuing implementation of the Patient Protection and Affordable Care Act, and the related reconciliation act and regulations promulgated thereunder;
- increases in the number of retirees who elect to receive lump sum benefit payments;
- changes in plan benefits; and
- changes in funding laws or regulations.

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

Table of Contents

As of December 31, 2013, our pension plans and our other post-retirement benefit plans were substantially underfunded from an accounting standpoint. See Note 8—Employee Benefits to our consolidated financial statements included elsewhere in this annual report. For more information on our obligations under our defined benefit pension plans and other post-retirement benefit plans, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Pension and Post-retirement Benefit Obligations” included elsewhere in this annual report.

Other Risks

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 such financial statements and accompanying notes. Our critical accounting policies, which are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in Item 7 of Part II of this Annual Report on Form 10-K, describe those significant accounting policies and methods used in the preparation of our consolidated financial statements that are considered “critical” because they require judgments, assumptions and estimates that materially impact our consolidated financial statements and related disclosures. As a result, if future events or assumptions differ significantly from the judgments, assumptions and estimates in our critical accounting policies, these events or assumptions could have a material impact on our consolidated financial statements and related disclosures.

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

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

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

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

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

Effective for tax years beginning after 2012, The Taxpayer Relief Act of 2012 results in certain high-income taxpayers being subject to increased tax rates on dividends and capital gains. Additionally, these high-income taxpayers are also subject to a 3.8% Medicare tax on net investment income. These or other potential increases in tax rates could reduce demand for our stock, which could potentially depress its trading price.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

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

| | December 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| Land | 2 | % | 2 | % |
| Fiber, conduit and other outside plant (1) | 41 | % | 40 | % |
| Central office and other network electronics (2) | 35 | % | 35 | % |
| Support assets (3) | 19 | % | 20 | % |
| Construction in progress (4) | 3 | % | 3 | % |
| Gross property, plant and equipment | 100 | % | 100 | % |

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

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

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

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

We own substantially all of our telecommunications equipment required for our business. However, we lease certain facilities, plant, equipment and software under various capital lease arrangements when the leasing arrangements are more favorable to us than purchasing the assets.

We also own and lease administrative offices in major metropolitan locations both in the United States and internationally. Substantially all of our network electronics equipment is located in buildings or on land that we own or lease within our local service area. Outside of our local service area, our assets are generally located on real property pursuant to an agreement with the property owner or another person with rights to the property. It is possible that we may lose our rights under one or more of these agreements, due to their termination or expiration.

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

We have reclassified certain prior year balance sheet amounts presented in our Annual Report on Form 10-K for the year ended December 31, 2012 to conform to the current period presentation. Specifically, we have reclassified $123 million in software development costs, net of $30 million in accumulated amortization, from property, plant and equipment to other intangible assets on our consolidated balance sheet as of December 31, 2012.

Some of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries. Our net property, plant and equipment was $18.6 billion and $18.9 billion at December 31, 2013 and 2012, respectively.

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

Table of Contents

ITEM 3. LEGAL PROCEEDINGS

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

Litigation Matters Relating to CenturyLink and Embarq

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

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

Litigation Matters Relating to Qwest

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

On September 29, 2010, the trustees in the Dutch bankruptcy proceeding for KPNQwest, N.V. (of which Qwest was a major shareholder) filed a lawsuit in the District Court of Haarlem, the Netherlands, alleging tort and mismanagement claims under Dutch law. Qwest and Koninklijke KPN N.V. ("KPN") are defendants in this lawsuit along with a number of former KPNQwest supervisory board members and a former officer of KPNQwest, some of whom were formerly affiliated with Qwest. Plaintiffs allege, among other things, that defendants' actions were a cause of the bankruptcy of KPNQwest, and they seek damages for the bankruptcy deficit of KPNQwest, which is claimed to be approximately €4.2 billion (or approximately $5.8 billion based on the exchange rate on December 31, 2013), plus statutory interest. Two lawsuits asserting similar claims were previously filed against Qwest and others in federal courts in New Jersey in 2004 and Colorado in 2009; those courts dismissed the lawsuits without prejudice on the grounds that the claims should not be litigated in the United States.

Table of Contents

In February 2014, Qwest, KPN, the individual defendants and the trustees reached a definitive agreement, settling the litigation. The settlement terms include Qwest's payment of approximately €171 million (or approximately $235 million based on the exchange rate on December 31, 2013) to the KPNQwest bankruptcy estate pursuant to its indemnification obligations, discussed in Note 16—Commitments and Contingencies to our consolidated financial statements in Item 8 of this annual report.

On September 13, 2006, Cargill Financial Markets, Plc and Citibank, N.A. filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, KPN, KPN Telecom B.V., and other former officers, employees or supervisory board members of KPNQwest, some of whom were formerly affiliated with Qwest. The lawsuit alleges that defendants misrepresented KPNQwest's financial and business condition in connection with the origination of a credit facility and wrongfully allowed KPNQwest to borrow funds under that facility. Plaintiffs allege damages of approximately €219 million (or approximately $301 million based on the exchange rate on December 31, 2013). The value of this claim will be reduced to the degree plaintiffs receive recovery from the tentative trustee settlement described above. While we expect the plaintiffs would receive proceeds from any such trustee settlement, the amounts of such expected recovery are not yet known. On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank are appealing that decision.

Regarding the 2010 proceeding filed by the trustees, we accrued a liability in 2013 in the pre-tax amount of €171 million (or approximately $235 million reflected in our accompanying consolidated financial statements based on the exchange rate on December 31, 2013) which represents our best estimate of Qwest's contribution under the terms of the then-tentative settlement. Regarding the 2006 suit brought by Cargill Financial Markets, Plc and Citibank. N.A., we do not believe that liability is probable and will continue to defend against the matter vigorously.

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

Several putative class actions relating to the installation of fiber optic cable in certain rights-of-way were filed against Qwest on behalf of landowners on various dates and in courts located in 34 states in which Qwest has such cable (Alabama, Arizona, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, and Wisconsin.) For the most part, the complaints challenge our right to install our fiber optic cable in railroad rights-of-way. The complaints allege that the railroads own the right-of-way as an easement that did not include the right to permit us to install our cable in the right-of-way without the plaintiffs' consent. Most of the currently pending actions purport to be brought on behalf of state-wide classes in the named plaintiffs' respective states, although one action pending before the Illinois Court of Appeals purports to be brought on behalf of landowners in Illinois, Iowa, Kentucky, Michigan, Minnesota, Nebraska, Ohio and Wisconsin. In general, the complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. After previous attempts to enter into a single nationwide settlement in a single court proved unsuccessful, the parties proceeded to seek court approval of settlements on a state-by-state basis. To date, the parties have received final approval of such settlements in 30 states (Alabama, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Virginia and Wisconsin) and have not yet received either preliminary or final approval in one state where an action is pending (Texas) and three states where actions were at one time, but are not currently, pending (Arizona, Massachusetts, and New Mexico). We have accrued an amount that we believe is probable for these matters; however, the amount is not material to our consolidated financial statements.

Securities Actions

CenturyLink and certain of its affiliates are defendants in one consolidated securities and four shareholder derivative actions. The securities action is pending in federal court in the Southern District of New York and the derivative actions are pending in federal court in the Eastern and Western Districts of Louisiana. Plaintiffs in these actions have variously alleged, among other things, that CenturyLink and certain of its current and former officers and directors violated federal securities laws and/or breached fiduciary duties owed to the Company and its shareholders. Plaintiffs' complaints focus on alleged material misstatements or omissions concerning CenturyLink's financial condition and changes in CenturyLink's capital allocation strategy in early 2013.

The matters are in preliminary phases and the Company intends to defend against the filed actions vigorously. We have not accrued a liability for these matters as it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

Table of Contents

Other Matters

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

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

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

| | Sales Price | | Dividend per Common Share |
|---|---|---|---|
| | High | Low | |
| 2013 | | | |
| First quarter | $42.01 | 32.05 | 0.540 |
| Second quarter | 38.40 | 33.83 | 0.540 |
| Third quarter | 36.49 | 31.21 | 0.540 |
| Fourth quarter | 34.18 | 29.93 | 0.540 |
| 2012 | | | |
| First quarter | $40.54 | 36.25 | 0.725 |
| Second quarter | 39.89 | 36.91 | 0.725 |
| Third quarter | 43.43 | 38.96 | 0.725 |
| Fourth quarter | 40.49 | 36.52 | 0.725 |

Common stock dividends during 2013 and 2012 were paid each quarter. On February 24, 2014, our Board of Directors declared a common stock dividend of $0.54 per share.

As described in greater detail in Item 1A of this Annual Report on Form 10-K, the declaration and payment of dividends is at the discretion of our Board of Directors, and will depend upon our financial results, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

At February 18, 2014, there were approximately 161,000 stockholders of record although there were significantly more beneficial holders of our common stock. At February 18, 2014, the closing stock price of our common stock was $30.95.

Issuer Purchases of Equity Securities

In February 2013, our Board of Directors authorized the repurchase of up to an aggregate of $2 billion of our outstanding common shares. This repurchase program terminates on February 13, 2015. During the three months ended December 31, 2013, we repurchased approximately 10.5 million shares of our outstanding common stock in the open market. These shares were repurchased for an aggregate market price of $331 million or an average purchase price of $31.49 per share. The common stock repurchased has been retired.

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

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| Period | | | | |
| October 2013 | 2,408,671 | $32.34 | 2,408,671 | $ 686,036,210 |
| November 2013 | 1,532,500 | 32.21 | 1,532,500 | 636,682,039 |
| December 2013 | 6,567,188 | 31.01 | 6,567,188 | 433,043,700 |
| Total | 10,508,359 | 31.49 | 10,508,359 | |

Table of Contents

The following table contains information about shares of our previously-issued common stock that we withheld from delivering during the fourth quarter of 2013 to employees to satisfy their tax obligations related to stock-based awards:

| Period | Total Number of Shares Withheld for Taxes | Average Price Paid Per Share |
|---|---|---|
| October 2013 | 31,695 | $31.40 |
| November 2013 | 19,190 | 32.10 |
| December 2013 | 7,245 | 32.00 |
| Total | 58,130 | |

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

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

The tables of selected financial data shown below are derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that you can expect for any future period.

The results of operations include Savvis for periods after July 15, 2011, Qwest for periods after April 1, 2011 and Embarq for periods after July 1, 2009.

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

| | Years Ended December 31,(1) | | | | |
|---|---|---|---|---|---|
| | 2013 (2) | 2012 | 2011 | 2010 | 2009 |
| | (Dollars in millions, except per share amounts and shares in thousands) | | | | |
| Operating revenues | $18,095 | 18,376 | 15,351 | 7,042 | 4,974 |
| Operating expenses | 16,642 | 15,663 | 13,326 | 4,982 | 3,741 |
| Operating income | $1,453 | 2,713 | 2,025 | 2,060 | 1,233 |
| Income before income tax expense | 224 | 1,250 | 948 | 1,531 | 813 |
| Net (loss) income | (239) | 777 | 573 | 948 | 647 |
| Basic (loss) earnings per common share | (0.40) | 1.25 | 1.07 | 3.13 | 3.23 |
| Diluted (loss) earnings per common share | (0.40) | 1.25 | 1.07 | 3.13 | 3.23 |
| Dividends declared per common share | 2.16 | 2.90 | 2.90 | 2.90 | 2.80 |
| Weighted average basic common shares outstanding | 600,892 | 620,205 | 532,780 | 300,619 | 198,813 |
| Weighted average diluted common shares outstanding | 600,892 | 622,285 | 534,121 | 301,297 | 199,057 |

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" in Item 7 of this annual report for a discussion of unusual items affecting the results for the years ended December 31, 2013, 2012 and 2011.

(2) We recorded a non-cash, non-tax-deductible goodwill impairment charge of $1.092 billion for goodwill attributed to our data hosting segment and a litigation settlement charge of $235 million recorded in 2013.

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

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (Dollars in millions) | | | | |
| Net property, plant and equipment (1) | $18,646 | 18,909 | 19,361 | 8,754 | 9,097 |
| Goodwill (2) (3) | 20,674 | 21,627 | 21,627 | 10,261 | 10,252 |
| Total assets | 51,787 | 53,940 | 55,964 | 22,038 | 22,563 |
| Total long-term debt (4) | 20,966 | 20,605 | 21,836 | 7,328 | 7,754 |
| Total stockholders' equity (2) | 17,191 | 19,289 | 20,827 | 9,647 | 9,467 |

(1) We have reclassified certain prior year balance sheet amounts presented in our Annual Report on Form 10-K for the year ended December 31, 2012 and 2011 to conform to the current period presentation. Specifically, we have reclassified $123 million and $83 million in software development costs, net of $30 million and $8 million in accumulated amortization, from property, plant and equipment to other intangible assets on our consolidated balance sheet as of December 31, 2012,and 2011, respectively. We have also reclassified $28 million and $8 million from depreciation expense to amortization expense in our statements of operations for the years ended December 31, 2012 and 2011, respectively. The correction of the error did not have an effect on our consolidated

statements of operations or our consolidated statements of cash flows for the years ended December 31, 2012 and 2011.

(2) We recorded a non-cash, non-tax-deductible goodwill impairment charge of $1.092 billion during 2013 for goodwill attributed to our data hosting segment.

39

Table of Contents

(3) During the year ended December 31, 2013, we recorded a correction of an error related to an overstatement of our net deferred tax liability recorded in connection with the purchase accounting of Savvis and Qwest in 2011. Therefore, we recognized a $105 million decrease in our net deferred tax liability and a $105 million reduction to goodwill on our consolidated balance sheets as of December 31, 2012 and 2011. The correction of the error did not have an effect on our consolidated statements of operations or our consolidated statements of cash flows for the years ended December 31, 2012 and 2011.

(4) Total long-term debt is the sum of current maturities of long-term debt and long-term debt on our consolidated balance sheets. For total obligations, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Future Contractual Obligations" in Item 7 of this annual report.

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

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | (Dollars in millions) | | | | |
| Net cash provided by operating activities | $5,559 | 6,065 | 4,201 | 2,045 | 1,574 |
| Net cash used in investing activities | (3,148) | (2,690) | (3,647) | (859) | (679) |
| Net cash used in financing activities | (2,454) | (3,295) | (577) | (1,175) | (976) |
| Payments for property, plant and equipment and capitalized software | (3,048) | (2,919) | (2,411) | (864) | (755) |

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

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 (2) | 2011 (2) | 2010 | 2009 |
| | (in thousands except for data centers, which are actuals) | | | | |
| Total broadband subscribers (1) | 5,991 | 5,851 | 5,655 | 2,349 | 2,186 |
| Total access lines (1) | 13,002 | 13,751 | 14,587 | 6,489 | 7,025 |
| Total data centers (3) | 55 | 54 | 51 | — | — |

(1) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables, and access lines are lines reaching from the customers' premises to a connection with the public network.

(2) The prior year numbers have been adjusted to include the operational metrics of our wholly owned subsidiary, El Paso County Telephone Company, which had been previously excluded. The increase (in thousands) related to including El Paso County Telephone Company's broadband subscribers and access lines, in the table above, is approximately 3 and 3, respectively.

(3) Data centers are located throughout North America, Europe and Asia.

Table of Contents

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

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

Overview

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

At December 31, 2013, we operated approximately 13.0 million access lines in 37 states, served approximately 6.0 million broadband subscribers, and operated 55 data centers throughout North America, Europe and Asia. Our methodology for counting access lines may not be comparable to those of other companies.

Our consolidated financial statements include the accounts of CenturyLink, Inc. ("CenturyLink") and its majority-owned subsidiaries. These subsidiaries include SAVVIS, Inc. ("Savvis") since July 15, 2011 and Qwest Communications International Inc. ("Qwest") since April 1, 2011. See Note 2—Acquisitions to our consolidated financial statements in Item 8 of this annual report. We discuss below, under "Results of Operations—Segment Results", certain trends that we believe are significant, even if they are not necessarily material to the combined company.

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Dollars in millions) | | |
| Cost of services and products: | | | |
| Integration and other expenses associated with acquisitions | $15 | 22 | 43 |
| Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions | — | — | 24 |
| Total | $15 | 22 | 67 |
| Selling, general and administrative: | | | |
| Expenses incurred to effect acquisitions | $— | — | 79 |
| Integration and other expenses associated with acquisitions | 28 | 25 | 172 |
| Severance expenses, accelerated recognition of share-based awards and retention compensation associated with acquisitions | 10 | 36 | 149 |
| Total | $38 | 61 | 400 |

Table of Contents

This table does not include costs incurred by Qwest or Savvis prior to being acquired by us. Based on current plans and information, we estimate, in relation to our Qwest acquisition, total integration, severance and retention expenses to be between $630 million to $654 million (which includes approximately $511 million of cumulative expenses incurred through December 31, 2013) and our capital expenditures associated with integration activities will approximate $200 million (which includes approximately $110 million of cumulative capital expenditures incurred through December 31, 2013). We anticipate that the amount of our integration costs in future years will vary substantially based on integration activities conducted during those periods and could in certain cases be higher than those incurred by us during the year ended December 31, 2013.

During the first quarter of 2013, we announced a reorganization of our operating segments. Consequently we now report the following four segments in our consolidated financial statements: consumer, business, wholesale and data hosting. The primary purpose of the reorganization was to strengthen our focus on the business market while continuing our commitment to our wholesale, hosting and consumer customers. The reorganization combined business sales and operations functions that formerly resided in the enterprise markets-network segment and the regional markets segment into the new unified business segment. The remaining customers formerly serviced by the regional markets segment became the new consumer segment. Each of the current segments are described further below:

- Consumer. Consists generally of providing strategic and legacy products and services to residential consumers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance service.
- Business. Consists generally of providing strategic and legacy products and services to commercial, enterprise, global and governmental customers. Our strategic products and services offered to these customers include our private line, broadband, Ethernet, Multiprotocol Label Switching ("MPLS"), Voice over Internet Protocol ("VoIP"), and network management services. Our legacy services offered to these customers include local and long-distance service.
- Wholesale. Consists generally of providing strategic and legacy products and services to other communications providers. Our strategic products and services offered to these customers are mainly private line (including special access), dedicated internet access, digital subscriber line ("DSL") and MPLS. Our legacy services offered to these customers include the resale of our services, the sale of unbundled network elements ("UNEs") which allow our wholesale customers to use our network or a combination of our network and their own networks to provide voice and data services to their customers, long-distance and switched access services and other services, including billing and collection, pole rental, floor space and database services.
- Data hosting. Consists primarily of providing colocation, managed hosting and cloud hosting services to commercial, enterprise, global and governmental customers.

Results of Operations

The following table summarizes the results of our consolidated operations for the years ended December 31, 2013, 2012 and 2011. Our operating results include operations of Savvis for periods after July 15, 2011 and Qwest for periods after April 1, 2011.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Dollars in millions except per share amounts) | | |
| Operating revenues | $18,095 | 18,376 | 15,351 |
| Operating expenses | 16,642 | 15,663 | 13,326 |
| Operating income | 1,453 | 2,713 | 2,025 |
| Other income (expense) | (1,229) | (1,463) | (1,077) |
| Income tax expense | 463 | 473 | 375 |
| Net (loss) income | $(239) | 777 | 573 |
| Basic (loss) earnings per common share | $(0.40) | 1.25 | 1.07 |
| Diluted (loss) earnings per common share | $(0.40) | 1.25 | 1.07 |

Table of Contents

Due to our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011, our 2013 and 2012 operating results reflect a full year of Qwest's and Savvis' results, as compared to our 2011 operating results, which reflect only nine months of Qwest's operating results and five and a half months of Savvis' operating results.

The change from net income of $777 million in 2012 to a net loss of $239 million in 2013 is primarily due to a goodwill impairment charge of $1.092 billion and a charge of $235 million in connection with a litigation settlement recorded in 2013. The increase in net income of $204 million in 2012 was primarily due to the 2012 period containing a full year of Qwest's operating results compared to the 2011 period only containing nine months and a significant decrease from 2011 in the amount of acquisition, severance and integration expenses resulting from our recent acquisitions, as presented in the table under the "Overview" section above. The post-acquisition operations of Legacy Savvis and Legacy Qwest, which included substantial severance and integration expenses and significant acquisition accounting adjustments to depreciation and amortization expense, did not contribute significantly to our consolidated net income in 2011. See Note 2—Acquisitions and Note 3—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of this annual report. In addition to these factors, growth in strategic services revenues (which we describe further below) over the past couple of years did not fully offset lower revenues from other services and products, which placed downward pressures on our revenues.

Diluted (loss) earnings per common share in 2013 was lower than 2012 primarily due to the above-described goodwill impairment charge of $1.092 billion and a litigation settlement charge of $235 million recorded in 2013. Diluted earnings per common share in 2012 was higher than 2011 as a result of increased net income for 2012.

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

| | As of December 31, | | |
|---|---|---|---|
| | 2013 | 2012 (2) | 2011 (2) |
| | (in thousands except for data centers, which are actuals) | | |
| Operational metrics: | | | |
| Total broadband subscribers (1) | 5,991 | 5,851 | 5,655 |
| Total access lines (1) | 13,002 | 13,751 | 14,587 |
| Total data centers (3) | 55 | 54 | 51 |
| Total employees | 46.6 | 47.0 | 49.2 |

(1) Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines and fiber-optic cables, and access lines are lines reaching from the customers' premises to a connection with the public network.

(2) The prior year numbers have been adjusted to include the operational metrics of our wholly owned subsidiary, El Paso County Telephone Company, which had been previously excluded. The increase (in thousands) related to including El Paso County Telephone Company's broadband subscribers and access lines, in the table above, is approximately 3 and 3, respectively.

(3) Data centers are located throughout North America, Europe and Asia.

During the last several years, we have experienced revenue decline (excluding the impact of acquisitions) primarily due to declines in access lines, intrastate access rates and minutes of use. To mitigate these declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- provide new services, such as video, cloud hosting, managed hosting, colocation and other additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our broadband and premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase usage of our networks; and
- market our products and services to new customers.

Table of Contents

Operating Revenues

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

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

The following table summarizes our operating revenues under our current revenue categorization:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2013 | 2012 | Increase / (Decrease) | % Change |
| | (Dollars in millions) | | | |
| Strategic services | $8,822 | 8,427 | 395 | 5 % |
| Legacy services | 7,617 | 8,221 | (604) | (7)% |
| Data integration | 656 | 672 | (16) | (2)% |
| Other | 1,000 | 1,056 | (56) | (5)% |
| Total operating revenues | $18,095 | 18,376 | (281) | (2)% |

The following table summarizes our operating revenues under our current revenue categorization, which is presented in a manner that we believe is useful for understanding the impact of the Qwest and Savvis acquisitions:

| | Years Ended December 31, | | Increase / (Decrease) | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | CenturyLink | Qwest | Savvis | Total |
| | (Dollars in millions) | | | | | |
| Strategic services | $8,427 | 6,313 | 322 | 1,207 | 585 | 2,114 |
| Legacy services | 8,221 | 7,621 | (648) | 1,248 | — | 600 |
| Data integration | 672 | 537 | 19 | 116 | — | 135 |
| Other | 1,056 | 880 | 44 | 132 | — | 176 |
| Total operating revenues | $18,376 | 15,351 | (263) | 2,703 | 585 | 3,025 |

Operating revenues attributable to certain bundled services were revised from legacy services to strategic services. Specifically, the revision resulted in a reduction of revenues from legacy services of $104 million and $51 million and a corresponding increase in revenues from strategic services for the periods ended December 31, 2012 and 2011, respectively. The revision was in response to over-allocating discounts to broadband services revenues and under-allocating discounts to local and long-distance services revenues under bundled services arrangements, which resulted in strategic services revenues being understated and legacy services revenues being overstated.

Table of Contents

Operating revenues attributable to certain CLEC services were revised from strategic services to legacy services. Specifically, the revision resulted in a reduction of revenue from strategic services of $38 million and a corresponding increase in revenue from legacy services for the period ended December 31, 2012. The revision was in response to recording certain legacy services revenues generated through CLEC services arrangements as strategic services revenues, which resulted in strategic services revenues being overstated and legacy services revenues being understated. Due to system limitations, we have determined that it is impracticable to revise 2011 operating revenues attributable to certain CLEC services to conform to our current revenue categorization.

Our operating revenues decreased by $281 million, or approximately 2%, during the year ended December 31, 2013 as compared to the year ended December 31, 2012. The decrease in revenues is primarily due to declines to legacy services revenues, which decreased by $604 million, or 7%, and which reflect the continuing loss of access lines and loss of access revenues associated with internet and wireless substitution in our markets. At December 31, 2013, we had approximately 13.0 million access lines, (about 59% of which are located in Legacy Qwest's markets), or approximately 5.4% less than the number of access lines we operated at December 31, 2012. We believe the decline in the number of access lines was primarily due to the displacement of traditional wireline telephone services by other competitive products and services. We estimate that our access lines loss will be between 5.2% and 5.7% in 2014. Strategic services revenues increased by $395 million, or 5%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily from increased demand for our MPLS, Ethernet, broadband, facilities-based video and data hosting services, which were partially offset by a decline in private lines services. Data integration decreased by $16 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to declines in governmental sales and professional services, which were partially offset by a increase in maintenance services. Other revenue decreased by $56 million, or 5%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to rate reductions on the federal universal service charges.

Our operating revenues increased by $3.025 billion, or 20%, during the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase in revenues is primarily due to our acquisitions of Qwest on April 1, 2011 and Savvis on July 15, 2011. As reflected in the table above, our acquisitions of Qwest and Savvis contributed incremental operating revenues (net of intercompany eliminations) of $2.7 billion and $585 million, respectively, to our 2012 revenues. Legacy CenturyLink operating revenues decreased $263 million, in 2012. This decrease was primarily attributable to a decline in legacy services revenues, which reflected the continuing loss of access lines in our markets. At December 31, 2012, we had 13.751 million access lines, of which 8.058 million were in Legacy Qwest's markets. Access lines in our Legacy CenturyLink markets declined to 5.693 million at December 31, 2012 from 6.051 million at December 31, 2011, a decrease of 5.9% during 2012. We believe the decline in the number of access lines was primarily due to the displacement of traditional wireline telephone services by other competitive products and services. Our legacy services revenues were also negatively impacted in 2012 by the continued reduction in access revenues and continued migration of customers to bundled service offerings at lower effective rates. The decrease in our legacy services revenues was partially offset by higher revenues from strategic services revenues. Ethernet, MPLS, Internet Protocol Television ("IPTV"), VoIP and broadband services accounted for a majority of the growth in strategic services revenues.

We are aggressively marketing our strategic services (including our data hosting services) to offset the continuing declines in our legacy services revenues. We believe our recent acquisitions since 2011 will strengthen our ability to achieve this goal.

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

Operating Expenses

Our current definitions of operating expenses are as follows:

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

Table of Contents

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

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

Total operating expenses increased by $979 million, or 6%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 and operating expenses increased by $2.337 billion, or 18%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011.

The following tables summarize our operating expenses:

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2013 | 2012 | Increase / (Decrease) | % Change |
| | (Dollars in millions) | | | |
| Cost of services and products (exclusive of depreciation and amortization) | $7,507 | 7,639 | (132) | (2)% |
| Selling, general and administrative | 3,502 | 3,244 | 258 | 8% |
| Depreciation and amortization | 4,541 | 4,780 | (239) | (5)% |
| Impairment of goodwill | 1,092 | — | 1,092 | 100% |
| Total operating expenses | $16,642 | 15,663 | 979 | 6% |

| | Years Ended December 31, | | Increase / (Decrease) | | | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | CenturyLink | Qwest | Savvis | Total |
| | (Dollars in millions) | | | | | |
| Cost of services and products (exclusive of depreciation and amortization) | $7,639 | 6,325 | (73) | 1,082 | 305 | 1,314 |
| Selling, general and administrative | 3,244 | 2,975 | (367) | 483 | 153 | 269 |
| Depreciation and amortization | 4,780 | 4,026 | (149) | 741 | 162 | 754 |
| Total operating expenses | $15,663 | 13,326 | (589) | 2,306 | 620 | 2,337 |

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

The acquisitions of Qwest and Savvis largely contributed to the increase in total operating expenses of $2.337 billion in 2012. Excluding the effects of Legacy Qwest and Legacy Savvis expenses, total operating expenses for the year ended December 31, 2012 decreased $589 million, due primarily to decreases in employee-related expenses, severance and integration expenses relating to our recent acquisitions and depreciation and amortization expense. As discussed in the "Overview" section, our operating expenses for 2013, 2012, and 2011 included substantial severance and integration costs related to the Qwest, Savvis and Embarq acquisitions as well as significant acquisition accounting adjustments to depreciation and amortization expense. See Note 2—Acquisitions and Note 3—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of this annual report.

Cost of services and products (exclusive of depreciation and amortization) decreased by $132 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in professional fees, customer premise equipment installation and maintenance costs and employee related costs. These decreases were partially offset by increases in facility costs, network expenses and real estate and power. Cost of services and products (exclusive of depreciation and amortization) increased by $1.314 billion, or 21%, for the year months ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisitions of Qwest and Savvis. For the year ended December 31, 2012, Legacy CenturyLink's cost of services and products (exclusive of depreciation and amortization) were slightly lower as compared to 2011. During 2012, we experienced decreases in severance, salaries and wages and related benefits, which were partially offset by increases in customer premise equipment and maintenance costs, network expense, and contractor costs.

Selling, general and administrative expenses increased by $258 million, or 8%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a charge of $235 million in connection with a litigation settlement. The increase was also attributed to increases in employee related costs, professional fees and external commissions, which were partially offset by a decrease in bad debt expense. Selling, general and administrative expenses increased by $269 million, or 9%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest and Savvis. Legacy CenturyLink selling, general and administrative expenses decreased $367 million, for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The decrease in 2012 was primarily due to a decrease in severance and integration expenses relating to our recent acquisitions, as well as a decrease in salaries, wages, and employee benefits due to a reduction in headcount. For all periods presented, our expenses include the transaction, severance and integration expenses related to the Qwest, Savvis and Embarq acquisitions (summarized in the table in "Overview" above).

Depreciation and amortization expenses decreased by $239 million or 5%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012. This decrease in depreciation expense is primarily due to depreciation rate changes of certain telecommunications equipment. The rate changes were the result of our aged investment in plant becoming fully depreciated or retired at a faster rate than the addition of new plant. The decrease in amortization expense is primarily due to the use of accelerated amortization for a portion of the customer relationship assets and due to our software investments becoming fully amortized faster than new software was acquired.

Depreciation and amortization increased by $754 million, or 19%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest and Savvis. Excluding the effects of the acquisitions of Qwest and Savvis, depreciation and amortization expense for Legacy CenturyLink decreased $149 million, or 4%, due to annual updates of our depreciation rates for capitalized assets and an out-of-period accounting adjustment related to an overstatement of depreciation expense in prior years, partially offset by net growth in capital assets. See Note 1—Basis of Presentation and Summary of Significant Accounting Policies to our consolidated financial statements in Item 8 of this annual report for additional information on the out-of-period accounting adjustment.

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

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

Goodwill Impairment

As of September 30, 2013, we assessed our reporting units, which are our four operating segments (consumer, business, wholesale and data hosting). Based on our assessment performed, we concluded that our goodwill for the consumer, wholesale and business segments was not impaired as of that date, but that our goodwill for the data hosting segment was impaired as of September 30, 2013. The data hosting segment is experiencing slower than previously-projected revenue and margin growth and greater than anticipated competitive pressures. As a result of this data hosting impairment, we recorded during 2013 a non-cash, non-tax-deductible goodwill impairment charge of $1.092 billion for goodwill assigned to our data hosting segment.

As of September 30, 2013, based on our assessment performed with respect to our four reporting units, the estimated fair value of our equity exceeded our carrying value of equity for our consumer, business and wholesale segments by 8%, 18% and 150%, respectively. After the impairment charge described above, the estimated fair value of our equity equals the carrying value of equity for our data hosting segment.

Table of Contents

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

We may be required to assess our goodwill for impairment before our next required testing date of October 31, 2014 under certain circumstances, including any failure to meet our forecasted future operating results or any significant increases in our weighted average cost of capital. In addition, we cannot assure that adverse conditions will not trigger future goodwill impairment testing or an impairment charge. A number of factors, many of which we have no ability to control, could affect our financial condition, operating results and business prospects and could cause our actual results to differ from the estimates and assumptions we employed in our goodwill impairment assessment. These factors include, but are not limited to, (i) further weakening in the overall economy; (ii) a significant decline in our stock price and resulting market capitalization; (iii) changes in the discount rate we use in our testing; (iv) successful efforts by our competitors to gain market share in our markets; (v) adverse changes as a result of regulatory or legislative actions; (vi) a significant adverse change in legal factors or in the overall business climate; and (vii) recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of our segments. For additional information on the change to our goodwill impairment assessment date and the risk associated with intangible assets, see "Critical Accounting Policies and Estimates—Goodwill, Customer Relationships and Other Intangibles Assets" below and "Risk Factors" in Item 1A of Part II of this annual report. We will continue to monitor certain events that impact our operations to determine if an interim assessment of goodwill impairment should be performed prior to the next required assessment date of October 31, 2014.

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

Other Consolidated Results

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

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

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

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

Table of Contents

Interest Expense
Interest expense decreased $21 million, or 2%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a lower amount of average debt outstanding along with lower interest rates, which were partially offset by a reduction in the amortization of debt premiums. Interest expense increased by $247 million, or 23%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the 2012 period containing a full year of Qwest interest expense compared to the 2011 period containing only nine months. Interest expense for Legacy CenturyLink increased $62 million, for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase in 2012 is substantially due to interest on our $2 billion aggregate principal amount of senior notes issued in June 2011 to finance the Savvis acquisition. The 2012 increase is due to those notes being outstanding for a full year versus only a portion of 2011. See Note 4—Long-term Debt and Credit Facilities to our consolidated financial statements in Item 8 of this annual report and "Liquidity and Capital Resources" below for additional information about those transactions.
Net Gain or Loss on Early Retirement of Debt
In the fourth quarter of 2013, QCII (Qwest Communications International Inc. on a stand-alone basis) redeemed their outstanding debt securities, which resulted in a gain of $10 million.
In the second quarter of 2012, our subsidiaries Embarq and QC completed premium-priced cash tender offers for the purchase of certain of their respective outstanding debt securities, resulting in an aggregate loss of $190 million. Also in the second quarter of 2012, our subsidiaries Embarq and QCII redeemed certain of their respective outstanding debt securities which resulted in a net loss of $9 million.
During 2012, QCII and QC redeemed certain of their outstanding debt securities, which resulted in an aggregate gain of $20 million.
In the fourth quarter and second quarter of 2011, QC redeemed certain of its outstanding debt securities which resulted in a total net loss of $8 million.
Other Income (Expense)
Other income (expense) reflects certain items not directly related to our core operations, including our share of income from our 49% interest in a cellular partnership, interest income, gains and losses from non-operating asset dispositions and foreign currency gains and losses. Other income was greater for the year ended December 31, 2013 as compared to 2012 primarily due to a $32 million gain on the sale of wireless spectrum in January 2013, which was larger than the gain on sale of auction rate securities recognized in 2012. Other income for Legacy CenturyLink was greater for the year ended December 31, 2012 as compared to 2011 due to gains on the sales of our auction rate securities and the recognition in 2011 of $16 million in transaction expenses incurred in connection with terminating an unused bridge loan financing commitment related to the Savvis acquisition. See Note 2—Acquisitions to our consolidated financial statements in Item 8 of this annual report.
Income Tax Expense
Income tax expense decreased by $10 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. Our income tax expense for the year ended December 31, 2012 increased $98 million from the amounts for the comparable prior year. Our increase in 2012 was primarily due to a $302 million, or 32%, increase in income before income tax expense as compared to 2011. For the years ended December 31, 2013, 2012 and 2011, our effective income tax rate was 206.7%, 37.8% and 39.6%, respectively. The 2013 effective tax rate reflects the net impacts of the $1.092 billion non-deductible goodwill impairment and of an unfavorable accounting adjustment of $17 million related to non-deductible life insurance costs. The 2013 tax expense also includes the impacts of a favorable settlement with the Internal Revenue Service of $33 million and a favorable adjustment of $22 million related to the reversal of liabilities for uncertain tax positions. The 2012 effective tax rate reflects the $16 million reversal of a valuation allowance related to the auction rate securities we sold in 2012, a $12 million benefit related to state NOLs net of valuation allowance, and a $6 million expense associated with reversing a receivable related to periods that have been effectively settled with the IRS. See Note 12—Income Taxes to our consolidated financial statements in Item 8 of this annual report and "Income Taxes" below for additional information.

Table of Contents

Segment Results

As described further above under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview," we revised our segment structure in 2013 and restated previously reported segment results for the years ended December 31, 2012 and 2011 to conform to our 2013 segment presentation. The following table summarizes our segment results for the years ended December 31, 2013, 2012 and 2011 under our segment categorization at December 31, 2013.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| | | | (Dollars in millions) | | | |
| Total segment revenues | $17,095 | | 17,320 | | 14,471 | |
| Total segment expenses | 8,249 | | 8,244 | | 6,623 | |
| Total segment income | $8,846 | | 9,076 | | 7,848 | |
| Total margin percentage | 52 | % | 52 | % | 54 | % |
| Consumer: | | | | | | |
| Revenues | $6,004 | | 6,162 | | 5,384 | |
| Expenses | 2,231 | | 2,291 | | 1,972 | |
| Income | $3,773 | | 3,871 | | 3,412 | |
| Margin percentage | 63 | % | 63 | % | 63 | % |
| Business: | | | | | | |
| Revenues | $6,136 | | 6,133 | | 5,150 | |
| Expenses | 3,769 | | 3,743 | | 3,068 | |
| Income | $2,367 | | 2,390 | | 2,082 | |
| Margin percentage | 39 | % | 39 | % | 40 | % |
| Wholesale: | | | | | | |
| Revenues | $3,579 | | 3,725 | | 3,314 | |
| Expenses | 1,158 | | 1,230 | | 1,137 | |
| Income | $2,421 | | 2,495 | | 2,177 | |
| Margin percentage | 68 | % | 67 | % | 66 | % |
| Data hosting: | | | | | | |
| Revenues | $1,376 | | 1,300 | | 623 | |
| Expenses | 1,091 | | 980 | | 446 | |
| Income | $285 | | 320 | | 177 | |
| Margin percentage | 21 | % | 25 | % | 28 | % |

Table of Contents

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | (Dollars in millions) | | |
| Total segment revenues | $17,095 | 17,320 | 14,471 |
| Other operating revenues | 1,000 | 1,056 | 880 |
| Operating revenues reported in our consolidated statements of operations | $18,095 | 18,376 | 15,351 |
| Total segment income | $8,846 | 9,076 | 7,848 |
| Other operating revenues | 1,000 | 1,056 | 880 |
| Depreciation and amortization | (4,541) | (4,780) | (4,026) |
| Impairment of goodwill (Note 3) | (1,092) | — | — |
| Other unassigned operating expenses | (2,760) | (2,639) | (2,677) |
| Operating income reported in our consolidated statement of operations | $1,453 | 2,713 | 2,025 |

Our segment revenues include all revenues from our strategic and legacy services and data integration as described in more detail above. Segment revenues are based upon each customer's classification to an individual segment. We report our segment revenues based upon all services provided to that segment's customers. We report our segment expenses for our four segments as follows:

- Direct expenses, which primarily are specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities; and
- Allocated expenses, which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses.

We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, severance expenses, restructuring expenses and, subject to an exception for our data hosting segment, certain centrally managed administrative functions (such as finance, information technology, legal and human resources) are not assigned to our segments. Interest expense is also excluded from segment results because we manage our financing on a total company basis and have not allocated assets or debt to specific segments. Other income (expense) is not monitored as a part of our segment operations and is therefore excluded from our segment results. For additional information about our segments, see Note 13—Segment Information to our consolidated financial statements in Item 8 of this annual report.

Consumer

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

- Strategic services. In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in Items 1 and 1A of this annual report, demand for our broadband services could be adversely affected by competitors providing services at higher broadband speed than ours or using advanced wireless data technologies. We also continue to expand our strategic product offerings, including facilities-based video services. The expansion of our facilities-based video service infrastructure requires us to incur start-up expenses in advance of the revenue that this service is expected to generate. Although, over time, we expect that our revenue for facilities-based video services will offset the expenses incurred, the timing of this revenue growth is uncertain. We believe these efforts will improve our ability to compete and increase our strategic revenues;

Table of Contents

- Legacy services. Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of revenues associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below;
- Service bundling and product promotions. We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment; and
- Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions.

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

| | Consumer Segment Years Ended December 31, 2013 | 2012 | Increase / (Decrease) | % Change |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Segment revenues: | | | | |
| Strategic services | $2,650 | 2,474 | 176 | 7 % |
| Legacy services | 3,349 | 3,681 | (332) | (9)% |
| Data integration | 5 | 7 | (2) | (29)% |
| Total revenues | 6,004 | 6,162 | (158) | (3)% |
| Segment expenses: | | | | |
| Direct | 1,758 | 1,796 | (38) | (2)% |
| Allocated | 473 | 495 | (22) | (4)% |
| Total expenses | 2,231 | 2,291 | (60) | (3)% |
| Segment income | $3,773 | 3,871 | (98) | (3)% |
| Segment margin percentage | 63 % | 63 % | | |

| | Consumer Segment Years Ended December 31, 2012 | 2011 | Increase / (Decrease) CenturyLink | Qwest | Total |
|---|---|---|---|---|---|
| | (Dollars in millions) | | | | |
| Segment revenues: | | | | | |
| Strategic services | $2,474 | 1,928 | 190 | 356 | 546 |
| Legacy services | 3,681 | 3,449 | (253) | 485 | 232 |
| Data integration | 7 | 7 | — | — | — |
| Total revenues | 6,162 | 5,384 | (63) | 841 | 778 |
| Segment expenses: | | | | | |
| Direct | 1,796 | 1,542 | 25 | 229 | 254 |
| Allocated | 495 | 430 | (12) | 77 | 65 |
| Total expenses | 2,291 | 1,972 | 13 | 306 | 319 |
| Segment income | $3,871 | 3,412 | (76) | 535 | 459 |
| Segment margin percentage | 63 % | 63 % | | | |

Table of Contents

Segment Revenues

Consumer revenues decreased $158 million, or 3%, for year ended December 31, 2013 as compared to the year ended December 31, 2012. Growth in strategic services revenues were more than offset by the decline in legacy services revenues. The increase in strategic services revenues is due primarily to volume increases in our facilities-based video services and increases in the number of broadband subscribers, as well as from price increases on various services. Legacy services revenues decreased primarily due to declines in local and long-distance services associated with access line losses resulting from the competitive and technological changes described above. Consumer revenues increased by $778 million, or 15%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase in revenue is primarily due to our acquisition of Qwest, which contributed $841 million in revenue. Legacy CenturyLink's revenue decreased by $63 million primarily due to a decline in legacy revenues, partially offset by growth in strategic services revenues. Legacy services revenues decreased primarily due to declines in local and long distance services associated with access line losses resulting from the competitive pressures and product substitution previously described. Growth in strategic services revenues was primarily due to an increase in the number of broadband subscribers.

Segment Expenses

Consumer expenses decreased by $60 million, or 3%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in bad debt expense, salaries and wages, facility costs and allocated expenses, partially offset by increases in professional fees and external commissions. The decrease in allocated expenses for the year ended December 31, 2013 as compared to the year ended December 31, 2012 was primarily due to reductions in network salaries and wages and professional fees. Consumer expenses increased by $319 million, or 16%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest, which contributed $306 million in total expenses. Legacy CenturyLink's segment expenses increased by $13 million during the same period primarily due to increases in external commissions, maintenance costs and marketing and advertising costs.

Segment Income

Consumer income decreased by $98 million, or 3%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to a decline in total revenue. Consumer income increased by $459 million, or 13%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest, which contributed $535 million in segment income. Legacy CenturyLink's segment income decreased $76 million for the same period primarily due to a decline in total revenue, as discussed above.

Business

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

- Strategic services. Our mix of total segment revenues continues to migrate from legacy services to strategic services as our commercial, enterprise, global and governmental customers increasingly demand customized and integrated data, Internet and voice services. We offer diverse combinations of emerging technology products and services such as private line, MPLS, and VoIP services. We believe these services afford our customers more flexibility in managing their communications needs and improve the effectiveness and efficiency of their operations. Although we are experiencing price compression on our strategic services due to competition, we expect strategic revenues from these services to continue to grow during 2013;
- Legacy services. We face intense competition with respect to our legacy services and continue to see customers migrating away from these services and into strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression;
- Data integration. We expect both data integration revenue and the related costs will fluctuate from quarter to quarter as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have recently experienced substantial budget cuts with the possibility of additional future budget cuts; and
-

Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions, while achieving operational efficiencies and improving our processes through automation. We also expect our business segment to benefit indirectly from efficiencies in our company-wide network operations.

Table of Contents

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

| | Business Segment Years Ended December 31, 2013 | 2012 | Increase / (Decrease) | % Change |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Segment revenues: | | | | |
| Strategic services | $2,509 | 2,356 | 153 | 6 % |
| Legacy services | 2,976 | 3,112 | (136 ) | (4 )% |
| Data integration | 651 | 665 | (14 ) | (2 )% |
| Total revenues | 6,136 | 6,133 | 3 | — % |
| Segment expenses: | | | | |
| Direct | 3,329 | 3,285 | 44 | 1 % |
| Allocated | 440 | 458 | (18 ) | (4 )% |
| Total expenses | 3,769 | 3,743 | 26 | 1 % |
| Segment income | $2,367 | 2,390 | (23 ) | (1 )% |
| Segment margin percentage | 39 % | 39 % | | |

| | Business Segment Years Ended December 31, 2012 | 2011 | Increase / (Decrease) CenturyLink | Qwest | Savvis | Total |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| Segment revenues: | | | | | | |
| Strategic services | $2,356 | 1,842 | 44 | 459 | 11 | 514 |
| Legacy services | 3,112 | 2,779 | (181 ) | 514 | — | 333 |
| Data integration | 665 | 529 | 20 | 116 | — | 136 |
| Total revenues | 6,133 | 5,150 | (117 ) | 1,089 | 11 | 983 |
| Segment expenses: | | | | | | |
| Direct | 3,285 | 2,751 | (77 ) | 611 | — | 534 |
| Allocated | 458 | 317 | 62 | 75 | 4 | 141 |
| Total expenses | 3,743 | 3,068 | (15 ) | 686 | 4 | 675 |
| Segment income | $2,390 | 2,082 | (102 ) | 403 | 7 | 308 |
| Segment margin percentage | 39 % | 40 % | | | | |

Segment Revenues

Business revenues increased by $3 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. Strategic services revenues increased $153 million, but was substantially offset by a decline in legacy services revenue of $136 million and a decline of $14 million in data integration service revenue. The increase in strategic services revenue came from increases in MPLS, VoIP, and Ethernet services., which were partially offset by declines in private line services. Business revenues increased by $983 million for the year ended December 31, 2012 as compared to the year ended December 31, 2011. The increase in business revenue is primarily due to the acquisition of Qwest, which contributed $1.089 billion in revenue. Legacy CenturyLink's segment revenue declined by $117 million primarily due to a decline in legacy services revenue, partially offset by growth in strategic services revenue. Legacy services revenues decreased primarily due to declines in local and long-distance services associated principally with access line loss resulting from competitive pressures and product substitution. Growth in strategic services revenues was primarily due to increases in VoIP, Ethernet and MPLS services.

Table of Contents

Segment Expenses

Business expenses increased by $26 million, or 1%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to increases in salaries and wages, professional fees and facility costs, partially offset by decreases in equipment and maintenance costs and allocated expenses. Allocated expenses decreased for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to decreases in network salaries and wages and professional fees, which were partially offset by an increase in real estate and power costs. Business expenses increased for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest, which contributed $686 million in segment expenses. Legacy CenturyLink's expenses decreased by $15 million during the same period primarily due to decreases in direct expense, partially offset by increase in allocated expenses. Direct expenses decreased due to decreases in employee related expenses and marketing costs, which were partially offset by increases in customer premise equipment maintenance and installation costs and facility costs. Allocated expense increased primarily due to more fully allocating network and building rent and related power expenses.

Segment Income

Business income decreased by $23 million, or 1%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily due to an increase in direct expenses. Business income increased by $308 million, or 15%, for the year ended December 31, 2012 as compared to the year ended December 31, 2011 primarily due to the acquisition of Qwest, which contributed $403 million in segment income. Legacy CenturyLink's segment income decreased by $102 million for the same period primarily due to a decline in total revenue, as discussed above.

Wholesale

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

- Strategic services. Demand for our private line services (including special access) has begun to decline due to our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors will continue to negatively impact our wholesale segment, we believe the demand for our fiber-based special access services provided to wireless carriers for backhaul will partially offset the decline in copper-based special access services provided to wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration is uncertain;
- Legacy services. Our access, local services and long-distance revenues have been and we expect will continue to be adversely affected by customer migration to more technologically advanced services, declining demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, wholesale consumers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. Our switched access revenues have been and will continue to be impacted by changes related to the Connect America and Intercarrier Compensation Reform order ("CAF order") adopted by the Federal Communications Commission ("FCC") on October 27, 2011 that we believe will substantially increase the pace of reductions in the amount of switched access revenues we receive in our wholesale segment. Conversely, the FCC instituted an access recovery charge that we believe will allow us to recover the majority of these lost revenues directly from end users in our consumer and business segments. We expect these factors will continue to adversely impact our wholesale segment; and
- Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our wholesale segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

Table of Contents

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

| | Wholesale Segment Years Ended December 31, 2013 | 2012 | Increase / (Decrease) | % Change |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Segment revenues: | | | | |
| Strategic services | $2,287 | 2,297 | (10) | — % |
| Legacy services | 1,292 | 1,428 | (136) | (10)% |
| Total revenues | 3,579 | 3,725 | (146) | (4)% |
| Segment expenses: | | | | |
| Direct | 169 | 169 | — | — % |
| Allocated | 989 | 1,061 | (72) | (7)% |
| Total expenses | 1,158 | 1,230 | (72) | (6)% |
| Segment income | $2,421 | 2,495 | (74) | (3)% |
| Segment margin percentage | 68 % | 67 % | | |

| | Wholesale Segment Years Ended December 31, 2012 | 2011 | Increase / (Decrease) CenturyLink | Qwest | Savvis | Total |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| Segment revenues: | | | | | | |
| Strategic services | $2,297 | 1,920 | 32 | 341 | 4 | 377 |
| Legacy services | 1,428 | 1,393 | (214) | 249 | — | 35 |
| Data integration | — | 1 | (1) | — | — | (1) |
| Total revenues | 3,725 | 3,314 | (183) | 590 | 4 | 411 |
| Segment expenses: | | | | | | |
| Direct | 169 | 174 | (18) | 13 | — | (5) |
| Allocated | 1,061 | 963 | (77) | 175 | — | 98 |
| Total expenses | 1,230 | 1,137 | (95) | 188 | — | 93 |
| Segment income | $2,495 | 2,177 | (88) | 402 | 4 | 318 |
| Segment margin percentage | 67 % | 66 % | | | | |