CENTURYLINK, INC
Form 10-K
March 01, 2011

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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2010

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-7784

CENTURYLINK, INC.
(Exact name of Registrant as specified in its charter)

Louisiana (State or other jurisdiction of incorporation or organization)	72-0651161 (IRS Employer Identification No.)
100 CenturyLink Drive, Monroe, Louisiana (Address of principal executive offices)	71203 (Zip Code)

Registrant's telephone number, including area code - (318) 388-9000

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 Berlin Stock Exchange

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

Stock Options
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 [X] No [ ]

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 [X] No [ ]

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [X]

The aggregate market value of voting stock held by non-affiliates (affiliates being for these purposes only directors, executive officers and holders of more than five percent of our outstanding voting securities) was $8.7 billion as of June 30, 2010. As of February 28, 2011, there were 305,609,343 shares of the Registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant’s Proxy Statement to be furnished in connection with the 2011 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

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All references herein to "we", "us", "our" or "CenturyLink" refer to CenturyLink, Inc. and its consolidated subsidiaries, including, for all references to dates or periods on or after July 1, 2009 (except as otherwise stated herein), Embarq Corporation and its subsidiaries, which we acquired on July 1, 2009. In addition, "access lines" mean telephone lines that connect homes or businesses to the public switched telephone network; "competitive local exchange carriers," or "CLECs," mean telecommunications providers that compete in a particular local service area with the ILEC by providing local voice or other services, frequently by using the ILEC's network; "FCC" means the Federal Communications Commission; "incumbent local exchange carrier," or "ILEC," means a traditional telecommunications provider that, prior to the Telecommunications Act of 1996, had the exclusive right and responsibility for providing local telecommunications services in its local service area; “LEC” means any local exchange carrier; “Notes” means the Notes to the Financial Statements included in Item 8 of this Annual Report or Form 10-K; “SEC” means the U.S. Securities and Exchange Commission; “Universal Service Fund,” or “USF,” refers collectively to federal funds established primarily to promote the availability of telecommunications services to all consumers at reasonable and affordable rates; and “Voice Over Internet Protocol,” or “VoIP,” means an application that enables broadband Internet subscribers to engage in two-way voice communication similar to our traditional voice services.

PART I

Item 1. Business

On July 1, 2009, we acquired Embarq Corporation (“Embarq”) in a transaction that substantially expanded the size and scope of our business, and on April 1, 2011 we expect to acquire Qwest Communications International Inc. (“Qwest”) in a transaction that will similarly impact the size and scope of our business. Due to the significant size of Embarq, direct comparisons of our recent results of operations or operating data to periods prior to July 1, 2009 are less meaningful than usual because most of the variances are due to the Embarq acquisition. Similarly, due to the significant size of Qwest, direct comparisons of our future results and data for periods following the upcoming anticipated closing date of the Qwest acquisition to prior periods will be less meaningful than usual for similar reasons. For additional information on our Embarq acquisition, see “ – Embarq acquisition” below, and for additional information on our pending Qwest acquisition, see “ – Pending acquisition of Qwest” below.

General. CenturyLink, together with its subsidiaries, is an integrated communications company engaged primarily in providing a broad array of communications services, including voice, Internet, data and video services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide a complete offering of integrated communications services. We primarily conduct our operations in 33 states located within the continental United States.

At December 31, 2010, our incumbent local exchange telephone subsidiaries operated approximately 6.5 million telephone access lines in 33 states, with over 75% of these lines located in Florida, North Carolina, Missouri, Nevada, Ohio, Wisconsin, Virginia, Texas, Pennsylvania, and Alabama. According to published sources, we are currently the fourth largest local exchange telephone company in the United States based on the number of access lines served.

We also provide fiber transport, wholesale communications services, competitive local exchange carrier service, security monitoring and other communications, professional and business information services in certain local and regional markets.

For information on the amount of revenue derived by our various lines of services, see “Operations - Services” below and Item 7 of this annual report. The financial information included in this Item 1 should be read in conjunction with, and is qualified by reference to, our consolidated financial statements and notes thereto in Item 8 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this annual report.

Pending acquisition of Qwest. On April 21, 2010, we entered into a definitive agreement to acquire Qwest in a tax-free stock-for-stock transaction. Under the terms of the agreement, Qwest shareholders will receive 0.1664 CenturyLink shares for each share of Qwest common stock they own at closing. CenturyLink shareholders are expected to own approximately 50.5% and Qwest shareholders are expected to own approximately 49.5% of the combined company at closing. As of December 31, 2010, Qwest had outstanding approximately (i) 1.764 billion shares of common stock and (ii) $11.947 billion of long-term debt.

While we have received most of the necessary approvals from state public service commissions, completion of the transaction is still subject to the receipt of approvals from the Federal Communications Commission and several other state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction on April 1, 2011. During the process of securing the required state regulatory approvals, we have committed to spend an aggregate of approximately $400 million in capital expenditures over a five-year period to expand our broadband deployment. We anticipate making additional complementary broadband commitments as part of the FCC approval process to expand broadband deployment in the Qwest fourteen state region. If the merger agreement is terminated under certain circumstances, we may be obligated to pay Qwest a termination fee of $350 million.

See Item 1A, Risk Factors, for additional information concerning the pending acquisition of Qwest. Additional information about Qwest is included in documents filed by it with the SEC. See "Where to find additional information" below.

The foregoing description of the pending Qwest merger is not complete, and is qualified in its entirety by reference to our Current Reports on Form 8-K filed with the SEC on April 22 and April 27, 2010, including the exhibits thereto.

Embarq acquisition. On July 1, 2009, we acquired Embarq, which was spun-off from Sprint Nextel Corporation in 2006, and is currently a wholly-owned subsidiary of CenturyLink. As a result of this merger transaction, each outstanding share of Embarq common stock was converted into 1.37 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. In addition to delivering the aggregate merger consideration valued at $6.1 billion, we also assumed approximately $5.1 billion of Embarq's indebtedness upon the consummation of the transaction. As of the acquisition date, Embarq served approximately 5.4 million access lines and 1.5 million high-speed Internet customers located in 18 states.

See Item 1A, Risk Factors, for additional information concerning the acquisition of Embarq. Additional information about Embarq is included elsewhere herein and in documents that it previously filed with the SEC. See "Where to find additional information" below.

Other recently completed acquisitions. On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River") for approximately $322 million cash. In connection with the acquisition, we also paid all of Madison River's existing indebtedness (including accrued interest), which approximated $522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states.

In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. for approximately $75.5 million cash, which has enabled us to offer broadband and competitive local exchange services to customers in these markets. During 2008, we sold the assets in six of these markets in two separate transactions.

We also acquired approximately 660,000, 490,000 and 650,000 telephone access lines in transactions completed in 1997, 2000 and 2002, respectively, each of which substantially expanded our operations. The 2002 acquisition of telephone access lines was funded primarily from proceeds received from the sale of substantially all of our wireless operations in August 2002. In addition, in 2003 we acquired fiber transport assets in the central United States that enabled us to significantly expand our wholesale data transport services.

We continually evaluate the possibility of acquiring additional communications 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. Although our primary focus will continue to be on acquiring interests that are proximate to our properties or that serve a customer base large enough for us to operate efficiently, we may also acquire other communications interests and these acquisitions could have a material impact upon us.

Where to find additional information. We make available all of our filings with the SEC (including Forms 10-K, 10-Q and 8-K) on our website (www.centurylink.com) as soon as reasonably practicable after we complete such filings with the SEC. These documents may also be obtained from the SEC's website at www.sec.gov. You may obtain copies of Embarq's previous filings with the SEC from our website or the SEC's website. You may obtain copies of Qwest's SEC filings from Qwest's website or the SEC's website.

We also make available on our website our Corporate Governance Guidelines, our corporate ethics and compliance program and the charters of our audit, compensation, risk evaluation, and nominating and corporate governance committees. We will furnish printed copies of these materials free of charge upon the request of any shareholder. If a provision of our corporate ethics and compliance program is amended, other than by a technical, administrative or other non-substantive amendment, or a waiver under this program is granted to a director or executive officer, we will post notice of such amendment or waiver on our website or disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors, or an authorized committee of the board, may consider a waiver of our corporate ethics and compliance program for a director or executive officer.

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act's related regulations. In addition, during 2010 our chief executive officer certified to the New York Stock Exchange that he was unaware of any violation by us of the New York Stock Exchange's corporate governance listing standards.

Industry information. 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. We believe these estimates and assumptions are accurate as of the date made; however, this information may prove to be inaccurate because it cannot always be verified with certainty. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A of this annual report.

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Other. As of December 31, 2010, we had approximately 20,300 employees, of which approximately 6,600 were members of 45 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. As of December 31, 2010, five of the union contracts that represent approximately 1,600 employees had expired; however, employees continue to perform their work activities while contract negotiations continue. An additional 14 union contracts representing approximately 2,500 employees are scheduled to expire in 2011. We believe that relations with our employees continue to be generally good. Over the last several years, we announced reductions of our workforce primarily due to (i) progress made on our integration efforts from recent acquisitions (including the recently completed Embarq acquisition); (ii) increased competitive pressures and the loss of access lines over the last several years, and (iii) the elimination of certain customer service personnel due to reduced call volumes.

We were incorporated under Louisiana law in 1968 to serve as a holding company for several telephone companies acquired over the previous 15 to 20 years. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

OPERATIONS

According to published sources, our acquisition of Embarq on July 1, 2009 positioned us as the fourth largest local exchange telephone company in the United States, based on the approximately 6.5 million access lines we served at December 31, 2010, all of which are digitally switched.

Before the Embarq acquisition, (i) CenturyLink provided local exchange telephone services to predominantly rural areas and small to mid-size cities in 25 states and (ii) Embarq provided local exchange telephone services to a wide variety of markets in 18 states, including Las Vegas, Nevada, and the suburbs of Orlando, Florida and several other large U.S. cities. At the time of the acquisition, the average population density of CenturyLink's and Embarq's local exchange markets was 25 and 94 persons per square mile, respectively. Although the services provided by each company prior to the acquisition were substantially similar, the merger resulted in several important changes to our operations, including:

providing services to an expanded number of densely-populated markets, which tend to afford consumers access to a greater range of competitive communications products than less dense markets and exposes the incumbent telephone service provider to higher levels of service terminations;

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

expanding and reconfiguring our operating regions to incorporate the Embarq service areas in order to provide day-to-day decision making at the regional level as opposed to Embarq's prior operating model which operated under a more centralized structure; and

offering certain services, such as inmate payphone services, that CenturyLink did not historically provide.

If and when we complete our pending Qwest acquisition, it will result in material changes to our operations, including changes similar to those listed above and changes in our mix of product and service offerings.

The following table lists information (rounded to the nearest thousand lines) regarding our access lines as of December 31, 2010 and December 31, 2009.

	December 31, 2010			December 31, 2009		
State	Number of access lines	Percent of access lines		Number of access lines	Percent of access lines	
Florida	1,234,000	19	%	1,352,000	19	%
North Carolina	910,000	14		997,000	14	
Missouri	516,000	8		548,000	8	
Nevada	463,000	7		523,000	7	
Ohio	354,000	5		388,000	5	
Wisconsin (1)	326,000	5		343,000	5	
Virginia	315,000	5		334,000	5	
Texas	286,000	4		303,000	4	
Pennsylvania	252,000	4		271,000	4	
Alabama	237,000	4		254,000	4	
Washington	189,000	3		200,000	3	
Indiana	172,000	3		186,000	3	
Arkansas	170,000	3		182,000	3	

Tennessee	162,000	2		176,000	2	
Minnesota	133,000	2		144,000	2	
New Jersey	130,000	2		145,000	2	
Oregon	102,000	2		109,000	2	
All other states (2)	553,000	8		584,000	8	
	6,504,000	100	%	7,039,000	100	%

(1) As of December 31, 2010 and 2009, approximately 43,000 and 45,000, respectively, of these lines were owned and operated by our 89%-owned affiliate.

(2) Includes all of the remaining 16 states in which we operate, each of which has less than 100,000 access lines served.

The following table summarizes certain information related to our customer base, operating revenues and capital expenditures for the past five years. The 2010 and 2009 information includes the impact of the Embarq operations we acquired on July 1, 2009. Periods subsequent to April 30, 2007 include the impact of the Madison River properties we acquired on April 30, 2007.

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	Year ended or as of December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Access lines	6,504,000	7,039,000	2,025,000	2,135,000	2,094,000
% Residential	67 %	68	73	73	74
% Business	33 %	32	27	27	26
Internet customers	2,410,000	2,259,000	683,000	623,000	459,000
% High-speed Internet service	99 %	99	94	89	80
% Dial-up service	1 %	1	6	11	20
Operating revenues	$ 7,041,534	4,974,239	2,599,747	2,656,241	2,447,730
Capital expenditures	$ 863,769	754,544	286,817	326,045	314,071

As discussed further below, during the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced declines in our voice and network access revenues primarily due to declines in access lines, intrastate access rates, minutes of use, and federal support fund payments. In an attempt to mitigate these declines, we plan to, among other things, continue to (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the FCC, improvements in our infrastructure, or agency or reselling arrangements with other carriers, (iii) provide our special access, broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products and services to new customers. See “Services” and “Regulation and Competition” for additional information.

Services

We derive revenue from providing (i) local exchange and long distance voice telephone services, (ii) data services, including high-speed Internet services, as well as special access and private line services, (iii) wholesale local network access services, and (iv) other related services (as more fully described below). The following table reflects the percentage of operating revenues derived from each of these services:

	2010	2009	2008
Voice	44.6 %	43.6	40.1
Data	27.1	24.2	20.2
Network access	15.3	18.6	25.0
Other	13.0	13.6	14.7
	100.0 %	100.0	100.0

Voice. We offer local calling service to residential and business customers within our local service areas, generally for a fixed monthly charge. While we have achieved significant pricing deregulation over time, the maximum amount that we can charge a customer for local calling services is still largely governed by state and federal regulatory authorities and by our competitors. We offer a number of enhanced voice services (such as call forwarding, caller identification, conference calling, voicemail, selective call ringing and call waiting) to our local exchange customers for an additional monthly fee. At December 31, 2010, approximately 68% of both our business and residential customers subscribed to one or more enhanced services. We also offer long distance services to our customers based on either usage or pursuant to flat-rate calling plans. We anticipate that most of our long distance service will continue to be provided as part of an integrated bundle with our other service offerings, including our local exchange telephone service offering.

Total access lines declined 535,000 (7.6%) during 2010 compared to a decline of 380,000 during 2009 (excluding access lines we acquired from Embarq on July 1, 2009 but including access lines lost in Embarq's markets following such acquisition). We believe these declines in the number of access lines were primarily due to the displacement of traditional wireline telephone services by other competitive services and recent economic conditions. Over the last few years, our recently-acquired Embarq markets have experienced higher rates of access line losses than our incumbent markets due principally to such markets being more densely-populated and competitive. Based on our current retention initiatives, we estimate that our access line loss will be between 7.0% and 7.5% in 2011 (excluding access lines acquired upon consummation of the pending Qwest acquisition and access lines lost in Qwest's markets following such acquisition).

Data. We derive our data revenues primarily from monthly recurring charges for providing (i) high-speed Internet access services, which is also referred to as "broadband" data service, (ii) data transmission services over special circuits and private lines, which we market to business customers who require dedicated equipment to transmit large amounts of data between sites, and (iii) switched digital television services. At December 31, 2010, approximately 92% of our access lines were broadband-enabled and we provided high-speed Internet access services to approximately 2.4 million customers. During 2010, we added approximately 158,000 high-speed Internet customers.

We offer a range of data services to businesses, long distance carriers, wireless carriers and CLECs. Our special access data service consists of providing dedicated circuits connecting other carriers' networks to their customers' locations, wireless carriers' cell towers to mobile switching centers, or business customers to our network. Although the traffic handled through special access facilities may include voice as well as data, we report revenues associated with special access as data revenue.

In late 2005, we began providing switched digital television service through our own facilities in a limited number of our operating markets. Currently, we provide these services in LaCrosse, Wisconsin; Columbia, Missouri; Jefferson City, Missouri; Las Vegas, Nevada and Fort Myers, Florida. The access lines that we serve in these markets represent less than 20% of our total access lines at December 31, 2010. We incur a sizable amount of start-up costs when we launch our switched digital television service to new markets. We expect to launch this service to additional markets in the near future. Should the customer acceptance rate not meet expected levels or the start-up costs exceed our current projections, our results of operations may be more adversely impacted in the future than our current expectations.

Network access. We derive our network access revenues primarily from (i) providing wholesale services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions; (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms (as described further below under the heading "Regulation and Competition Relating to Incumbent Local Exchange Operations"), (iii) receiving reciprocal compensation from CLECs and wireless service providers for terminating their calls on our networks and (iv) offering certain network facilities and related services to CLECs. Our revenues for switched access services depend primarily on the level of call volumes.

Substantially all of our interstate network access revenues are based on tariffed access charges prescribed by the FCC. Certain of our intrastate network access revenues are derived through access charges that we bill to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on tariffed access charges, which are subject to state regulatory commission approval. Additionally, certain of our intrastate network access revenues, along with intrastate and intra-LATA (Local Access and Transport Areas) long distance revenues, are derived through revenue sharing arrangements with other LECs.

Pursuant to the Telecommunications Act of 1996, we offer certain network facilities to CLEC's on a resale or unbundled basis and allow them to collocate certain of their equipment in our central offices. The FCC sets general guidelines for pricing of resale, unbundled network elements and collocation agreements, while the state regulatory authorities approve the actual prices charged.

Other. We derive our "other revenues" principally by (i) providing fiber transport, CLEC and security monitoring services, (ii) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (iii) providing payphone services primarily within our local service territories and at various state and county correctional facilities around the country, (iv) participating in the publication of local telephone directories, which allows us to share in revenues generated by the sale of yellow page and related advertising to businesses, (v) providing network database services and (vi) offering our new services described below under the heading "Recent Product Developments". We also provide printing, direct mail services and cable television services.

We sell fiber capacity to other carriers and businesses over a network that encompassed, at December 31, 2010, approximately 13,900 miles of fiber in the central United States. We began our fiber transport business during 2001 and expanded it by acquiring various fiber transport assets in 2003 and 2007, which enabled us to expand our fiber network business and further reduce our reliance on third-party transport providers.

During 2008, we paid an aggregate of approximately $149 million for 69 licenses in the FCC's auction of 700 megahertz wireless spectrum. Our plan has been to use the spectrum to develop wireless voice and data service capabilities in our markets, built upon LTE (Long-Term Evolution) technology. The LTE network deployment plans of larger wireless carriers are driving most vendor activity, including the availability of handsets and other end-user devices. Therefore, we are monitoring their deployment efforts to help shape our plans for moving forward.

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

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation and Competition" under this Item 1 below and "Risk Factors and Cautionary Statements" under Item 1A below. For more information on the financial contributions of our various services, see Item 7 of this annual report.

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Recent Product Developments

In late 2010, we signed an agency agreement with DIRECTV that allows us to offer its satellite television service to our residential customers throughout our 33-state service area. Between 2005 and late 2010, we had a similar arrangement with DISH Network Corporation to offer similar services.

Pursuant to a five-year agency agreement with Verizon Wireless entered into in late 2010, we plan to market, sell and bill for Verizon wireless voice services under its brand name, primarily to customers who buy these services as part of a bundle including one or more of our other products and services. Subject to several exceptions, we are prohibited under the agreement from (i) selling any other wireless services in Verizon Wireless' markets on behalf of a third party and (ii) engaging in certain other competitive activities.

Federal Financing Programs

Some of our telephone subsidiaries receive long-term financing from the Rural Utilities Service, a federal agency that has historically provided long-term financing to telephone companies at relatively attractive interest rates. For additional information regarding our financings, see our consolidated financial statements included in Item 8 herein.

Sales and Marketing

Following our acquisition of Embarq on July 1, 2009, we began using the trade name "CenturyLink." We formally changed our legal name to "CenturyLink, Inc." in May 2010 upon approval of the name change by our shareholders. In addition, 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 plan to offer under our agency agreement with Verizon Wireless will be marketed under the Verizon brand name.

We maintain local offices in most of the larger population centers within our service territories. 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 comprehensive bundling of services and deploying new technologies to build upon the strong reputation we enjoy in our markets and to further enhance customer loyalty.

Our consumer marketing approach emphasizes customer-oriented sales, marketing and service with a local presence. We market our products and services primarily through direct sales representatives, local retail stores, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper advertising, website promotions, public relations activities and sponsorship of community events. Our business marketing approach includes a commitment to deliver communications solutions that meet existing and future business customer needs through bundles of services and integrated service offerings, focusing on comprehensive customer communications solutions for small businesses to large enterprise customers.

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 broadband cables and other equipment. Our local exchange carrier networks also include central office hosts and remote sites, all with advanced digital switches and operating with licensed software. Our outside plant consists of transport and distribution delivery networks connecting each of our host central offices to our remote central offices, and ultimately to our customers. As of December 31, 2010, we maintained over 595,000 miles of copper plant and approximately 73,000 miles of fiber optic plant in our local exchange networks. Our fiber optic cable is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers. Most of our long distance service is provided through reselling arrangements with other long distance carriers, with the balance being provided directly through CenturyLink's own switches and network equipment. All of our satellite television and wireless voice service is provided by other carriers under agency agreements.

In our markets, high-speed Internet-enabled technologies are being deployed to provide significant broadband capacity to our customers. We continue to expand and enhance the capabilities of our network to offer high-speed Internet service to more customers. At the end of 2010, approximately 92% of our access lines were capable of providing high-speed Internet service to our customers.

We also maintain networks in connection with providing fiber transport and CLEC services.

Rapid and significant changes in technology are expected in the communications industry. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes.

Regulation and Competition Relating to Incumbent Local Exchange Operations

General. Traditionally, LECs operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. Consequently, most of our intrastate telephone operations have been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and our interstate operations have been regulated by the FCC under the Communications Act of 1934. As we discuss in greater detail below, passage of the Telecommunications Act of 1996, coupled with state legislative and regulatory initiatives and technological changes, fundamentally altered the telephone industry by generally reducing the regulation of ILECs and creating a substantial increase in the number of competitors. We anticipate that these trends toward reduced regulation and increased competition will continue.

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 proceedings, legislative hearings and administrative proceedings which could substantially change the manner in which the communications industry operates and the amount of revenue we receive for our services. Neither the outcome of these proceedings, nor their potential impact on us, can be predicted at this time. The impact of regulatory changes in the communications industry could have a substantial impact on our operations. See Item 1A of this annual report below.

State regulation. In recent years, most states have substantially reduced their regulation of ILECs. Nonetheless, state regulatory commissions generally continue to regulate the local service rates and intrastate access charges of ILECs, and continue to grant and revoke certifications authorizing companies to provide communications services. State commissions traditionally regulated pricing through “rate of return” regulation that focused on authorized levels of earnings by LECs. Only a few states (representing a small portion of our access lines) continue to regulate us in this manner. In most of our states, we are generally regulated under various forms of alternative regulation that typically limit our ability to increase rates for local services, 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 except for the most basic of services, such as stand-alone basic residential 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 include local voice service. State commissions periodically conduct proceedings to review the rates that we charge other telecommunications providers for using our network or reselling our service, and those proceedings can result in reductions in our revenues.

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 territories who request service and are willing to pay rates prescribed in our tariffs. In competitively-bid situations, such as newly-constructed housing developments or multi-tenant dwellings, this may constitute a competitive disadvantage to us if competitors can choose to focus on low-risk profitable customers and withhold service from high-risk unprofitable customers. Strict adherence to carrier of last resort requirements may force us to construct facilities with a low likelihood of positive economic return. In certain cases, we seek to mitigate these risks by receiving regulatory approval to use less costly alternative technologies, such as fixed wireless, or by sharing network construction costs with our customers. In addition, a few of our states provide relief from these obligations under certain specific circumstances, and in certain areas our costs to build and maintain network infrastructure are partially offset by payments from universal service programs.

We are responding to carrier complaints, legislation or generic investigations regarding our intrastate switched access rate levels in several of our states. In particular, certain long distance providers have begun to dispute existing intercarrier compensation rates payable to us and other ILECs with respect to VoIP traffic or to refuse to pay such rates, based on the contention that tariffed switched access charges should not apply to VoIP originated and terminated traffic. Although outcomes cannot be determined at this time, we believe our intrastate switched access rate levels are appropriate and we plan to vigorously defend them. If we are required to reduce our intrastate switched access rates as a result of any of these initiatives, we will seek to recover displaced switched access revenues from state universal service funds or other services. However, the amount of such recovery, if any, is not assured.

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

For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see "Developments Affecting Competition."

Federal regulation. Our telephone subsidiaries 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 to promote competition.

The FCC regulates interstate services provided by our telephone subsidiaries primarily by regulating the interstate access charges that we bill to long distance companies, other communications companies and end users for use of our network in connection with the origination and termination of interstate voice and data transmissions. Additionally, the FCC has prescribed certain rules and regulations for telephone companies, including a uniform system of accounts and rules regarding the separation of costs between jurisdictions and, ultimately, between interstate services. In addition, the FCC has responsibility for maintaining and administering the federal Universal Service Fund, or USF. LECs 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.

The FCC requires price-cap regulation of interstate access rates for the Regional Bell Operating Companies, and permits it for all other LECs. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs. On July 1, 2009, we converted substantially all of our remaining rate-of-return study areas to price cap regulation. In addition, all of the properties we acquired from Embarq operate under price- cap regulation.

The FCC is currently reviewing the rates and terms under which ILECs provide special access services. The FCC is also reviewing requests by some other carriers to order reductions in some or all ILECs' rates for special access services. It is uncertain whether or how the FCC might order changes in how special access services are regulated, or in the rates ILECs are able to charge for them. If the FCC were to adopt significant changes in regulations affecting special access services, the proceeding could have an impact on our provision and pricing of special access services.

Beginning in 2003, the FCC initiated a series of broad intercarrier compensation proceedings designed to create a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic. In connection therewith, the FCC has received intercarrier compensation proposals from several industry groups, and solicited public comments on a variety of topics related to access charges and intercarrier compensation. Most recently, on February 8, 2011, the FCC sought comments from the public on proposals designed to lower intercarrier compensation rates. The ultimate outcome of the FCC's intercarrier compensation proceedings could change the way we receive compensation from, and remit compensation to, other carriers, our end user customers and the USF. As discussed further in Item 1A of this annual report, these changes could substantially reduce the amount of revenues we receive with respect to various services.

As part of the American Recovery and Reinvestment Act of 2009 (the "Recovery Act"), in early 2010 the FCC released its National Broadband Plan, which is the FCC's framework to develop a comprehensive plan over the next decade for broadband deployment, intercarrier compensation reform and regulatory reform initiatives such as reformation of the USF high cost support fund. As originally proposed, the Plan is likely to reduce our USF support and network access revenues over a reasonable transition period. Since releasing the Plan, the FCC has undertaken various studies and solicited public input on a variety of issues, including its proposal to replace the current legacy USF high cost support fund with a new fund to support the provision of broadband services in areas that are unserved or underserved. Our markets that meet the unserved or underserved criteria may be recipients of USF to advance broadband deployment. The Plan is a blueprint at this time and is subject to change as a result of public input, Congressional action or further regulatory action. Given the relatively early stages of the FCC's proceedings, we cannot predict the ultimate outcome nor can we be assured that such Plan will not have a material adverse effect on us or our industry in the future.

The Recovery Act also 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 implemented by the two agencies are expected to 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. We have not applied for funding under the Recovery Act programs. The participation of other parties in these programs could increase competition in selected areas, which may increase our marketing costs and decrease our revenues in those areas. We cannot at this time estimate the impact these programs may have on our operations.

For several years, we have been working with other carriers to develop proposals that would advance universal broadband deployment while reforming intercarrier compensation and universal service funding at the same time and we plan to continue these efforts. We cannot predict what part, if any, of these proposals will ultimately be adopted.

Our operations and those of all communications carriers also may be impacted by legislation and regulation imposing new or greater obligations on us. The most likely areas of impact include regulations or laws related to bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act, and laws governing local 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.

Universal service support fund and related matters. A number of our telephone subsidiaries recover a portion of their costs from the federal USF and from similar state "universal support" mechanisms, which receive their funding from fees charged to interexchange carriers and LECs. Disbursements from these programs traditionally have focused principally on allowing LECs serving small communities and rural areas to provide communications services on terms and at prices reasonably comparable to those available in urban areas. However, use of universal service funding for other social policy goals continues to grow and to exert pressure on the size of the fund and the contribution rate.

During 2010, we received approximately $430.6 million (which includes a full year of receipts related to our Embarq properties acquired July 1, 2009) of receipts from federal and state universal service programs as compared to $384.9

million in 2009 (which only includes a half year of receipts related to our Embarq properties). Such amounts represented approximately 6.1% and 7.7% of our 2010 and 2009 total operating revenues, respectively. A significant portion of our payments have varied over time based on our average cost to serve customers compared to national cost averages. Under the USF High Cost Loop program, which is the USF's principal program from which we received $109.3 million in 2010, our payments from the USF will decrease if national average costs per loop increase at a rate greater than our average cost per loop. Excluding the effects of the additional six months of receipts recorded in 2010 as compared to 2009 due to the July 1, 2009 Embarq acquisition, our revenues from the USF High Cost Loop program decreased in 2010 compared to 2009. We anticipate that such revenues will continue to decline in 2011. See Items 1A and 7 of this annual report for more information.

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years. Since May 2001, the FCC has administered its existing universal service support programs for rural telephone companies based on embedded, or historical, costs. The FCC, in April 2010, proposed to replace the USF with a broadband "Connect America" fund that would modernize the current "voice only" funding mechanism and direct funding away from local voice services to advance broadband deployment in areas unserved or underserved by broadband communications, and in February 2011 sought public comments regarding creating this new broadband fund.

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Universal service funds available to ILECs are currently available to local competitors that (i) certify they will serve all customers in a study area, (ii) offer nine core services, and (iii) qualify as an "eligible telecommunications carrier." Wireless and other competitive service providers continue to seek to qualify to receive USF funds although funding for these carriers is undergoing reform. This trend, coupled with changes in usage of telecommunications services, has placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. As a result of these developments, there is no assurance that sufficient funds will be available to provide funding to all eligible telecommunications carriers.

Over the past few years, each of the FCC, Universal Service Administrative Company ("USAC") and certain Congressional committees has initiated wide-ranging reviews of the administration of the federal USF. As part of this process, we, along with a number of other USF recipients, have undergone a number of USF audits and have also received requests for information from the FCC's Office of Inspector General ("OIG") and Congressional committees. In addition, in July 2008 we received a subpoena from the OIG requesting a broad range of information regarding our depreciation rates and methodologies since 2000, and in July 2009 we received a second subpoena requesting information about our participation in the E-rate program for Wisconsin schools and libraries since 2004. The OIG has not identified to us any specific issues with respect to our participation in the USF program and all USAC audits are finalized with no material issued reported regarding our participation in the USF program. During 2010, USAC moved from the audit process to a Payment Quality Assessment ("PQA") program. We continue to receive and respond to these PQAs and to date no material issues have been identified. While we believe our participation is in compliance with FCC rules and in accordance with accepted industry practices, we cannot predict with certainty the timing or outcome of these various reviews.

In 2004, the FCC mandated changes in the administration of the universal service programs that temporarily suspended the disbursement of funds under the USF's E-rate program (for service to Schools and Libraries), and, more significantly, created uncertainty regarding whether these administrative changes could similarly delay the disbursement of funds to ILECs from the Universal Service High Cost Loop support program. Congress has passed bills in recent years granting successive one-year exemptions from the federal law that impacted the E-rate program, including a bill extending the exemption through December 31, 2011. Although we expect funding from this program to continue, we cannot assure you that the lack of a definitive resolution of this issue will not delay or impede the disbursement of funds in the future.

Several states in which we operate have established their own universal service programs. In 2010, we received support totaling approximately $118.9 million from various state universal service programs (or approximately 27.6% of our total federal and state support payments), with the largest amounts received in Texas, Louisiana and Kansas. Several states have recently implemented and expanded state universal service programs and several are currently reviewing their state universal service fund programs, which could change the support we receive.

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Some of our telephone subsidiaries operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. See " State Regulation." There can be no assurance that these states will continue to provide for cost recovery at current levels.

Developments affecting competition. 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 ILEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among residential customers, which comprise 67% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services, and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. We believe that our new agency agreement with Verizon Wireless may assist us in retaining customers by enabling us to offer Verizon Wireless service as part of our service bundles. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber optics, local multipoint distribution services, WiFi, and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services. Moreover, the growing prevalence of electronic mail, text messaging, social networking, and similar digital communications continues to reduce the demand for traditional landline voice services.

The Telecommunications Act of 1996, which obligates ILECs to permit competitors to interconnect their facilities to the ILEC's network and to take various other steps that are designed to promote competition, imposes several duties on an ILEC if it receives a specific request from another entity which seeks to connect with or provide services using the ILEC's network. In addition, each ILEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the ILEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to collocate their physical plant on the ILEC's property, or provide virtual collocation if physical collocation 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.

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As a result of these regulatory, consumer and technological developments, ILECs also face competition from 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.

As noted above, wireless and other competitive services providers have been increasingly aggressive in seeking and obtaining USF support funds. This support is likely to encourage additional competitors to enter our high-cost service areas.

Technological developments have led to the development of new services that compete with traditional ILEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. As of December 31, 2010, we believe that approximately 70% of our access lines faced competition from cable voice offerings.

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

In December 2010, the FCC adopted an order imposing “network neutrality” rules that it believes will preserve the openness of the Internet. The rules apply to all providers of wireline broadband Internet access services, and, to a lesser extent, providers of wireless broadband Internet access services. The rules do not apply to providers of applications, content or other services. The order provides that (i) wireline broadband providers may not block lawful traffic, applications, services or non-harmful devices, subject to reasonable network management practices, (ii) wireless broadband providers may not block lawful websites and competing voice and video telephony services, subject to reasonable network management practices, (iii) wireline broadband providers may not engage in “unreasonable discrimination,” and (iv) all wireline or wireless broadband providers must disclose their network management practices, performance and commercial terms. The order indicates that broadband providers can price their services based on usage, subject to continued FCC oversight. Assuming the order is not overturned, amended or stayed by the U.S. Congress or the courts, we believe the impact of the order on us may depend in part on how the order is implemented by the FCC and interpreted by the courts.

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Our industry has witnessed an increase in disputes about the intercarrier compensation rules applicable to various categories of traffic exchanged between carriers. These disputes are subject to review by the FCC, state commissions and federal courts. Rulings in such proceedings, whether or not we are a party, may influence our exposure to disputes about our wholesale charges or to claims against us for prior wholesale billings. We cannot assure you that regulatory or court rulings on such issues will not have a material adverse effect on us or our industry.

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

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.

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

As the telephone industry increasingly experiences competition, the size and resources of each respective competitor may increasingly influence its prospects. Some companies currently providing or planning to provide competitive communication services have substantially greater financial and marketing resources than we do or own larger or more diverse networks than ours. In addition, many of them are not subject to the same regulatory constraints we are. Consequently, some competitors may be able to charge lower prices for their products and services, develop and expand their communications and network infrastructure more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements and devote greater resources to the marketing and sale of their products and services than we can.

Competition can harm us by causing us to lose customers, or by causing us to lower prices or increase our capital or operating expenses to retain customers. Competing communications services, such as wireless, VoIP, electronic mail, text messaging and optional calling services, can also reduce usage of our network and thereby decrease our network access revenues. Competition can also cause customers to reduce either usage of our services or switch to less profitable services, and could impede our ability to diversify into new lines of business dominated by incumbent providers.

We anticipate that the traditional operations of LECs will continue to be impacted by changes in regulation, technology, and consumer preferences affecting the ability of LECs to attract and retain customers and the capability of wireless companies, CLECs, cable television companies, VoIP providers, electric utilities and others to provide competitive LEC services. Competition relating to traditional LEC services has thus far affected large urban areas to a greater extent than less dense areas.

Exclusive of acquisitions, we expect our operating revenues in 2011 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced universal service funding and lower network access revenues.   We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering and special access services.

Regulation and Competition Relating to Other Operations

Long Distance Operations. We offer intra-LATA, intrastate and interstate long distance voice services. State public service commissions generally regulate intra-LATA toll calls within the same LATA and inter-LATA toll calls between different LATAs located in the same state. Federal regulators have jurisdiction over interstate toll calls. Recent state regulatory changes have increased competition to provide intra-LATA toll services in our local exchange markets. Competition for intrastate and interstate long distance services has been intense for several years, and focuses primarily on price and pricing plans, and secondarily on customer service, reliability and communications quality. Our principal competitors for providing long distance services include wireless companies offering attractively-priced calling plans, as well as large national carriers, regional phone companies, cable companies and dial-around resellers. Technological substitutions, including VoIP, text messaging and electronic mail, have further reduced demand for traditional long distance voice services. To counter such competition, we now offer unlimited long distance calling plans.

Data Operations. In connection with our data business, we face competition from Internet service providers, satellite companies and cable companies which use wired or wireless technologies to offer high-speed broadband services. As of December 31, 2010, we believe approximately 85% of our local exchange markets were overlapped by cable systems offering data services competitive with ours. Many of these competitors offer content or other features that we cannot match. Moreover, many of these providers have traditionally been subject to less rigorous regulatory scrutiny than our subsidiaries, a trend that was recently reaffirmed when the FCC issued in December 2010 "network neutrality" rules that regulate mobile broadband operators less rigorously than our wireline providers. Additionally, the federal broadband stimulus programs discussed above could result in greater competition in some of our markets. During 2006, all of CenturyLink's and Embarq's operating companies elected to either deregulate or detariff their high-speed Internet services, which decreased regulatory oversight and increased our retail pricing flexibility.

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Fiber Transport Operations. When our fiber transport networks are used to provide intrastate telecommunications services, we must comply with state requirements for telecommunications utilities, including state tariffing requirements. To the extent our facilities are used to provide interstate communications, we are subject to federal regulation as a non-dominant common carrier. Our primary competitors in the fiber transport industry are from other communications companies, some of whom operate networks and have resources much larger than ours. Over the last few years, several large communications companies have merged and have implemented strategies to transfer a significant portion of their voice and data traffic from our fiber network to their networks. We expect this trend to continue as companies seek opportunities to reduce their transport-related costs. In addition, new IP-based services may enable new entrants to transport data at prices lower than we currently offer.

CLEC Operations. Competitive local exchange carriers are subject to certain reporting and other regulatory requirements imposed by the FCC and state public service commissions, although the degree of regulation is much less substantial than that imposed on ILECs operating in the same markets. Local governments also frequently require competitive local exchange carriers to obtain licenses or franchises regulating the use of rights-of-way necessary to install and operate their networks. In each of our limited number of CLEC markets, we face competition from the ILEC, which traditionally has long-standing relationships with its customers. Over time, we may also face competition from one or more other CLECs, or from other communications providers who can provide comparable services.

Other Operations. Similar to our CLEC business, we may be required to obtain licenses or franchises to enter new markets for our switched digital television and wireless broadband services, which could delay our rollout of these offerings. Both the video and wireless broadband markets have been highly competitive in recent years. In particular, television service providers have recently had to compete against Internet video services, some of which are free. This development could constrain our ability to attract and retain paying customers for our switched digital television service offering. In reselling Verizon Wireless services, we compete with national and regional wireless carriers, as well as other sales agents and resellers.

Environmental Compliance

As discussed in greater detail in Item 3 of this Annual Report on Form 10-K, several decades ago one of our subsidiaries acquired entities that may have owned or operated seven former "manufactured gas" plant sites that may require environmental remediation. From time to time we may incur other environmental compliance and remediation expenses, mainly resulting from the ownership of other prior industrial sites or the operation of vehicle fleets or power supplies for our communications equipment. Although we cannot assess with certainty the impact of any future compliance and remediation obligations, we do not believe that future environmental compliance and remediation expenditures will have a material adverse effect on our financial condition or results of operations.

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Patents, Trademarks and Licenses

We own several patents, patent applications, trade names, service marks and trademarks in the U.S., including our "CenturyLink" and "PRISM" brand names. Our services often use the intellectual property of others, including licensed software. We occasionally license our intellectual property to others.

We have incurred claims in the past, and may in the future incur claims alleging that we infringe on the intellectual property of others. These claims can be time-consuming and costly to defend and divert management resources. If these claims are successful, we could be forced to pay significant damages or stop selling certain products or services.

Seasonality

Overall, our business is not significantly impacted by seasonality. However, in our Florida markets, we typically experience increased demand for new service orders in the late fall months and a decline in access lines in the early spring months due to seasonal population trends. In certain of our other markets servicing colleges or universities, we experience increased demand for our services while school is in session. Additionally, 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 the 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.

OTHER DEVELOPMENTS OR MATTERS

In recent years, our board of directors has approved various stock repurchase programs under which we have repurchased approximately $401.0 million, $186.7 million, $437.5 million, $1.028 billion and $503.9 million of our shares under separate repurchase programs approved in February 2004, February 2005, May 2005, February 2006 and August 2007, respectively. For additional information, see "Liquidity and Capital Resources" included in Item 7 of this annual report.

In June 2008, our board of directors increased our quarterly cash dividend rate from $.0675 to $.70 per share and in February 2010 our board further increased our quarterly dividend to $.725 per share. See "Risk Factors" below for additional information regarding our current dividend practice.

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For additional information concerning our business and properties, see Items 2 and 7 elsewhere herein, and the Consolidated Financial Statements and Notes 2, 3, 5, 6 and 18 thereto set forth in Item 8 elsewhere herein.

Item 1A. Risk Factors

RISK FACTORS AND CAUTIONARY STATEMENTS

Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us. Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business operations.

Risks Related to Our Business

If we continue to experience access line losses similar to the past several years, our revenues, earnings and cash flows may be adversely impacted.

Our business generates a substantial portion of its revenues by delivering voice and data services over access lines. We have experienced substantial access line losses over the past several years due to a number of factors, including increased competition and wireless and broadband substitution. We expect to continue to experience access line losses in our markets for the foreseeable future. Our inability to retain access lines could adversely impact our revenues, earnings and cash flow from operations.

We face competition, which we expect to intensify and which may reduce market share and lower profits.

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive. We face competition from (i) wireless telephone services, which is expected to increase as wireless providers continue to expand and improve their network coverage and offer enhanced services, (ii) cable television operators, (iii) CLECs, (iv) VoIP and broadband service providers, (v) alternative networks or non-carrier systems designed to reduce demand for our switching or access services and (vi) resellers, sales agents and facilities-based providers that either use their own networks or lease parts of our networks. Over time, we expect to face additional local exchange competition from electric utilities, satellite communications providers and municipalities. The recent proliferation of companies offering integrated service offerings has intensified competition in Internet, long distance and data services markets, and we expect that competition will further intensify in these markets.

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Our competitive position could be weakened in the future by strategic alliances or consolidation within the communications industry or the development of new technologies. Our ability to compete successfully will depend on how well we market our products and services and on our ability to anticipate and respond to various competitive and technological factors affecting the industry, including changes in regulation (which may affect us differently from our competitors), changes in consumer preferences or demographics, and changes in the product offerings or pricing strategies of our competitors.

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

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

Changes in technology could harm us.

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data and video transmission and electronic and wireless communications. The growing prevalence of electronic mail and other non-voice communications continues to reduce demand for many of our products and services. Other changes in technology could result in the development of additional products or services that compete with or displace those offered by ILECs, or that enable current customers to reduce or bypass use of our networks. Some of our competitors may enjoy network advantages that will enable them to provide services that have a greater market acceptance than ours. Technological change could also 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. We cannot predict with certainty which technological changes will provide the greatest threat to our competitive position. We may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into our systems in a cost effective manner, or at all. If we cannot develop new products to keep pace with technological advances, or if such products are not widely embraced by our customers, we could be adversely impacted.

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We cannot assure you that our diversification efforts will be successful.

The telephone industry has recently experienced a decline in access lines and intrastate minutes of use, which, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect our core business and future prospects. As explained in greater detail elsewhere in this Annual Report on Form 10-K, our access lines (excluding the effect of acquisitions) have decreased over the last several years, and we expect this trend to continue. We have also earned less network access revenues in recent years due to reductions in access rates and minutes of use (partially due to the displacement of minutes of use by wireless, electronic mail, text messaging, arbitrage and other optional calling services). We believe that our access rates and minutes of use will continue to decline, although the magnitude of such decrease is uncertain.

Recently, we broadened the scope of our service bundles by offering satellite television provided by DIRECTV and wireless voice services provided by Verizon Wireless. As noted in further detail below, our reliance on other companies and their networks to provide these services could constrain our flexibility and limit the profitability of these new offerings. We also provide facilities-based digital video services to select markets and may initiate other new service or product offerings in the future. We anticipate that these new offerings will generate lower profit margins than many of our traditional services. Moreover, our new product or service offerings could be constrained by intellectual property rights held by others, or could subject us to the risk of infringement claims brought against us by others. For these and other reasons, we cannot assure you that our recent or future diversification efforts will be successful.

Future deterioration in our financial performance could adversely impact our credit ratings, our cost of capital and our access to the capital markets.

Our ability to attract more customers or expand our services may be constrained.

To partially offset the loss of revenues from declining access lines, we have relied over the past several years upon growth in the number of customers subscribing to our long distance, broadband and enhanced telephone service offerings. As increasing numbers of our existing or potential customers have subscribed to these services over the past several years, the growth rate in our revenues derived therefrom has slowed. We expect this trend to continue as we increasingly saturate our markets with these services.

Weakness in the economy and capital markets may adversely affect our future results of operations.

To date, we have not been materially impacted by weaknesses in the credit markets over the past few years; however, these weaknesses may negatively impact our operations in the future if overall borrowing rates increase. In addition, if the economy and credit markets continue to remain weak, it may impact our ability to collect our receivables. This weakness may also cause our customers to reduce or terminate their receipt of service offerings from us. Economic weakness could also negatively affect our vendors. We cannot predict with certainty the impact to us of any further weakness in the overall economy and credit markets.

We are also exposed to market risk from changes in the fair value of our pension plan assets. Should our actual return on plan assets be significantly lower than our anticipated return, our net periodic pension expense and our required cash contribution to our pension plan will increase in future periods. Such events would negatively impact our results of operations and cash flow.

We may not be able to continue to grow through acquisitions.

We have traditionally sought growth largely through acquisitions of properties similar to those currently operated by us, such as those that we acquired from Embarq in 2009 and those that we have agreed to acquire from Qwest. However, no assurance can be given that additional properties will in the future be available for purchase on terms attractive to us, particularly if they are burdened by regulations, pricing plans or competitive pressures that are new or different from those historically applicable to our incumbent properties. Moreover, no assurance can be given that we will be able to arrange additional financing on terms acceptable to us or to obtain timely federal and state governmental approvals on terms acceptable to us, or at all.

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

The above-described changes in our industry have placed a higher premium on marketing, technological, engineering and provisioning skills. Our acquisition of Embarq also significantly changed the composition of our markets and product mix, and completion of the pending Qwest merger would result in similar changes. 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.

Following our pending acquisition of Qwest, we may continue to expand our operations through additional acquisitions, other strategic transactions, and new product and service offerings, some of which could involve complex technical, engineering, and operational challenges. Our future success depends, in part, upon our ability to manage our expansion opportunities, which pose substantial challenges for us to integrate new operations into our existing business in an efficient and timely manner, to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. We cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

Our relationships with other communications companies are material to our operations and expose us to a number of risks.

We originate and terminate calls for long distance carriers and other interexchange carriers over our networks in exchange for access charges that represent a significant portion of our revenues. If these carriers go bankrupt or experience substantial financial difficulties, or are otherwise unable to or unwilling to pay our access charges, our inability to timely collect access charges from them could have a negative effect on our business and results of operations.

In addition, certain of our operations carry a significant amount of voice and data traffic for larger communications companies. As these larger communications companies consolidate or expand their networks, it is possible that they could transfer a significant portion of this traffic from our fiber network to their networks, which could have a negative effect on our business and results of operations.

We rely on certain reseller and sales agency arrangements with other companies to provide some of the services that we sell to our customers. 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, we may have difficulty finding alternative arrangements. 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 our products and services, our business plans and reputation could be negatively impacted.

Network disruptions or system failures could adversely affect our operating results and financial condition.

To be successful, we will need to continue providing our customers with a high capacity, reliable and secure network. Some of the risks to our network and infrastructure include:

- breaches of security, including sabotage, tampering, computer viruses and break-ins
- power losses or physical damage, whether caused by fire, adverse weather conditions (including those described immediately below), terrorism or otherwise
- capacity limitations
- software and hardware defects or malfunctions, and
- other disruptions that are beyond our control.

Disruptions or system failures may cause interruptions in service or reduced capacity for customers. If service is not restored in a timely manner, agreements with our customers or service standards set by state regulatory commissions could obligate us to provide credits or other remedies. If network security is breached, confidential information of our customers or others could be lost or misappropriated, and we may be required to expend additional resources modifying network security to remediate vulnerabilities. The occurrence of any disruption or system failure may result in a loss of business, increase expenses, damage our reputation, subject us to additional regulatory scrutiny or expose us to litigation and possible financial losses, any of which could have a material adverse effect on our results of operations and financial condition.

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

A substantial number of our access lines are located in Florida, Alabama, Louisiana, Texas, North Carolina, and South Carolina, and our operations there are subject to the risks associated with severe tropical storms, hurricanes and tornadoes, including downed telephone lines, power-outages, 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.

Any failure or inadequacy of our information technology infrastructure could harm our business.

The capacity, reliability and security of our internal information technology hardware and software infrastructure (including our billing systems) are important to the operation of our current business, which would suffer in the event of system failures. Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, increased acquisition integration costs, service or billing interruptions, and the diversion of development resources.

We rely on a limited number of key suppliers and vendors to operate our business.

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. 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 or services on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

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We may not own or have a license to use all technology that may be necessary to expand our product offerings, either of which could adversely affect our business and profitability.

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, including IP-based offerings, may be restricted, made more costly or delayed. Our inability to implement IP-based or other new offerings on a cost-effective basis could impair our ability to successfully meet increasing competition from companies offering voice or integrated communications services. Our inability to deploy new technologies could also prevent us from successfully diversifying, modifying or bundling our service offerings and result in accelerated loss of access lines and revenues or otherwise adversely affect our business and profitability.

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, collocation agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

We depend on key members of our senior management team.

Our success depends largely on the skills, experience and performance of a limited number of senior officers. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior officers or attracting new ones in the event of terminations or resignations. For a discussion of similar retention concerns relating to the Embarq merger and the pending Qwest merger, please see the risks described below under the headings "– Risks Related to our Acquisition of Embarq on July 1, 2009" and " – Risks Relating to Our Pending Acquisition of Qwest."

We could be affected by certain changes in labor matters.

A substantial number of our employees are members of various bargaining units represented by two different unions. From time to time, our labor agreements with these unions lapse, and we typically negotiate the terms of new agreements. We cannot predict the outcome of these negotiations. 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. 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 also limit our flexibility to change benefits in response to industry or competitive changes. In particular, the post-employment benefits provided under these agreements cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

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Risks Relating to Our Pending Acquisition of Qwest

Our ability to complete the Qwest merger is subject to the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on us or could cause us to abandon the merger.

We are unable to complete the merger until we receive approvals from the FCC and various state governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the merger is in the public interest. Regulatory entities may impose certain requirements or obligations as conditions for their approval or in connection with their review.

The Qwest merger agreement may require us to accept conditions from these regulators that could adversely impact the combined company without us having the right to refuse to close the merger on the basis of those regulatory conditions. We can provide no assurance that we will obtain the necessary approvals or that any required conditions will not materially adversely effect us following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger.

Failure to complete the Qwest merger could negatively impact us.

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

- breaches of security, including sabotage, tampering, computer viruses and break-ins
- power losses or physical damage, whether caused by fire, adverse weather conditions (including those described immediately below), terrorism or otherwise
- capacity limitations
- software and hardware defects or malfunctions, and

- other disruptions that are beyond our control.

in each case, without realizing any of the benefits of having the merger completed.

The Qwest merger agreement contains provisions that could discourage a potential acquirer of CenturyLink or could result in any proposal being at a lower price than it might otherwise be.

The merger agreement contains “no shop” provisions that restrict our ability to solicit, encourage, facilitate or discuss third-party proposals to acquire all or a significant part of CenturyLink. This and other provisions in the Qwest merger agreement could discourage a potential acquirer that might have an interest in acquiring all or a significant part of CenturyLink from considering or proposing that acquisition, or might result in a potential acquirer proposing to pay a lower price than it might otherwise have proposed to pay.

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The pendency of the Qwest merger could adversely affect our business and operations.

In connection with the pending Qwest merger, some of our customers or vendors may delay or defer decisions, which could negatively impact our revenues, earnings, cash flows and expenses, regardless of whether the merger is completed. Similarly, our current and prospective employees may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the merger. In addition, due to operating covenants in the merger agreement, we may be unable, during the pendency of the merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial.

We expect to incur substantial expenses related to the Qwest merger.

We expect to incur substantial expenses in connection with completing the Qwest merger and integrating Qwest’s business, operations, networks, systems, technologies, policies and procedures of Qwest with ours. There are a large number of systems that must be integrated, including billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance. While we have assumed that a certain level of transaction and integration expenses will be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of our integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Moreover, we expect to commence these integration initiatives before we have completed a similar integration of our business with the business of Embarq, acquired in 2009, which could cause both of these integration initiatives to be delayed or rendered more costly or disruptive than would otherwise be the case. Due to these factors, we expect the transaction and integration expenses associated with the Qwest merger to exceed in the near term our anticipated post-merger integration savings resulting from the elimination of duplicative expenses and the realization of economies of scale, many of which cannot be attained until several months or years after the merger. As a result of these expenses, we expect to take charges against our earnings before and after the completion of the merger. The charges taken after the merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

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

The Qwest merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Qwest. We may encounter difficulties in the integration process, including the following:

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

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

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

- the additional complexities of combining two companies with different histories, regulatory restrictions, markets and customer bases, and initiating this process before we have fully completed the integration of our operations with those of Embarq;

- the failure to retain key employees of either of the two companies, some of whom could be critical to integrating the companies;

- potential unknown liabilities and unforeseen increased expenses or regulatory conditions associated with the merger; and

- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

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

The Qwest merger will change the profile of our local exchange markets to include more large urban areas, with which we have limited operating experience.

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

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Following the Qwest merger, we may be unable to retain key employees.

Our success after the merger will depend in part upon our ability to retain key Qwest and CenturyLink employees. Key employees may depart either before or after the merger because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the merger. Accordingly, no assurance can be given that we will be able to retain key employees to the same extent that we or Qwest have been able to in the past.

Following the Qwest merger, we will conduct branding or rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.

Prior to the merger, each of us will each continue to market our respective products and services using the "CenturyLink" and "Qwest" brand names and logos. Following the merger, our Board of Directors has approved "CenturyLink" as the name and brand for the combined company. As a result, we expect to incur substantial capital and other costs in rebranding the CenturyLink name in those markets that previously used the Qwest name. The failure of any of these initiatives could adversely affect our ability to attract and retain customers after the merger, resulting in reduced revenues.

Any adverse outcome of the KPNQwest litigation or other material litigation of Qwest or CenturyLink could have a material adverse impact on our financial condition and operating results following the Qwest merger.

As described in further detail in Qwest's reports filed with the SEC, the pending KPNQwest litigation presents material and significant risks to Qwest, and, following the merger, to the combined company. In the aggregate, the plaintiffs in these matters have sought billions of dollars in damages.

There are other material proceedings pending against Qwest and CenturyLink, as described in their respective reports filed with the SEC. Depending on their outcome, any of these matters could have a material adverse effect on the financial position or operating results of Qwest, CenturyLink or, following the merger, the combined company. We can give you no assurances as to the impact of these matters on our operating results or financial condition.

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Counterparties to certain significant agreements with Qwest may exercise contractual rights to terminate such agreements following the Qwest merger.

Qwest is a party to certain agreements that give the counterparty a right to terminate the agreement following a "change in control" of Qwest. Under most such agreements, the Qwest merger will constitute a change in control of Qwest and therefore the counterparty may terminate the agreement upon the closing of the merger. Qwest has agreements subject to such termination provisions with significant customers, major suppliers and service providers. In addition, certain Qwest customer contracts, including those with state or federal government agencies, allow the customer to terminate the contract at any time for convenience, which would allow the customer to terminate its contract before, at or after the closing of the merger. Any such counterparty may request modifications of their respective agreements as a condition to their agreement not to terminate. There is no assurance that such agreements will not be terminated, that any such terminations will not result in a material adverse effect, or that any modifications of such agreements to avoid termination will not result in a material adverse effect.

We may be unable to obtain security clearances necessary to perform certain Qwest government contracts.

Certain Qwest legal entities and officers have security clearances required for Qwest's performance of customer contracts with various government entities. Following the merger, it may be necessary for us to obtain comparable security clearances. If we or our officers are unable to qualify for such security clearances, we may not be able to continue to perform such contracts.

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

As of December 31, 2010, Qwest had $5.6 billion of net operating losses, or NOLs, which for federal income tax purposes can be used to offset future taxable income, subject to certain limitations under Section 382 of the Internal Revenue Code and related regulations. Our ability to use these NOLs following the Qwest merger may be further limited by Section 382 if Qwest is deemed to undergo an ownership change as a result of the merger or we are deemed to undergo an ownership change following the merger, either of which could potentially restrict use of a material portion of the NOLs. Determining the limitations under Section 382 is technical and highly complex. As a result, we cannot assure you that we will be able to use the NOLs after the merger in the amounts we project.

The pending Qwest merger raises other risks.

For information on other risks raised by the pending Qwest merger, please see (i) the risks described below under the heading "– Other Risks" and (ii) the joint proxy statement – prospectus filed by us with the SEC on July 19, 2010.

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Risks Related to our Acquisition of Embarq on July 1, 2009

We have not yet fully integrated Embarq's operations into our operations, which involves several risks.

We continue to incur substantial expenses in connection with integrating the business, operations, networks, systems, technologies, policies and procedures of Embarq with ours, which will likely result in us continuing to take significant charges against earnings in future quarters. We cannot assure you that we will be able to successfully integrate our legacy business with Embarq's business, or that we will be able to retain key employees affected by the Embarq merger. For more information on these risks, please see (i) the risk factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2009 and (ii) the risks described above under the heading "– Risks Relating to Our Pending Acquisition of Qwest" that discuss the costs and uncertainties associated with integrating Qwest's operations into ours.

In connection with completing the Embarq merger, we launched branding initiatives that may not be favorably received by customers.

Upon completion of the Embarq merger, we changed our brand name to CenturyLink. We have incurred substantial capital and operating costs in re-branding our products and services. There is no assurance that we will be able to achieve name recognition or status under our new brand that is comparable to the recognition and status previously enjoyed. The failure of these initiatives could adversely affect our ability to attract and retain customers after the merger, resulting in reduced revenues.

In connection with approving the Embarq merger, the Federal Communications Commission imposed conditions that could increase our future capital costs and limit our operating flexibility.

In connection with approving the Embarq merger, the FCC issued a publicly-available order that imposed a comprehensive set of conditions on our operations over periods ranging from one to three years following the closing date. Among other things, these conditions commit us (i) to make broadband service available to all of our residential and single line business customers within three years of the closing, (ii) to meet various targets regarding the speed of our broadband services, and (iii) to enhance the wholesale service levels in our legacy markets to match the service levels in Embarq's markets. Although most of these commitments largely correspond to our business strategies, they could increase our overall future capital or operating costs or limit our flexibility to deploy capital in response to changing market conditions.

In connection with completing the Embarq merger, we assumed various contingent liabilities and a sizable underfunded pension plan of Embarq, which could negatively impact our future financial position or performance.

Upon consummating the merger, Embarq became our wholly-owned subsidiary and remains responsible for all of its pre-closing contingent liabilities, including Embarq's previously-disclosed tax sharing, retiree benefit litigation and environmental risks. Embarq also remains responsible for benefits under its existing qualified defined benefit pension plan, which as of December 31, 2010 was in an underfunded position. If any of these matters give rise to material liabilities, our consolidated operating results or financial position will be negatively affected. Additional information regarding these risks is available in (i) Items 3 and 8 of this Annual Report on Form 10-K and (ii) the periodic reports filed by Embarq with the SEC through the date of the merger.

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Risks Related to Our Regulatory Environment

Our revenues could be materially reduced or our expenses materially increased by changes in state or federal regulations.

The majority of our revenues are substantially dependent upon regulations which, if changed, could result in material revenue reductions. Laws and regulations applicable to us and our competitors have been and are likely to continue to be subject to ongoing changes and court challenges, which could also affect our financial performance.

Risk of loss or reduction of network access charge revenues or support fund payments. A significant portion of our revenues is derived from switched or special access charge revenues that are paid to us by other carriers based largely on rates set by federal and state regulatory bodies. Interexchange carriers have filed complaints in various forums requesting reductions in our access rates. In addition, several long distance providers have begun disputing amounts owed to us for carrying VoIP traffic, or refusing to pay such amounts. Several state public service commissions are investigating intrastate access rates and the ultimate outcome and impact of such investigations are uncertain.

The FCC regulates tariffs for interstate switched access, special access and subscriber line charges, all of which are components of our revenue. The FCC has been considering comprehensive reform of its intercarrier compensation rules for several years, including proposals included in its recently-released National Broadband Plan that, as proposed, are likely to reduce network access payments. Any reform eventually adopted by the FCC will likely involve significant changes in the current access charge system and could potentially result in a significant decrease or elimination of access charges altogether. In addition, we could be harmed if carriers that use our access services become financially distressed or bypass our networks, either due to changes in regulation or other factors. Action or inaction by the FCC on intercarrier compensation could lead to disputes with other carriers that delay or prevent us from collecting the full amount of our established access charges.

The FCC and Congress may take actions that would impact our video programming access and pricing, which could adversely affect our ability to continue to expand our video business and our competitive position in our existing video markets.

We receive revenues from the USF, and, to a lesser extent, intrastate support funds. These governmental programs are reviewed and amended from time to time, and we cannot provide assurance that they will not be changed or impacted in a manner adverse to us. Over the past few years, high cost support fund payments to our operating subsidiaries have decreased due to increases in the nationwide average cost per loop factor used to determine payments to program participants, as well as declines in the overall size of the high cost support fund. In addition, the number of eligible telecommunications carriers receiving support payments from this program has increased substantially in recent years, which, coupled with other factors, has placed additional financial pressure on the amount of money that is available to provide support payments to all eligible recipients, including us. For several years, the FCC and others have considered comprehensive reforms of the federal USF contribution and distribution rules. In April 2010, the FCC proposed to replace the USF with a broadband "Connect America" fund, the impact of which on us is currently unclear.

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The FCC's National Broadband Plan released on March 16, 2010 seeks comprehensive changes in federal communications regulations and programs that could, among other things, reduce or eliminate USF and access revenues for our local exchange companies. We cannot predict the ultimate outcome of this plan or provide any assurances that its implementation will not have a material adverse effect on our business, operating results or financial condition.

Risks posed by state regulations. We are also subject to the authority of state regulatory commissions which have the power to regulate intrastate rates and services, including local, in-state long-distance and network access services. Under certain circumstances, our ILECs could be ordered to reduce rates or could experience rate reductions following the lapse of regulatory plans currently in effect. Our business could also be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing state regulations. In particular, we cannot assure you that we will succeed in obtaining or maintaining all requisite state regulatory approvals for our operations without the imposition of adverse conditions on our business that impose additional costs or limit our revenues.

Risks posed by costs of regulatory compliance. Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to regulations or laws related to bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act (which requires communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance), and laws governing local number portability and customer proprietary network information requirements. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

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

The Telecommunications Act of 1996 fundamentally changed the communications industry, and resulted in increased competition among service providers. This Act and the FCC's implementing regulations remain subject to judicial review and additional rulemakings, thus making it difficult to predict what effect the legislation will ultimately have on us and our competitors. Several regulatory and judicial proceedings addressing communications issues have recently concluded, are underway or may soon be commenced. Moreover, certain communities nationwide have expressed an interest in establishing municipal telephone utilities that would compete for customers. Finally, we could be adversely affected by programs or initiatives recently undertaken by Congress or the FCC, including (i) the federal broadband stimulus projects authorized by Congress in 2009; (ii) the FCC's above-described National Broadband Plan; (iii) new "network neutrality" rules and; (iv) the proposed broadband "Connect America" replacement support fund.

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We are subject to significant regulations that limit our flexibility.

As a diversified full service ILEC, we have traditionally been subject to significant regulation that does not apply to many of our competitors. For instance, unlike many of our competitors, we are subject to federal mandates to share facilities, file and justify tariffs, maintain certain accounts and file reports, and state requirements that obligate us to offer service to all eligible customers in our service territories, require us to maintain service standards and limit our ability to change tariffs in a timely manner. This regulation imposes substantial compliance costs on us and restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. Although newer alternative forms of regulation permit us greater freedoms in several states in which we operate, they nonetheless typically impose caps on the rates that we can charge our customers. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete. Litigation and different objectives among federal and state regulators could create uncertainty and impede our ability to respond to new regulations. Moreover, changes in tax laws, regulations or policies could increase our tax rates, particularly if state regulators continue to search for additional revenue sources to address budget shortfalls. We are unable to predict the future actions of the various regulatory bodies that govern us, but such actions could materially affect our business.

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 CLEC operations, and to our emerging switched digital television and wireless broadband businesses. These requirements could delay us in expanding our operations or increase the costs of providing these services.

We will be exposed to risks arising out of recent legislation affecting U.S. public companies, including risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

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 by the SEC, the New York Stock Exchange and the Public Company Accounting Oversight Board, are increasing legal and financial compliance costs and making some activities more time consuming. Any future failure to successfully or timely complete annual assessments of our internal controls required by Section 404 of the Sarbanes-Oxley Act could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or investors’ confidence in us, and could cause our stock price to fall. If we fail to maintain effective controls and procedures, we may be unable to provide financial information in a timely and reliable manner, which could in certain instances limit our ability to borrow or raise capital.

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Our current or prior operations could subject us to liabilities under laws governing the environment, health and safety.

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

For a more thorough discussion of the regulatory issues that may affect our business, see Item 1 of this Annual Report on Form 10-K.

Other Risks

We have a substantial amount of indebtedness and may need to incur more in the future.

We have a substantial amount of indebtedness, which could have material adverse consequences for us, including (i) hindering our ability to adjust to changing market, industry or economic conditions, (ii) limiting our ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses, (iii) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses, (iv) making us more vulnerable to economic or industry downturns, including interest rate increases, and (v) placing us at a competitive disadvantage to those of our competitors that have less indebtedness.

As a result of assuming Qwest's indebtedness in connection with the pending Qwest merger, we will become more leveraged. This could reduce our credit ratings and thereby raise our borrowing costs.

In connection with executing our business strategies following the Qwest merger, we expect to continue to evaluate the possibility of acquiring additional communications assets and making strategic investments, and we may elect to finance future acquisitions by incurring additional indebtedness. Moreover, to respond to competitive challenges, we may be required to raise substantial additional capital to finance new product or service offerings. Other events that are currently unforeseen, such as higher than expected cash contributions to our benefit plans or significant payments arising out of the matters discussed in Items 1A or 3 of this annual report, could also require us to obtain additional financing or investigate other methods to generate cash. Our ability to arrange additional financing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing on terms acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected, which could further raise our borrowing costs and further limit our future access to capital and our ability to satisfy our debt obligations.

Adverse changes in the value of assets or obligations associated with our employee benefit plans could negatively impact our financial results or financial position.

We maintain one or more qualified pension plans, non-qualified pension plans and post-retirement benefit plans, several of which are currently underfunded. Adverse changes in interest rates or market conditions, among other assumptions and factors, could cause a significant increase in the benefit obligations under these plans or a significant decrease in the value of plan assets. With respect to our qualified pension plans, adverse changes could require us to contribute a material amount of cash to the plans or could accelerate the timing of any required cash payments. The process of calculating benefit obligations is complex. The amount of required contributions to these plans in future years will depend on earnings on investments, prevailing discount rates, changes in the plans and funding laws and regulations. Any future material cash contributions could have a negative impact on our financial results or financial position.

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

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

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

Based on current circumstances, we plan to continue our current dividend practices. However, you should be aware that these practices 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, cash flows or financial position;
- decisions on whether, when and in which amounts to make any future distributions will remain at all times entirely at the discretion of our board of directors, which reserves the right to change our dividend practices at any time and for any reason;
- the effects of regulatory reform, including any changes to intercarrier compensation, Universal Service Fund or special access rules;

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- our desire to maintain or improve the credit ratings on our senior 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 CenturyLink 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 the Embarq merger and pending Qwest merger, and restrictions imposed by the terms of credit facilities applicable to certain subsidiaries and, potentially, the terms of any future indebtedness that these subsidiaries may incur.

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

Our current dividend practices could limit our ability to pursue growth opportunities.

The current practice of our Board of Directors to pay an annual $2.90 per common share dividend reflects an intention to distribute to our shareholders a substantial portion of our free cash flow. As a result, we may not retain a sufficient amount of cash to finance a material expansion of our business in the future. 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 all, or at an acceptable cost.

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 purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. Certain of our subsidiaries may be restricted under loan agreements or regulatory orders from transferring funds to us, including certain restrictions on the amount of dividends that may be 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. The notes to our consolidated financial statements included in this Annual Report on Form 10-K describe these matters in additional detail.

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

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. For a discussion of our critical accounting policies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in Item 7 of this annual report. 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.

Taxing authorities may determine we owe additional taxes relating to various matters, which could adversely affect our financial results.

As a significant taxpayer, we are subject to frequent and regular audits and examinations by the Internal Revenue Service, as well as state and local tax authorities. These tax audits and examinations may result in tax liabilities that differ materially from those that we have recorded in our consolidated financial statements. Because the ultimate outcomes 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.

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

Our articles of incorporation provide for a classified board of directors, which limits the ability of an insurgent to rapidly replace the board. In addition, a number of other 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. This could deprive our shareholders of any related takeover premium.

We face other risks.

The list of risks above is not exhaustive, and you should be aware that we face various other risks discussed in this or other reports, proxy statements or documents filed by us with the SEC.

Cautionary Statements Regarding Forward-Looking Statements

This report and other documents filed by us under the federal securities laws include, and future oral or written statements or press releases by us and our management may include, certain forward-looking statements relating to CenturyLink or Qwest, the operations of either such company or our pending acquisition of Qwest, including without limitation statements with respect to CenturyLink's or Qwest's anticipated future operating and financial performance, financial position and liquidity, tax position, contingent liabilities, growth opportunities and growth rates, acquisition and divestiture opportunities, merger synergies, business prospects, regulatory and competitive outlook, investment and expenditure plans, investment results, financing opportunities and sources (including the impact of financings on our financial position, financial performance or credit ratings), pricing plans, strategic alternatives, business strategies, and other similar statements of expectations or objectives or accompanying statements of assumptions that are highlighted by words such as "expects," "anticipates," "intends," "plans," "believes," "projects," "seeks," "estimates," "hopes," "should," "could," and "may," and variations thereof and similar expressions. Such 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 outside of our control. These forward-looking statements, and the assumptions upon which such statements are based, are inherently speculative and are subject to uncertainties that could cause our actual results to differ materially from such statements. Anticipated events may not occur and the actual results or performance of CenturyLink or Qwest may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could impact the actual results of CenturyLink or Qwest include but are not limited to:

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- the extent, timing, success and overall effects of competition from wireless carriers, VoIP and broadband providers, CLECs, cable television companies and others, including without limitation the risks that these competitors may offer less expensive or more innovative products and services;

- the risks inherent in rapid technological change, including without limitation the risk that new technologies will displace our products and services;

- the effects of ongoing changes in the regulation of the communications industry, including without limitation (i) increased competition resulting from regulatory changes, (ii) the final outcome of various federal, state and local regulatory initiatives, disputes and proceedings that could impact our competitive position, revenues, compliance costs, capital expenditures or prospects, (iii) the effect of the National Broadband Plan, (iv) the reduction or elimination of revenues received from the federal Universal Service Fund or other current or future federal and state support programs designed to compensate communications companies operating in high-cost markets, (v) changes in the regulatory treatment of VoIP traffic, and (vi) changes in the regulation of special access;

- our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by the Embarq merger and the pending Qwest merger;

- the possibility that the anticipated benefits from the Embarq merger cannot be fully realized in a timely manner or at all, or that integrating Embarq's operations into ours will be more difficult, disruptive or costly than anticipated;

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- our ability to (i) successfully complete our pending acquisition of Qwest, including timely receipt of the required regulatory approvals for the merger free of detrimental conditions, and (ii) timely realize the anticipated benefits of the transaction, including our ability after the closing to use the net operating losses of Qwest in the amounts projected;

- our ability to effectively manage our expansion opportunities, including without limitation our ability to (i) effectively integrate newly-acquired or newly-developed businesses into our operations, (ii) attract and retain technological, managerial and other key personnel, (iii) achieve projected growth, revenue and cost savings targets from the Embarq acquisition and the pending Qwest acquisition within the timeframes anticipated, and (iv) otherwise monitor our operations, costs, regulatory compliance, and service quality and maintain other necessary internal controls;

- possible changes in the demand for, or pricing of, our products and services, including without limitation reduced demand for our traditional telephone or access services caused by greater use of wireless, electronic mail or Internet communications, or other factors;

- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis, including without limitation our ability to (i) successfully roll out our new video and broadband services, (ii) expand successfully our full array of service offerings to new or acquired markets and (iii) offer bundled service packages on terms attractive to our customers;

- our continued access to credit markets on favorable terms, including our continued access to financing in amounts, and on terms and conditions, necessary to support our operations and refinance existing indebtedness when it becomes due;

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

- the inability of third parties to discharge their commitments to us;

- the outcome of pending litigation in which CenturyLink, Embarq or Qwest is involved, including the KPNQwest litigation matters in which plaintiffs have sought, in the aggregate, billions of dollars in damages from Qwest;

- our ability to pay a $2.90 per common share dividend annually, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position;

- unanticipated increases in our capital expenditures;

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

- our ownership of or access to technology that may be necessary for us to operate or expand our business;

- regulatory limits on our ability to change the prices for telephone services in response to industry changes;

- impediments to our ability to expand through attractively priced acquisitions, whether caused by regulatory limits, financing constraints, a decrease in the pool of attractive target companies, or competition for acquisitions from other interested buyers;

- uncertainties relating to the implementation of our business strategies, including the possible need to make abrupt and potentially disruptive changes in our business strategies due to changes in competition, regulation, technology, product acceptance or other factors;

- the lack of assurance that we can compete effectively against better-capitalized competitors;

- the impact of equipment failure, including potential network disruptions;

- declines in the value of our business that result in non-cash earnings charges for goodwill impairment;

- general worldwide economic conditions and related uncertainties;

- the effects of adverse weather on our customers or properties;

- other risks referenced in this report and from time to time in our other filings with the SEC;
- the effects of more general factors, including without limitation:
- changes in general industry and market conditions and growth rates
- changes in labor conditions, including workforce levels and labor costs
- changes in interest rates or other general national, regional or local economic conditions
- changes in legislation, regulation or public policy, including changes that increase our tax rate
- increases in capital, operating, medical, pension or administrative costs, or the impact of new business opportunities requiring significant up-front investments
- changes in our relationships with vendors, or the failure of these vendors to provide competitive products on a timely basis
- failures in our internal controls that could result in inaccurate public disclosures or fraud
- changes in our debt ratings

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- unfavorable outcomes of regulatory proceedings and investigations, including rate proceedings and tax audits
- losses or unfavorable returns on our investments in other communications companies
- delays in the construction of our networks
- changes in accounting policies, assumptions, estimates or practices adopted voluntarily or as required by generally accepted accounting principles.

For additional information, see the risk factors listed above in this report and the description of our business included as Item 1 of this Annual Report on Form 10-K. Due to these uncertainties, we cannot assure you that our anticipated results will occur, that our judgments or assumptions will prove correct, or that unforeseen developments will not occur. Accordingly, you are cautioned not to place undue reliance upon any of our forward-looking statements, which speak only as of the date made. Additional risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from our expected results. We undertake no obligation to update or revise any of our forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise.

Any information about our intentions contained in this annual report is a statement of our intentions as of the date of this document and is based upon, among other things, the regulatory, industry, competitive, economic and market conditions as of such date, as well as various of our assumptions at such time. We may change our intentions, at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

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

Item 1B. Unresolved Staff Comments

Not applicable.

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Item 2. Properties.

Our properties consist principally of telephone lines, central office equipment, and land and buildings related to telephone operations. As of December 31, 2010 and 2009, our gross property, plant and equipment of approximately $16.3 billion and $15.6 billion, respectively, consisted of the following:

	December 31,		
	2010		2009
Cable and wire	50.2	%	52.3
Central office	31.1		29.6
General support	13.5		12.0
Fiber transport	2.3		2.2
Construction in progress	1.7		2.8
Other	1.2		1.1
	100.0	%	100.0

"Cable and wire" facilities consist primarily of buried cable and aerial cable, poles, wire, conduit and drops used in providing local and long distance services. "Central office" consists primarily of switching equipment, circuit equipment and related facilities. "General support" consists primarily of land, buildings, tools, furnishings, fixtures, motor vehicles and work equipment. "Fiber transport" consists of network assets and equipment to provide fiber transport services. "Construction in progress" includes property of the foregoing categories that has not been placed in service because it is still under construction.

The properties of certain of our telephone subsidiaries are subject to mortgages securing the debt of such companies. We own substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in our telephone operations.

For further information on the location and type of our properties, see the descriptions of our operations in Item 1 of this Annual Report on Form 10-K.

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Item 3. Legal Proceedings.

Over 60 years ago, one of our indirect subsidiaries, Centel Corporation, acquired entities that may have owned or operated seven former plant sites that produced "manufactured gas" under a process widely used through the mid-1900s. Centel has been a subsidiary of Embarq since being spun-off in 2006 from Sprint Nextel, which acquired Centel in 1993. None of these plant sites are currently owned or operated by either Sprint Nextel, Embarq or their subsidiaries. On three sites, Embarq and the current landowners are working with the Environmental Protection

Agency (“EPA”) pursuant to administrative consent orders. Remediation expenditures pursuant to the orders are not expected to be material. On five sites, including the three sites where the EPA is involved, Centel has entered into agreements with other potentially responsible parties to share remediation costs. Further, Sprint Nextel has agreed to indemnify Embarq for most of any eventual liability arising from all seven of these sites. Based upon current circumstances, we do not expect this issue to have a material adverse impact on our results of operations or financial condition.

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 (Civil Action No. 07-CV-2602), a group of retirees filed a putative class action lawsuit challenging the decision to make certain modifications to Embarq’s retiree benefits programs generally effective January 1, 2008 (which resulted in a $300 million reduction to the liability for retiree benefits at the time of the modifications). 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. Recently, the Court certified a class on certain of plaintiffs’ claims, but rejected class certification as to other claims. Embarq and other defendants continue to vigorously contest these claims and charges. Given that this litigation is still in discovery, it is premature to estimate the impact this lawsuit could have to our results of operation or financial condition. In 2009, a ruling in Embarq’s favor was entered in an arbitration proceeding filed by 15 former Centel executives, similarly challenging the benefits changes.

In April 2010, a series of lawsuits were filed by shareholders of Qwest Communications International Inc. in Colorado state and federal courts and in Delaware federal court, alleging that Qwest’s officers and directors breached their fiduciary duties by failing to maximize the value to be received by Qwest’s stockholders in connection with CenturyLink’s recently announced acquisition of Qwest. CenturyLink was also named as a defendant in most of the lawsuits. On July 16, 2010, the parties entered into a memorandum of understanding reflecting the terms of their agreement-in-principle for a settlement of all of the claims asserted in these actions. Pursuant to this agreement, defendants included additional disclosures in the final joint proxy statement-prospectus dated July 19, 2010, in response to allegations and claims asserted in certain of the complaints. At a hearing in late February 2011, the Court gave final approval to this settlement, and all lawsuits challenging the transaction will be dismissed with prejudice effective March 17, 2011. We do not expect the settlement to have a material adverse impact to our results of operations or financial condition.

In December 2009, subsidiaries of CenturyLink filed two lawsuits against subsidiaries of Sprint Nextel to recover terminating access charges for VoIP traffic owed under various interconnection agreements and tariffs which presently approximate $33 million. The lawsuits allege that Sprint Nextel has breached contracts, violated tariffs, and violated the Federal Communications Act by failing to pay these charges. One lawsuit, filed on behalf of all legacy Embarq operating entities, was tried in federal court in Virginia in August 2010 and a ruling is expected in the first quarter of 2011. The other lawsuit, filed on behalf of all legacy CenturyLink operating entities, is pending in federal court in Louisiana. In that case, the Court recently dismissed certain of CenturyLink’s claims, referred other claims to the FCC, and stayed the litigation for 12 months. We have not recorded a reserve related to these lawsuits.

From time to time, we are involved in other proceedings incidental to our business, including administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, various tax issues, occasional 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 insurance coverage and current levels of reserves, will have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. [Reserved]

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 is traded under the symbol CTL. The following table sets forth the high and low sales prices, along with the quarterly dividends, for each of the quarters indicated.

		Sales prices			Dividend per common share
		High	Low		
2010:					
First quarter	$	37.00	32.98		.725
Second quarter	$	36.73	14.16	(1)	.725
Third quarter	$	40.00	32.92		.725
Fourth quarter	$	46.87	39.18		.725
2009:					
First quarter	$	29.22	23.41		.70
Second quarter	$	33.62	25.26		.70
Third quarter	$	34.00	28.90		.70
Fourth quarter	$	37.15	32.25		.70

(1) During the widely-publicized temporary market disruption that occurred on the afternoon of May 6, 2010, our common stock momentarily traded as low as $14.16 in markets other than the NYSE. The opening and closing prices of our common stock on May 6, 2010, were $34.48 and $33.52, respectively.

Common stock dividends during 2010 and 2009 were paid each quarter.

In June 2008, our board of directors increased our quarterly cash dividend rate from $.0675 to $.70 per share. In February 2010, our board of directors further increased our quarterly cash dividend rate to $.725 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 the Board of Directors.

As of February 28, 2011, there were approximately 35,000 stockholders of record of our common stock. As of February 28, 2011, the closing stock price of our common stock was $41.18.

During the fourth quarter of 2010, we withheld 50,823 shares of stock at an average price of $43.07 per share to pay taxes due upon the vesting of restricted stock for certain of our employees in October, November and December 2010.

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For information regarding shares of our common stock authorized for issuance under our equity compensation plans, see Item 12.

Item 6. Selected Financial Data.

The following table presents certain selected consolidated financial data as of and for each of the years ended in the five-year period ended December 31, 2010. The results of operations of the Embarq properties are included herein subsequent to its July 1, 2009 acquisition date.

The selected consolidated financial data shown below is derived from our audited consolidated financial statements. These historical results are not necessarily indicative of results that you can expect for any future period. You should read this data in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our full consolidated financial statements and notes thereto contained elsewhere in this Annual Report on Form 10-K.

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Selected Income Statement Data

	Year ended December 31,				
	2010	2009	2008	2007	2006
	(Dollars, except per share amounts, and shares expressed in thousands)				
Operating revenues	$7,041,534	4,974,239	2,599,747	2,656,241	2,447,730
Operating income	$2,059,944	1,233,101	721,352	793,078	665,538
Net income attributable to CenturyLink, Inc.	$947,705	647,211	365,732	418,370	370,027
Basic earnings per share	$3.13	3.23	3.53	3.79	3.15
Diluted earnings per share	$3.13	3.23	3.52	3.71	3.07
Dividends per common share	$2.90	2.80	2.1675	.26	.25
Average basic shares outstanding	300,619	198,813	102,268	109,360	116,671
Average diluted shares outstanding	301,297	199,057	102,560	112,787	121,990

Selected Balance Sheet Data

	December 31,				
	2010	2009	2008	2007	2006
	(Dollars in thousands)				
Net property, plant and equipment	$8,754,476	9,097,139	2,895,892	3,108,376	3,109,277
Goodwill	$10,260,640	10,251,758	4,015,674	4,010,916	3,431,136

Total assets	$22,038,098	22,562,729	8,254,195	8,184,553	7,441,007
Long-term debt, including current portion and short-term debt	$7,327,587	7,753,718	3,314,526	3,014,255	2,590,864
Stockholders' equity	$9,647,159	9,466,799	3,167,808	3,415,810	3,198,964

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

	December 31,				
	2010	2009	2008	2007	2006
Telephone access lines (1)	6,504,000	7,039,000	2,025,000	2,135,000	2,094,000
High-speed Internet customers (1)	2,394,000	2,236,000	641,000	555,000	369,000

(1) In connection with our Embarq acquisition in July 2009, we acquired approximately 5.4 million telephone access lines and 1.5 million high-speed Internet customers. In connection with our Madison River acquisition in April 2007, we acquired approximately 164,000 telephone access lines and 57,000 high-speed Internet customers.

See Items 1 and 2 in Part I and Items 7 and 8 elsewhere herein for additional information.

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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.

OVERVIEW

On July 1, 2009, we acquired Embarq Corporation ("Embarq") in a transaction that substantially expanded the size and scope of our business. The results of operations of Embarq are included in our consolidated results of operations beginning July 1, 2009. Due to the significant size of Embarq, direct comparisons of our results of operations for the year ended December 31, 2010 (which includes a full year of results of operations from our Embarq properties) and December 31, 2009 (which only includes a half year of results of operations from our Embarq properties) with prior periods are less meaningful than usual since most of the significant period over period variances are caused by the Embarq acquisition. We discuss below certain trends that we believe are significant, even if they are not necessarily material to the combined company.

We are an integrated communications company primarily engaged in providing a broad array of communications services to customers in 33 states, including local and long distance voice, wholesale network access, special access, high-speed Internet access, other data services, and video services. In certain local and regional markets, we also provide fiber transport, competitive local exchange carrier, security monitoring, and other communications, professional and business information services. We operate approximately 6.5 million access lines and serve approximately 2.4 million broadband customers, based on operating data as of December 31, 2010. For additional information on our revenue sources, see Note 20. For additional information on our acquisition of Embarq, see Note 2.

During the years ended December 31, 2010 and 2009, we incurred a significant amount of one-time expenses, the vast majority of which are directly attributable to our acquisition of Embarq and our pending acquisition of Qwest Communications International Inc. ("Qwest"). In 2010, we also recognized a $20.9 million reduction to operating expenses related to a curtailment gain upon the freezing of benefit accruals for non-represented employees under our defined benefit pension plans. See Note 12 for additional information. Such one-time expenses are summarized in the table below.

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Description	Year ended December 31, 2010	2009
	(Dollars in thousands)	
Cost of services and products		
Integration related costs associated with our acquisition of Embarq	$36,573	-
Severance costs and accelerated recognition of share-based compensation and pension costs due to workforce reductions	13,702	5,704
Curtailment gain related to changes in our defined benefit pension plan	(5,895)	-
Selling, general and administrative		
Integration related costs associated with our acquisition of Embarq	54,941	86,371
Severance costs and accelerated recognition of share-based compensation and pension costs due to workforce reductions	16,490	114,462
Transaction and other costs associated with our pending acquisition of Qwest	22,265	-
Curtailment gain related to changes in our defined benefit pension plan	(15,013)	-
Transaction related costs associated with our acquisition of Embarq, including investment banker and legal fees	-	47,154
Settlement and curtailment loss related to certain executive retirement plans	-	17,834
Interest expense		
C		