

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Income Taxes, Continued:

The significant components of the net deferred income tax liability (asset) were as follows at December 31:

(Millions)	2013		2012	
Property, plant and equipment	\$	1,278.4	\$	1,292.7
Goodwill and other intangible assets		1,322.5		1,345.8
Operating loss and credit carryforward		(677.8)		(711.6)
Postretirement and other employee benefits		(108.6)		(168.8)
Unrealized holding loss and interest swaps		(1.4)		(27.6)
Deferred compensation		(5.2)		(6.3)
Bad debt		(30.3)		(40.9)
Deferred debt costs		(17.7)		(46.8)
Restricted stock		(12.1)		(11.1)
Other, net		(35.9)		(63.9)
		1,711.9		1,561.5
Valuation allowance		84.9		85.9
Deferred income taxes, net	\$	1,796.8	\$	1,647.4
Deferred tax assets	\$	(930.8)	\$	(1,193.7)
Deferred tax liabilities		2,727.6		2,841.1
Deferred income taxes, net	\$	1,796.8	\$	1,647.4

At December 31, 2013 and 2012, we had federal net operating loss carryforwards of approximately \$1,545.6 million and \$1,660.0 million, respectively, which expire in varying amounts from 2021 through 2031. The loss carryforwards at December 31, 2013 were primarily losses acquired in conjunction with our mergers with Valor Communications Group, Inc. ("Valor"), NuVox, Iowa Telecom and PAETEC. The 2013 decrease is primarily associated with the amount utilized for the year. At December 31, 2013 and 2012, we had state net operating loss carryforwards of approximately \$2,001.2 million and \$2,116.4 million, respectively, which expire annually in varying amounts from 2014 through 2032. The loss carryforwards at December 31, 2013 were primarily losses acquired in conjunction with our mergers with Valor, CTC, D&E, Lexcom Inc. ("Lexcom"), NuVox, Iowa Telecom, Q-Comm and PAETEC. The 2013 decrease is primarily associated with the amount utilized for the year. Federal and state tax rules limit the deductibility of loss carryforwards in years following an ownership change. As a result of these limitations or the expected lack of sufficient future taxable income, we believe that it is more likely than not that the benefit from certain federal and state loss carryforwards will not be realized prior to their expiration. We establish valuation allowances when necessary to reduce deferred tax assets to amounts expected to be realized. Therefore, as of December 31, 2013 and 2012, we recorded valuation allowances of \$84.9 million and \$85.9 million, respectively, related to federal and state loss carryforwards which are expected to expire before they are utilized. The amount of state tax credit carryforward at December 31, 2013 and 2012, was approximately \$22.2 million and \$20.4 million, respectively, which expire in varying amounts from 2014 through 2027.

We account for uncertainty in taxes in accordance with authoritative guidance. A reconciliation of the unrecognized tax benefits is as follows:

(Millions)	2013		2012		2011
Beginning balance	\$	18.3	\$	18.8	\$ 18.6
Additions based on PAETEC acquisition		—		—	0.5
Additions based on Q-Comm acquisition		—		—	0.6
Additions based on tax positions related to current year		2.7		—	—
Additions based on tax positions of prior years		0.7		—	—
Reductions for tax positions of prior years		(0.2)		(0.5)	—
Reduction as a result of a lapse of the applicable statute of limitations		(16.9)		—	(0.9)
Ending balance	\$	4.6	\$	18.3	\$ 18.8

12. Income Taxes, Continued:

We do not expect or anticipate a significant increase or decrease over the next twelve months in the unrecognized tax benefits reported above. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate are \$3.4 million, \$16.1 million and \$16.5 million (net of indirect benefits) for the years ended December 31, 2013, 2012 and 2011, respectively.

Included in the balance at December 31, 2013, 2012 and 2011, are \$0.6 million, \$0.8 million and \$0.7 million, respectively, of gross tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of the deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. These unrecognized tax benefits are included in other long-term liabilities in the accompanying consolidated balance sheets for the years ended December 31, 2013 and 2012.

We file income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, we are no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2010. However, due to acquired net operating losses, tax authorities have the ability to adjust those net operating losses related to closed years. We have identified Arkansas, California, Florida, Georgia, Illinois, Iowa, Kentucky, Nebraska, New York, North Carolina, Pennsylvania, Texas and Virginia as "major" state taxing jurisdictions.

We recognize accrued interest and penalties related to unrecognized tax benefits as a component of income tax expense. During the years ended December 31, 2013, 2012 and 2011, we recognized approximately \$0.1 million, \$0.6 million and \$0.8 million in interest and penalties, respectively. Furthermore, we had approximately \$0.1 million, \$3.1 million and \$2.6 million of interest and penalties accrued as of December 31, 2013, 2012 and 2011, respectively.

13. Commitments and Contingencies:

Lease Commitments

Minimum rental commitments for all non-cancellable operating leases, consisting principally of leases for network facilities, real estate, office space and office equipment were as follows as of December 31, 2013:

Year	(Millions)
2014	\$ 101.0
2015	91.8
2016	81.1
2017	66.8
2018	56.3
Thereafter	232.5
Total	\$ 629.5

Rental expense totaled \$120.2 million, \$108.2 million and \$38.9 million in 2013, 2012 and 2011, respectively.

Litigation

We are party to various legal proceedings, including certain lawsuits claiming infringement of patents relating to various aspects of our business. In certain of the patent matters, other industry participants are also parties, and we may have claims of indemnification against vendors/suppliers. The ultimate resolution of these legal proceedings cannot be determined at this time. However, based on current circumstances, Management does not believe such proceedings, individually or in the aggregate, will have a material adverse effect on the future consolidated results of our income, cash flows or financial condition.

In addition, management is currently not aware of any environmental matters that, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or our results of operations.