

CENTURYLINK, INC
Form 10-Q
August 08, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from _____ to _____
Commission File No. 001-7784

CENTURYLINK, INC.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

100 CenturyLink Drive, Monroe, Louisiana
(Address of principal executive offices)

72-0651161
(I.R.S. Employer
Identification No.)

71203
(Zip Code)

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(318) 388-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

On August 1, 2013, there were 600,675,937 shares of common stock outstanding.

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

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CENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions except per share amounts and shares in thousands)			
OPERATING REVENUES	\$ 4,525	4,612	9,038	9,222
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	1,873	1,912	3,669	3,789
Selling, general and administrative	814	835	1,632	1,706
Depreciation and amortization	1,123	1,208	2,240	2,416
Total operating expenses	3,810	3,955	7,541	7,911
OPERATING INCOME	715	657	1,497	1,311
OTHER INCOME (EXPENSE)				
Interest expense	(325)	(335)	(641)	(678)
Net loss on early retirement of debt		(202)		(194)
Other income	4	3	43	15
Total other income (expense)	(321)	(534)	(598)	(857)
INCOME BEFORE INCOME TAX EXPENSE	394	123	899	454
Income tax expense	125	49	332	180
NET INCOME	\$ 269	74	567	274
BASIC AND DILUTED EARNINGS PER COMMON SHARE				
BASIC	\$.45	.12	.93	.44
DILUTED	\$.44	.12	.92	.44
DIVIDENDS DECLARED PER COMMON SHARE	\$.540	.725	1.080	1.450
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	604,302	619,887	611,862	619,048
DILUTED	605,602	621,839	613,338	621,095

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
NET INCOME	\$ 269	74	567	274
OTHER COMPREHENSIVE INCOME:				
Items related to employee benefit plans:				
Change in net actuarial loss, net of \$(10), \$(3), \$(18), and \$(6) tax	11	5	24	10
Change in net prior service credit, net of \$, \$, \$(1), and \$ tax	1		2	
Auction rate securities marked to market, net of \$, \$, \$, and \$(2) tax				3
Foreign currency translation adjustment and other, net of \$2, \$, \$, and \$ tax	(5)	(3)	(13)	1
Other comprehensive income	7	2	13	14
COMPREHENSIVE INCOME	\$ 276	76	580	288

See accompanying notes to consolidated financial statements.

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CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2013	December 31, 2012
	(Dollars in millions and shares in thousands)	
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 214	211
Accounts receivable, less allowance of \$147 and \$158	1,900	1,917
Income tax receivable	58	42
Deferred income taxes, net	906	891
Other	570	552
Total current assets	3,648	3,613
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	33,204	32,086
Accumulated depreciation	(14,427)	(13,054)
Net property, plant and equipment	18,777	19,032
GOODWILL AND OTHER ASSETS		
Goodwill	21,744	21,732
Customer relationships, less accumulated amortization of \$3,094 and \$2,524	6,482	7,052
Other intangible assets, less accumulated amortization of \$1,139 and \$956	1,762	1,795
Other	841	796
Total goodwill and other assets	30,829	31,375
TOTAL ASSETS	\$ 53,254	54,020
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 302	1,205
Accounts payable	1,285	1,207
Accrued expenses and other liabilities		
Salaries and benefits	584	683
Income and other taxes	366	356
Interest	286	268
Other	259	234
Advance billings and customer deposits	666	642
Total current liabilities	3,748	4,595
LONG-TERM DEBT	20,283	19,400
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,980	3,644
Benefit plan obligations, net	5,578	5,844
Other	1,265	1,248
Total deferred credits and other liabilities	10,823	10,736

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COMMITMENTS AND CONTINGENCIES (Note 9)

STOCKHOLDERS' EQUITY

Preferred stock non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 7 shares

Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, respectively, issued and outstanding 604,209 and 625,658 shares

Additional paid-in capital	18,291	19,079
Accumulated other comprehensive income (loss)	(1,688)	(1,701)
Retained earnings	1,193	1,285

Total stockholders' equity	18,400	19,289
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 53,254	54,020
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See accompanying notes to consolidated financial statements.

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

Six Months Ended June 30,

2013 2012

(Dollars in millions)

OPERATING ACTIVITIES			
Net income	\$	567	274
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		2,240	2,416
Deferred income taxes		307	137
Provision for uncollectible accounts		65	103
Gain on sale of intangible assets		(32)	
Long-term debt premium amortization		(32)	(49)
Net loss on early retirement of debt			194
Changes in current assets and current liabilities:			
Accounts receivable		(48)	(64)
Accounts payable		123	(140)
Accrued income and other taxes		(11)	22
Other current assets and other current liabilities, net		(163)	(6)
Retirement benefits		(220)	(163)
Changes in other noncurrent assets and liabilities, net		48	53
Other, net		12	22
Net cash provided by operating activities		2,856	2,799
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software		(1,410)	(1,305)
Proceeds from sale of intangible assets or property		75	133
Other, net		23	