

CENTURYLINK, INC
Form 10-Q
August 04, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

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

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

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

(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
(Do not check if a smaller reporting company) 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 July 28, 2016, there were 545,969,547 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.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Dollars in millions, except per share amounts and shares in thousands)			
OPERATING REVENUES	\$4,398	4,419	8,799	8,870
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	1,949	1,959	3,849	3,870
Selling, general and administrative	812	863	1,643	1,714
Depreciation and amortization	987	1,048	1,963	2,088
Total operating expenses	3,748	3,870	7,455	7,672
OPERATING INCOME	650	549	1,344	1,198
OTHER (EXPENSE) INCOME				
Interest expense	(340)	(327)	(671)	(655)
Other income, net	7	12	24	14
Total other expense, net	(333)	(315)	(647)	(641)
INCOME BEFORE INCOME TAX EXPENSE	317	234	697	557
Income tax expense	121	91	265	222
NET INCOME	\$196	143	432	335
BASIC AND DILUTED EARNINGS PER COMMON SHARE				
BASIC	\$0.36	0.26	0.80	0.60
DILUTED	\$0.36	0.26	0.80	0.60
DIVIDENDS DECLARED PER COMMON SHARE	\$0.54	0.54	1.08	1.08
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	539,627	558,640	539,213	560,304
DILUTED	540,375	559,220	540,281	561,362
See accompanying notes to consolidated financial statements.				

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

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(Dollars in millions)			
NET INCOME	\$196	143	432	335
OTHER COMPREHENSIVE INCOME:				
Items related to employee benefit plans:				
Change in net actuarial loss, net of \$(17), \$(15), \$(33) and \$(30) tax	28	27	54	50
Change in net prior service costs, net of \$(1), \$(3), \$(2) and \$(5) tax	2	4	4	8
Foreign currency translation adjustment and other, net of \$—, \$—, \$— and \$4 tax	11	(5))	—
Other comprehensive income	26	42	53	58
COMPREHENSIVE INCOME	\$222	185	485	393

See accompanying notes to consolidated financial statements.

CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of June 30, 2016	As of December 31, 2015
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 191	126
Accounts receivable, less allowance of \$160 and \$152	1,972	1,943
Other	628	581
Total current assets	2,791	2,650
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	39,763	38,785
Accumulated depreciation	(21,869)	(20,716)
Net property, plant and equipment	17,894	18,069
GOODWILL AND OTHER ASSETS		
Goodwill	20,766	20,742
Customer relationships, less accumulated amortization of \$6,104 and \$5,648	3,472	3,928
Other intangible assets, less accumulated amortization of \$1,901 and \$1,798	1,506	1,555
Other, net	689	660
Total goodwill and other assets	26,433	26,885
TOTAL ASSETS	\$47,118	47,604
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 1,451	1,503
Accounts payable	1,067	968
Accrued expenses and other liabilities		
Salaries and benefits	562	602
Income and other taxes	505	318
Interest	258	250
Other	272	220
Advance billings and customer deposits	727	743
Total current liabilities	4,842	4,604
LONG-TERM DEBT	18,165	18,722
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	3,625	3,569
Benefit plan obligations, net	5,390	5,511
Other	1,111	1,138
Total deferred credits and other liabilities	10,126	10,218
COMMITMENTS AND CONTINGENCIES (Note 8)		
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, issued and outstanding 545,924 and 543,800 shares	546	544

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Additional paid-in capital	15,205	15,178
Accumulated other comprehensive loss	(1,881)	(1,934)
Retained earnings	115	272
Total stockholders' equity	13,985	14,060
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$47,118	47,604

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2016	2015
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$432	335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,963	2,088
Impairment of assets	1	8
Deferred income taxes	21	53
Provision for uncollectible accounts	96	84
Net long-term debt issuance costs and premium amortization	—	(3)
Share-based compensation	40	38
Changes in current assets and liabilities:		
Accounts receivable	(125)	(51)
Accounts payable	74	(112)
Accrued income and other taxes	208	120
Other current assets and liabilities, net	(64)	(50)
Retirement benefits	(28)	(19)
Changes in other noncurrent assets and liabilities, net	(35)	(11)
Other, net	18	1
Net cash provided by operating activities	2,601	2,481
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(1,264)	(1,272)
Cash paid for acquisitions	(24)	(4)
Proceeds from sale of property	11	26
Other, net	(2)	(8)
Net cash used in investing activities	(1,279)	(1,258)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	1,215	594
Payments of long-term debt	(1,464)	(506)
Net payments on credit facility and revolving line of credit	(410)	(405)
Dividends paid	(586)	(609)
Net proceeds from issuance of common stock	3	9
Repurchase of common stock and shares withheld to satisfy tax withholdings	(15)	(277)
Other, net	—	(2)
Net cash used in financing activities	(1,257)	(1,196)
Net increase in cash and cash equivalents	65	27
Cash and cash equivalents at beginning of period	126	128
Cash and cash equivalents at end of period	\$191	155
Supplemental cash flow information:		
Income taxes paid, net	\$(21)	(41)
Interest paid (net of capitalized interest of \$24 and \$29)	\$(660)	(654)
See accompanying notes to consolidated financial statements.		

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

	Six Months Ended June 30, 2016 2015 (Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$544	569
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2	1
Repurchase of common stock	—	(7)
Balance at end of period	546	563
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	15,178	16,324
Issuance of common stock through dividend reinvestment, incentive and benefit plans	3	7
Repurchase of common stock	—	(247)
Shares withheld to satisfy tax withholdings	(14)	(17)
Share-based compensation and other, net	38	40
Dividends declared	—	(211)
Balance at end of period	15,205	