

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

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

or

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

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

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

Louisiana	72-0651161
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 CenturyLink Drive, Monroe, Louisiana	71203
(Address of principal executive offices)	(Zip Code)
(318) 388-9000	

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

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 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 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.

Edgar Filing: CENTURYLINK, INC - 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Non-accelerated filer

Large accelerated filer 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 February 18, 2014, 577,955,329 shares of common stock were outstanding. The aggregate market value of the voting stock held by non-affiliates as of June 30, 2013 was \$21.3 billion.

DOCUMENTS INCORPORATED BY REFERENCE:

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

Table of Contents

TABLE OF CONTENTS

PART I

<u>Item 1. Business</u>	<u>3</u>
<u>Item 1A. Risk Factors</u>	<u>17</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>32</u>
<u>Item 2. Properties</u>	<u>33</u>
<u>Item 3. Legal Proceedings</u>	<u>34</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>36</u>

PART II

<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>37</u>
<u>Item 6. Selected Financial Data</u>	<u>39</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>69</u>
<u>Item 8. Consolidated Financial Statements and Supplementary Data</u>	<u>70</u>
<u>Consolidated Statements of Operations</u>	<u>73</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>74</u>
<u>Consolidated Balance Sheets</u>	<u>75</u>
<u>Consolidated Statements of Cash Flows</u>	<u>76</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>77</u>
<u>Notes to Consolidated Financial Statements</u>	<u>78</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>127</u>
<u>Item 9A. Controls and Procedures</u>	<u>127</u>
<u>Item 9B. Other Information</u>	<u>127</u>

PART III

<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>127</u>
<u>Item 11. Executive Compensation</u>	<u>127</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>128</u>
<u>Item 13. Certain Relationships and Related Transactions and Director Independence</u>	<u>128</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>128</u>

PART IV

<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>129</u>
<u>Signatures</u>	<u>142</u>

Table of Contents

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

PART I

ITEM 1. BUSINESS

Overview

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

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

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

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

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

Acquisitions

Acquisition of Savvis

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

Table of Contents

Acquisition of Qwest

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

Other Acquisitions

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

Impact of Recent Acquisitions

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

Potential Acquisitions

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

References to Acquired Businesses

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

Financial and Operational Highlights

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

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

Table of Contents

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

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

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

The following table summarizes certain of our operational metrics:

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

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

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

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

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

Operations

Segments

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

Consumer. Consists generally of providing strategic and legacy products and services to residential consumers. Our strategic products and services offered to these customers include our broadband, wireless and video services, including our Prism TV services. Our legacy services offered to these customers include local and long-distance service;

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

Table of Contents

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

Data hosting. Consists primarily of providing colocation, managed hosting and cloud hosting services to commercial, enterprise, global and governmental customers.

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

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