

CENTURYLINK, INC
Form 10-Q
November 09, 2018

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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 September 30, 2018

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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

On November 2, 2018, there were 1,080,659,270 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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Special Note Regarding Forward-Looking Statements

All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are “forward-looking” statements, as defined by (and subject to the “safe harbor” protections under) the federal securities laws. When used herein, the words “anticipates,” “expects,” “believes,” “seeks,” “hopes,” “intends,” “plans,” “projects,” “will” similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of judgments and assumptions as of the date such statements are made about future events, many of which are beyond our control. These forward-looking statements, and the assumptions on which they are based, (i) are not guarantees of future events, (ii) are inherently speculative and (iii) are subject to significant risks and uncertainties. Actual events and results may differ materially from those anticipated, estimated, projected or implied by us in those statements if one or more of these risks or uncertainties materialize, or if our underlying assumptions prove incorrect. All of our forward-looking statements are qualified in their entirety by reference to our discussion of certain important factors that could cause our actual results to differ materially from those anticipated, estimated, projected or implied by us in those forward-looking statements. Factors that could cause our results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following:

- the effects of competition from a wide variety of competitive providers, including decreased demand for our traditional wireline service offerings and increased pricing pressures;
- the effects of new, emerging or competing technologies, including those that could make our products less desirable or obsolete;
- the effects of ongoing changes in the regulation of the communications industry, including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, interconnection obligations, universal service, broadband deployment, data protection and net neutrality;
- our ability to timely realize the anticipated benefits of our recently-completed combination with Level 3, including our ability to attain anticipated cost savings, to use Level 3's net operating loss carryforwards in the amounts projected, to retain key personnel and to avoid unanticipated integration disruptions;
- our ability to safeguard our network, and to avoid the adverse impact on our business from possible security breaches, service outages, system failures, equipment breakage, or similar events impacting our network or the availability and quality of our services;
- our ability to effectively adjust to changes in the communications industry, and changes in the composition of our markets and product mix;
- possible changes in the demand for our products and services, including our ability to effectively respond to increased demand for high-speed broadband service;
- our ability to successfully maintain the quality and profitability of our existing product and service offerings, to provision them successfully to our customers and to introduce profitable new offerings on a timely and cost-effective basis;
- our ability to generate cash flows sufficient to fund our financial commitments and objectives, including our capital expenditures, operating costs, debt repayments, dividends, pension contributions and other benefits payments;
- changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, whether based upon changes in our cash flows, cash requirements, financial performance, financial position, market conditions or otherwise;
- our ability to effectively retain and hire key personnel and to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages;
- increases in the costs of our pension, health, post-employment or other benefits, including those caused by changes in markets, interest rates, mortality rates, demographics or regulations, which may in turn impact our business and liquidity;
- adverse changes in our access to credit markets on favorable terms, whether caused by changes in our financial position, lower debt credit ratings, unstable markets or otherwise;

our ability to meet the terms and conditions of our debt obligations;
our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions;

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our ability to effectively manage our network buildout project and our other expansion opportunities;
our ability to collect our receivables from financially troubled customers;
any adverse developments in legal or regulatory proceedings involving us;
changes in tax, communications, pension, healthcare or other laws or regulations, in governmental support programs, or in general government funding levels;
the effects of changes in accounting policies or practices, including changes that could potentially require future impairment charges;
the effects of adverse weather, terrorism or other natural or man-made disasters;
the effects of more general factors such as changes in interest rates, in exchange rates, in operating costs, in public policy, or in general market, labor, economic or geo-political conditions; and
other risks identified in our "Risk Factors" disclosures included in our annual report on Form 10-K for the year ended December 31, 2017.

Additional factors or risks that we currently deem immaterial, that are not presently known to us or that arise in the future could also cause our actual results to differ materially from our expected results. Given these uncertainties, investors are cautioned not to unduly rely upon our forward-looking statements, which speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise. Furthermore, any information about our intentions contained in any of our forward-looking statements reflects our intentions as of the date of such forward-looking statement, and is based upon, among other things, existing regulatory, technological, industry, competitive, economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or other capital allocation plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions, except per share amounts and shares in thousands)			
OPERATING REVENUES	\$5,818	4,034	17,665	12,333
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	2,672	1,927	8,205	5,705
Selling, general and administrative	967	710	3,191	2,404
Depreciation and amortization	1,285	910	3,858	2,739
Total operating expenses	4,924	3,547	15,254	10,848
OPERATING INCOME	894	487	2,411	1,485
OTHER (EXPENSE) INCOME				
Interest expense	(557)	(362)	(1,638)	(1,000)
Net loss on early retirement of debt	(33)	—	(34)	(5)
Other income, net	25	14	63	6
Total other expense, net	(565)	(348)	(1,609)	(999)
INCOME BEFORE INCOME TAX EXPENSE	329	139	802	486
Income tax expense	57	47	123	214
NET INCOME	\$272	92	679	272
BASIC AND DILUTED EARNINGS PER COMMON SHARE				
BASIC	\$0.25	0.17	0.64	0.50
DILUTED	\$0.25	0.17	0.63	0.50
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
BASIC	1,066,904	541,521	1,065,410	541,113
DILUTED	1,072,355	541,963	1,069,726	541,879

See accompanying notes to consolidated financial statements.

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
NET INCOME	\$272	92	679	272
OTHER COMPREHENSIVE INCOME (LOSS):				
Items related to employee benefit plans:				
Change in net actuarial loss, net of \$(11), \$(15), \$(33) and \$(57) tax	34	36	102	97
Change in net prior service costs, net of \$—, \$(1), \$(2) and \$(3) tax	3	2	7	6
Foreign currency translation adjustment and other, net of \$(1), \$—, \$29 and \$— tax	(1)	18	(161)	20
Other comprehensive income (loss)	36	56	(52)	123
COMPREHENSIVE INCOME	\$308	148	627	395

See accompanying notes to consolidated financial statements.

Table of ContentsCENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$390	551
Restricted cash and securities	3	5
Accounts receivable, less allowance of \$153 and \$164	2,465	2,557
Assets held for sale	19	140
Other	1,237	941
Total current assets	4,114	4,194
Property, plant and equipment, net of accumulated depreciation of \$26,493 and \$24,352	26,168	26,852
GOODWILL AND OTHER ASSETS		
Goodwill	30,770	30,475
Restricted cash and securities	27	31
Customer relationships, net	9,309	10,876
Other intangibles, net	1,857	1,897
Other, net	1,126	1,286
Total goodwill and other assets	43,089	44,565
TOTAL ASSETS	\$73,371	75,611
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$778	443
Accounts payable	1,387	1,555
Accrued expenses and other liabilities		
Salaries and benefits	993	890
Income and other taxes	409	370
Interest	362	363
Other	374	344
Current portion of deferred revenue	983	892
Total current liabilities	5,286	4,857
LONG-TERM DEBT	35,749	37,283
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	2,502	2,413
Benefit plan obligations, net	4,392	5,178
Other	2,639	2,389
Total deferred credits and other liabilities	9,533	9,980
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY		
Preferred stock—non-redeemable, \$25 par value, authorized 2,000 and 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 1,080,573 and 1,069,169 shares	1,081	1,069

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Additional paid-in capital	23,399	23,314
Accumulated other comprehensive loss	(2,454)	(1,995)
Retained earnings	777	1,103
Total stockholders' equity	22,803	23,491
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$73,371	75,611

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2018	2017
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	\$679	272
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,858	2,739
Deferred income taxes	486	(243)
Loss on the sale of data centers and colocation business	—	82
Impairment of assets	46	11
Provision for uncollectible accounts	119	127
Net loss on early retirement of debt	30	5
Share-based compensation	144	64
Changes in current assets and liabilities:		
Accounts receivable	(8)	2
Accounts payable	(151)	(93)
Accrued income and other taxes	217	103
Other current assets and liabilities, net	(42)	(221)
Retirement benefits	(639)	(181)
Changes in other noncurrent assets and liabilities, net	324	(54)
Other, net	(27)	87
Net cash provided by operating activities	5,036	2,700
INVESTING ACTIVITIES		
Capital expenditures	(2,260)	(2,363)
Proceeds from the sale of data centers and colocation business, less cash sold	—	1,467
Proceeds from sale of property, plant and equipment and other assets	125	51
Other investing, net	(61)	(5)
Net cash used in investing activities	(2,196)	(850)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	130	6,608
Proceeds from financing obligation	—	356
Payments of long-term debt	(1,539)	(1,612)
Net borrowings (payments) on revolving line of credit	185	(370)
Dividends paid	(1,735)	(881)
Other financing, net	(48)	(11)
Net cash (used in) provided by financing activities	(3,007)	4,090
Net (decrease) increase in cash, cash equivalents, restricted cash and securities	(167)	5,940
Cash, cash equivalents, restricted cash and securities at beginning of period	587	224
Cash, cash equivalents, restricted cash and securities at end of period	\$420	6,164
Supplemental cash flow information:		
Income taxes refunded (paid), net	\$674	(378)
Interest paid (net of capitalized interest of \$42 and \$61)	\$(1,571)	(917)

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
	(Dollars in millions except per share amounts)			
COMMON STOCK				
Balance at beginning of period	\$1,079	550	1,069	547
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2	—	12	3
Balance at end of period	1,081	550	1,081	550
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of period	23,360	14,637	23,314	14,970
Change in common stock through dividend reinvestment, incentive and benefit plans	7	2	(2)	5
Shares withheld to satisfy tax withholdings	(15)	(1)	(50)	(16)
Share-based compensation and other, net	48	21	142	59
Dividends declared	—	(289)	—	(648)
Acquisition of additional minority interest in a subsidiary	(1)	—	(5)	—
Balance at end of period	23,399	14,370	23,399	14,370
ACCUMULATED OTHER COMPREHENSIVE LOSS				
Balance at beginning of period	(2,490)	(2,050)	(1,995)	(2,117)
Cumulative effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	(407)	—
Other comprehensive income	36	56	(52)	123
Balance at end of period	(2,454)	(1,994)	(2,454)	(1,994)
RETAINED EARNINGS				
Balance at beginning of period	1,040	(51)	1,103	(1)
Net income	272	92	679	272
Cumulative effect of adoption of ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	—	—	407	—
Cumulative net effect of adoption of ASU 2014-09, Revenue from Contracts with Customers, net of \$(17), \$—, \$(117) and \$— tax	49	—	346	—
Cumulative effect of adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting	—	—	—	3
Dividends declared	(584)	(7)	(1,758)	(240)
Balance at end of period	777	34	777	34
TOTAL STOCKHOLDERS' EQUITY	\$22,803	12,960	22,803	12,960
DIVIDENDS DECLARED PER COMMON SHARE	\$0.54	0.54	1.62	1.62

See accompanying notes to consolidated financial statements.

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CENTURYLINK, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

References in the Notes to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries, unless the context otherwise requires and except in Note 6 - Long-Term Debt and Credit Facilities, where such references refer solely to CenturyLink, Inc. References in the Notes to "Level 3" refer to Level 3 Communications, Inc. prior to our acquisition thereof and to its successor-in-interest Level 3 Parent, LLC after such acquisition, unless the context otherwise requires.

(1) Background

General

We are an international facilities-based communications company engaged primarily in providing an integrated array of services to our residential and business customers. Our communications services include local and long-distance voice, virtual private network ("VPN") data network, private line (including special access business data services), Ethernet, network access, information technology, wavelength, broadband, colocation and data center services, managed services, professional and other services provided in connection with selling equipment, network security and various other ancillary services.

On November 1, 2017, we acquired Level 3 in a cash and stock transaction. See Note 2—Acquisition of Level 3 for additional information. On May 1, 2017, we sold our data centers and colocation business to a consortium of private equity purchasers for a combination of cash and equity. See Note 3—Sale of Data Centers and Colocation Business for additional information.

Basis of Presentation

Our consolidated balance sheet as of December 31, 2017, which was derived from our audited consolidated financial statements, and our unaudited interim consolidated financial statements provided herein have been prepared in accordance with the instructions for Form 10-Q. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission ("SEC"); however, in our opinion, the disclosures made are adequate to make the information presented not misleading. We believe that these consolidated financial statements include all normal recurring adjustments necessary to fairly present the results for the interim periods. The consolidated results of operations and cash flows for the first nine months of the year are not necessarily indicative of the consolidated results of operations and cash flows that might be expected for the entire year. These consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2017.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries in which we have a controlling interest. These subsidiaries include Level 3 on and after November 1, 2017. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated. In connection with our acquisition of Level 3, we acquired its deconsolidated Venezuela subsidiary, and due to exchange restrictions and other conditions, we have assigned no value to this subsidiary's assets. Additionally, we have excluded this subsidiary from our consolidated financial statements.

To simplify the overall presentation of our consolidated financial statements, we report immaterial amounts attributable to noncontrolling interests in certain of our subsidiaries as follows: (i) income attributable to noncontrolling interests in other income (expense), net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment reporting. See Note 11—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

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Income Taxes

As of September 30, 2018, we have not completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the "Act") which was signed into law in late December 2017. In order to complete our accounting for the impact of the Act, we continue to obtain, analyze and interpret additional guidance as such guidance becomes available from the U.S. Treasury Department, the Internal Revenue Service ("IRS"), state taxing jurisdictions, the Financial Accounting Standards Board ("FASB"), and other standard-setting and regulatory bodies. Guidance issued by these bodies to date does not allow us to definitively calculate the tax effects of the Act. New guidance or interpretations may materially impact our provision for income taxes in future periods.

Additional information that is needed to complete the analysis but is currently unavailable includes, but is not limited to, the amount of earnings of foreign subsidiaries, the final determination of certain net deferred tax assets subject to remeasurement due to purchase accounting adjustments and other matters, and the tax treatment of such provisions of the Act by various state tax authorities. We have provisionally recognized the tax impacts related to the remeasurement of deferred tax assets and liabilities. The ultimate impact may differ from our current provisional estimate due to additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Act. The change from our current provisional estimates will be reflected in our fourth quarter statement of operations and could be material. We expect to complete the accounting in the fourth quarter of 2018.

The Act reduced the U.S. corporate income tax rate from a maximum of 35% to 21% for all C corporations, effective January 1, 2018, introduced further limitations on the deductibility of interest expense, made certain changes to the tax treatment of capital expenditures and various other items, and imposed a one-time repatriation tax on certain earnings of certain foreign subsidiaries. In addition, the Act introduces additional base-broadening measures, including Global Intangible Low-Taxed Income and the Base-Erosion Anti-Abuse Tax. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21%, we provisionally re-measured our net deferred tax liabilities at December 31, 2017 and recognized a tax benefit of approximately \$1.1 billion in our consolidated statement of operations for the year ended December 31, 2017. During the first nine months of 2018, we reduced this \$1.1 billion tax benefit by \$83 million due to changes in certain purchase accounting adjustments related to the Level 3 acquisition, which was reflected in income tax expense over such nine-month period. Additionally, this provisional benefit was further reduced by \$208 million by the net deferred tax impact of certain tax accounting method changes filed with our 2017 Federal income tax return that significantly accelerated certain tax deductions into 2017.

During the third quarter of 2018, we continued to evaluate and analyze the tax impacts of the Act. While we have not finalized our analysis, we do not expect the provisions of the Act, exclusive of the rate reduction, to materially impact us during the remainder of 2018. However, we cannot provide any assurance that, upon completion of our analysis, the impact will not be material or that there will not be material tax impacts in future years. Accordingly, other than as noted above, we have not made any additional adjustments related to the Act in our consolidated financial statements.

As noted above, we accelerated a significant amount of tax deductions into 2017. The accelerated tax deductions resulted in a 2017 net operating loss for tax purposes, a portion of which was carried back to 2016 to generate a cash refund of \$392 million, which was received in the third quarter of 2018. Additionally, we received a \$314 million refund in the second quarter of 2018 related to 2017 federal income taxes. Based on current circumstances, we do not expect to experience a material near term reduction in the amount of cash income taxes paid by us from the Act due to utilization of net operating loss carryforwards. However, we anticipate that the provisions of the Act may reduce our cash income taxes in future years.

Recently Adopted Accounting Pronouncements

In the first quarter of 2018, we adopted Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, ASU 2018-02, “Income Statement-Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” and ASU 2016-16, “Intra-Entity Transfers of Assets Other Than Inventory”.

Each of these is described further below.

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Revenue Recognition

In May 2014, the FASB issued ASU 2014-09 which replaces virtually all existing generally accepted accounting principles on revenue recognition and replaces them with a principles-based approach for determining revenue recognition using a new five step model. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also includes new accounting principles related to the deferral and amortization of contract acquisition and fulfillment costs.

We adopted the new revenue recognition standard under the modified retrospective transition method. During the three and nine months ended September 30, 2018, we recorded a cumulative catch-up adjustment that increased our retained earnings by \$49 million, net of \$17 million of income taxes, and \$346 million, net of \$117 million of income taxes, respectively. The catch-up adjustment recorded during the three months ended September 30, 2018 resulted from the identification of additional fulfillment costs that should have been considered in our adoption and from correcting certain issues in the accounting system we utilize in calculating revenue under the new revenue recognition standard.

Under ASU 2014-09, we are now deferring incremental contract acquisition and fulfillment costs and are recognizing (or amortizing) such costs over either the initial contract (plus anticipated renewal contracts to which the costs relate) or the average customer life. Deferred acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months for consumer customers and 12 to 60 months for business customers and are included in cost of services and products and selling, general and administrative expenses in our consolidated statement of operations. A portion of these costs are amortized on a portfolio basis using an average expected contract term of 30 months. The amounts of these deferred costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets.

See Note 5—Revenue Recognition for additional information.

Comprehensive Income

ASU 2018-02 provides an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act (or portion thereof) is recorded. If an entity elects to reclassify the income tax effects of the Act, the amount of that reclassification shall include the effect of the change in the U.S. federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of enactment of the Act related to items remaining in accumulated other comprehensive income. The effect of the change in the U.S. federal corporate income tax rate on gross valuation allowances that were originally charged to income from continuing operations shall not be included. ASU 2018-02 is effective January 1, 2019, but early adoption is permitted and should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recognized. We early adopted and applied ASU 2018-02 in the first quarter of 2018. The adoption of ASU 2018-02 resulted in a \$407 million increase to retained earnings and in accumulated other comprehensive loss. See Note 14—Accumulated Other Comprehensive Loss for additional information.

Income Taxes

ASU 2016-16 eliminates the current prohibition on the recognition of the income tax effects on the transfer of assets among our subsidiaries. Prospectively, the income tax effects associated with these asset transfers, except for the transfer of inventory, will be recognized in the period the asset is transferred versus the current deferral and recognition upon either the sale of the asset to a third party or over the remaining useful life of the asset. Our adoption of ASU 2016-16 did not have a material impact to our consolidated financial statements.

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Recently Issued Accounting Pronouncements

Retirement Benefits

In August 2018, the FASB issued ASU 2018-14, "Compensation-Retirement Benefits-Defined Benefit Plans-General: Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14"). ASU 2018-14 eliminates requirements for certain disclosures that are not considered cost beneficial, clarifies certain required disclosures and adds additional disclosures under defined benefit pension plans and other postretirement plans. We are required to adopt this guidance beginning January 1, 2021. Early adoption is permitted. The amendments in ASU 2018-14 would need to be applied on a retrospective basis. We are currently evaluating the potential impact of the adoption of this standard on our disclosures.

Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the impairment testing for goodwill by changing the measurement for goodwill impairment. Under current rules, we are required to compute the implied fair value of goodwill to measure the impairment amount if the carrying value of a reporting unit exceeds its fair value. Under ASU 2017-04, the goodwill impairment charge will equal the excess of the reporting unit carrying value above its fair value, limited to the amount of goodwill assigned to the reporting unit.

We are required to adopt the provisions of ASU 2017-04 for any goodwill impairment tests, including our required annual test, occurring after January 1, 2020, but have the option to early adopt it for any impairment test that we are required to perform. We have not determined if we will elect to early adopt the provisions of ASU 2017-04. The provisions of ASU 2017-04 would not have affected our last goodwill impairment assessment, but no assurance can be provided that the simplified testing methodology will not affect our goodwill impairment assessment in the future.

Financial Instruments

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The primary impact of ASU 2016-13 for us is a change in the model for the recognition of credit losses related to our financial instruments from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires our management team to estimate the total credit losses expected on the portfolio of financial instruments. We are currently reviewing the requirements of the standard and evaluating the impact on our consolidated financial statements.

We are required to adopt the provisions of ASU 2016-13 effective January 1, 2020, but could elect to early adopt the provisions as of January 1, 2019. We expect to recognize the impacts of adopting ASU 2016-13 through a cumulative adjustment to retained earnings as of the date of adoption. As of the date of this report, we have not yet determined the date we will adopt ASU 2016-13.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases" ("ASU 2016-02"). The core principle of ASU 2016-02 will require lessees to present right-of-use assets and lease liabilities on their balance sheets for operating leases, which under GAAP are currently not required to be reflected on their balance sheets.

ASU 2016-02 is effective for annual and interim periods beginning January 1, 2019. Upon adoption of ASU 2016-02, we are required to recognize and measure leases at the beginning of the earliest period presented in our consolidated financial statements using a modified retrospective approach. The modified retrospective transition approach includes a number of optional practical expedients that we may elect to apply.

In January 2018, the FASB issued ASU 2018-01, "Leases: Land Easement Practical Expedient for Transition to ASU 2016-02" ("ASU 2018-01"). ASU 2018-01 permits reporting companies to elect to forego reassessments of land easements that exist or expire before the entity's adoption of ASU 2016-02 and that were not previously accounted for as leases. We plan to adopt ASU 2018-01 at the same time we adopt ASU 2016-02.

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In July 2018, the FASB issued ASU 2018-11, "Leases: Targeted Improvements" ("ASU 2018-11"). ASU 2018-11 provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We have not yet determined whether we will use ASU 2018-11's newly permitted adoption method.

We are in the process of implementing a new lease administration and accounting system. We plan to adopt ASU 2016-02 and ASU 2018-01 effective January 1, 2019. The adoption of ASU 2016-02 will result in our recognition of right of use assets and lease liabilities that we have not previously recorded. Although we believe it is premature as of the date of this report to provide any estimate of the impact of adopting ASU 2016-02, we do expect that it will have a material impact on our consolidated financial statements. Additionally, upon implementing ASU 2016-02, accounting for the failed-sale-leaseback transaction described in Note 3—Sale of Data Centers and Colocation Business will no longer be applicable based on our facts and circumstances, and the real estate assets and corresponding financing obligation described therein will be derecognized from our consolidated financial statements.

(2) Acquisition of Level 3

On November 1, 2017, CenturyLink acquired Level 3 through successive merger transactions, including a merger of Level 3 with and into a merger subsidiary, which survived such merger as our indirect wholly-owned subsidiary under the name of Level 3 Parent, LLC. Level 3's results of operations have been included in our consolidated results of operations since November 1, 2017.

As of September 30, 2018, our preliminary estimated amount of aggregate consideration was \$19.6 billion.

We have recognized the assets and liabilities of Level 3 based on our preliminary estimates of the fair value of the acquired tangible and intangible assets and assumed liabilities of Level 3 as of November 1, 2017, the consummation date of the acquisition, with the excess aggregate consideration recorded as goodwill. The final determination of the allocation of the aggregate consideration we paid in the combination is based on the fair value of such assets and liabilities as of the acquisition date with any excess aggregate consideration to be recorded as goodwill. The estimation of such fair values and the estimation of lives of depreciable tangible assets and amortizable intangible assets require significant judgment. We are reviewing our valuation analysis along with the related allocation to goodwill. We expect to complete our final fair value determinations during the fourth quarter of 2018. We are also reviewing our calculations of the estimates of the fair value of Level 3's deferred tax assets acquired and liabilities assumed and performing related final controls. Our final fair value determinations may be different than those reflected in our consolidated financial statements at September 30, 2018, however we do not expect that any subsequent modifications to the preliminary purchase price allocation will be material.

The U.S. Department of Justice approved the acquisition subject to conditions of a consent decree on October 2, 2017, which required us to divest (i) certain Level 3 metro network assets in three markets and (ii) 24 strands of dark fiber connecting 30 specified city-pairs across the United States in the form of an indefeasible right of use agreement. During the second quarter of 2018, we sold network assets in Boise, Idaho and Albuquerque, New Mexico that we were required to divest as a condition of the merger. The proceeds from these sales were included in the proceeds from sale of property, plant and equipment in our consolidated statements of cash flows. No gain or loss was recognized with these transactions. All of the metro network assets were classified as assets held for sale on our consolidated balance sheet as of December 31, 2017. The Tucson, Arizona assets continued to be classified as assets held for sale on our consolidated balance sheet as of September 30, 2018. In October 2018, we sold the Tucson, Arizona assets for their net book value.

Based solely on our preliminary estimates through September 30, 2018, the aggregate consideration exceeds the aggregate estimated fair value of the acquired assets and assumed liabilities by \$11.2 billion, which we have recognized as goodwill. The goodwill is attributable to strategic benefits, including enhanced financial and operational scale, market diversification and leveraged combined networks that we expect to realize. None of the goodwill associated with this acquisition is deductible for income tax purposes.

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As of September 30, 2018, the following is our updated assignment of the preliminary estimated aggregate consideration:

	Adjusted November 1, 2017 Balance as of December 31, 2017 (Dollars in millions)	Purchase Price Adjustments (³)	Adjusted November 1, 2017 Balance as of September 30, 2018
Cash, accounts receivable and other current assets ⁽¹⁾	\$3,317	(25)	3,292
Property, plant and equipment	9,311	86	9,397
Identifiable intangible assets ⁽²⁾			
Customer relationships	8,964	(476)	8,488
Other	391	(13)	378
Other noncurrent assets	782	203	985
Current liabilities, excluding current maturities of long-term debt	(1,461)	(31)	(1,492)
Current maturities of long-term debt	(7)	—	(7)
Long-term debt	(10,888)	—	(10,888)
Deferred revenue and other liabilities	(1,629)	(102)	(1,731)
Goodwill	10,837	353	11,190
Total estimated aggregate consideration	\$19,617	(5)	19,612

(1) Includes accounts receivable, which had a gross contractual value of \$884 million on November 1, 2017 and September 30, 2018.

(2) The preliminary estimate of the weighted-average amortization period for the acquired intangible assets is approximately 12.0 years.

(3) All purchase price adjustments occurred during the nine months ended September 30, 2018.

On the acquisition date, we assumed Level 3's contingencies. For more information on our contingencies, see Note 12—Commitments and Contingencies and Other Items.

Acquisition-Related Expenses

We have incurred acquisition-related expenses related to our acquisition of Level 3. The table below summarizes our acquisition-related expenses, which consist of integration-related expenses, including severance and retention compensation expenses, and transaction-related expenses:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018	2017
	(Dollars in millions)		
Transaction-related expenses	\$1 6	2	23
Integration-related expenses	43 28	275	40
Total acquisition-related expenses	\$44 34	277	63

Through September 30, 2018, we had incurred cumulative acquisition-related expenses of \$600 million for Level 3. The total amounts of these expenses have been included in our selling, general and administrative expenses beginning in the fourth quarter of 2016.

Level 3 incurred transaction-related expenses of \$47 million on the date of acquisition. This amount is not included in our results of operations.

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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 Level 3 acquisition as “Legacy Level 3”. References to “Legacy CenturyLink”, when used to compare our consolidated results for the three and nine months ended September 30, 2018 and 2017, mean the business we operated prior to the Level 3 acquisition.

Combined Pro Forma Operating Results (Unaudited)

For the three and nine months ended September 30, 2018, our results of operations included operating revenues (net of intercompany eliminations) attributable to Level 3 of \$1.984 billion and \$6.071 billion, respectively.

The following unaudited pro forma financial information presents the combined results of CenturyLink as if the Level 3 acquisition had been consummated as of January 1, 2017:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
	(Dollars in millions, except per share amounts)	
Operating revenues	\$6,031	18,316
Net income	194	459
Basic earnings per common share	0.18	0.43
Diluted earnings per common share	0.18	0.43

This pro forma information reflects certain adjustments to previously-reported operating results, consisting primarily but not exclusively of:

- decreased operating revenues and expenses due to the elimination of transactions among CenturyLink and Level 3 that are now subject to intercompany elimination and the elimination of deferred revenues associated with installation activities that were preliminarily assigned no value at the acquisition date;
- increased amortization expense related to identifiable intangible assets, net of decreased depreciation expense to reflect the preliminary fair value of property, plant and equipment;
- increased interest expense resulting from (i) interest on the new debt to finance the combination and amortization of the related debt discount and debt issuance costs, (ii) the elimination of Level 3’s historical amortization of debt discount and debt issuance costs and (iii) a reduction in interest expense due to the accretion of an adjustment to reflect the increased preliminary fair value of the long-term debt of Level 3 recognized on the acquisition date; and
- the related income tax effects.

The pro forma information is presented for illustrative purposes only and does not necessarily reflect the actual results of operations had the Level 3 acquisition been consummated at January 1, 2017, nor is it necessarily indicative of future operating results. The pro forma information does not reflect:

- the transaction costs incurred by us and Level 3 during the periods presented above (which are further described above in this note);
- integration costs incurred by us in future periods; or
- potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition

As a result of the acquisition of Level 3's net operating losses ("NOL"s), we expect to significantly reduce our federal cash taxes for the next several years.

(3) Sale of Data Centers and Colocation Business

On May 1, 2017, we sold our data centers and colocation business to a consortium led by BC Partners, Inc. and Medina Capital in exchange for cash and a minority stake in the limited partnership that owns the consortium's newly-formed global secure infrastructure company, Cyxtera Technologies ("Cyxtera").

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We received pre-tax cash proceeds of \$1.8 billion, and we have valued our minority stake at \$150 million, which was based upon the total equity contribution to the limited partnership on the date made.

In connection with our sale of the data centers and colocation business to Cyxtera, we agreed to lease back from Cyxtera a portion of the data center space to provide data hosting services to our customers. Because we have continuing involvement in the business through our minority stake in Cyxtera's parent, we do not meet the requirements for a sale-leaseback transaction as described in ASC 840-40, Leases - Sale-Leaseback Transactions. Under the failed-sale-leaseback accounting model, we are deemed under GAAP to still own certain real estate assets sold to Cyxtera, which we must continue to reflect on our consolidated balance sheets and depreciate over the assets' remaining useful lives. Under this accounting model, we must also treat a certain amount of the pre-tax cash proceeds from the divestiture as though it were the result of a financing obligation on our consolidated balance sheets, and our consolidated results of operations must include imputed revenue associated with the portion of the real estate assets that we have not leased back and imputed interest expense on the financing obligation. A portion of the rent payments required under our leaseback arrangement with Cyxtera are recognized as reductions of the financing obligation, resulting in lower recognized rent expense than the amounts actually paid each period. Under the failed-sale-leaseback accounting model, the remaining net book value of the real estate assets must be derecognized at the end of the lease term. Please see "Leases" (ASU 2016-02) in Note 1—Background for additional information on how the new lease accounting standard will accelerate the derecognition of such amounts.

The following table reflects the assets sold to and the liabilities assumed by Cyxtera on May 1, 2017, including our estimate of the impact of failed-sale-leaseback:

	Dollars in millions
Goodwill	\$ 1,142
Property, plant and equipment	1,051
Other intangible assets	249
Other assets	66
Less assets recorded as part of the failed-sale-leaseback	(526)
Total net amount of assets derecognized	\$ 1,982
Capital lease obligations	\$ 294
Other liabilities	274
Less imputed financing obligations from the failed-sale-leaseback	(628)
Total net imputed liabilities recognized	\$(60)

Based on our assessment of our minority stake in the limited partnership, we classified our \$150 million investment in the limited partnership in other assets on our consolidated balance sheet as of September 30, 2018.

(4) Goodwill, Customer Relationships and Other Intangible Assets

Goodwill, customer relationships and other intangible assets consisted of the following:

	September 30, 2018	December 31, 2017
Goodwill	\$ 30,770	30,475

(Dollars in millions)

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Customer relationships, less accumulated amortization of \$8,153 and \$7,096	\$9,309	10,876
Indefinite-life intangible assets	\$269	269
Other intangible assets subject to amortization:		
Capitalized software, less accumulated amortization of \$2,547 and \$2,294	1,450	1,469
Trade names and patents, less accumulated amortization of \$54 and \$31	138	159
Total other intangible assets, net	\$1,857	1,897

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Our goodwill was derived from numerous acquisitions where the purchase price exceeded the fair value of the net assets acquired (including the acquisition described in Note 2—Acquisition of Level 3). At September 30, 2018 and December 31, 2017, the net carrying amounts of goodwill, customer relationships and other intangible assets included preliminary estimates of \$19.3 billion and \$20.1 billion, respectively, as a result of our Level 3 acquisition.

Total amortization expense for intangible assets for the three and nine months ended September 30, 2018 totaled \$446 million and \$1.3 billion, respectively, and for the three and nine months ended September 30, 2017 totaled \$269 million and \$820 million, respectively. As of September 30, 2018, the gross carrying amount of goodwill, customer relationships, indefinite-life and other intangible assets was \$52.7 billion.

We estimate that total amortization expense for intangible assets (which include preliminary estimates for the intangible assets acquired from Level 3) for the years ending December 31, 2018 through 2022 will be as follows:

	(Dollars in millions)
2018 (remaining three months)	\$ 443
2019	1,692
2020	1,589
2021	1,158
2022	982

The following table shows the rollforward of goodwill assigned to our reportable segments from December 31, 2017 through September 30, 2018:

	Business	Consumer	Total
	(Dollars in millions)		
As of December 31, 2017	\$20,197	10,278	30,475
Purchase accounting and other adjustments	353	—	353
Effect of foreign currency rate change	(58)	—	(58)
As of September 30, 2018	\$20,492	10,278	30,770

As of September 30, 2018, the \$20.5 billion of goodwill assigned to our business reportable segment had not been allocated to our customer sales channels ((i) medium and small business, (ii) enterprise, (iii) international and global accounts and (iv) wholesale and indirect as we had not completed our valuation analysis and calculation. Our Chief Executive Officer, who is also our Chief Operating Decision Maker ("CODM"), continues to review the operational and internal reporting structure as a result of our acquisition of Level 3.

(5) Revenue Recognition

We earn most of our consolidated revenue from contracts with customers, primarily through the provision of telecommunications and other services. Revenue from contracts with customers is accounted for under Accounting Standards Codification ("ASC") 606, which we adopted on January 1, 2018 using the modified retrospective approach. We also earn revenues from leasing arrangements (primarily fiber capacity agreements) and governmental subsidy payments, neither of which are accounted for under ASC 606.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled in exchange for those goods or services. Revenue is recognized based on the following five-step model:

- 1. Identification of the contract with a customer;
- 2. Identification of the performance obligations in the contract;
- 3. Determination of the transaction price;

Allocation of the transaction price to the performance obligations in the contract; and,
Recognition of revenue when, or as, we satisfy a performance obligation.

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We provide an array of communications services, including VPN, Ethernet, data, broadband, private line, transport, voice, information technology and other ancillary services. We provide these services to a wide range of businesses, including global/international, enterprise, wholesale, government, small and medium business customers, as well as residential customers. Certain contracts also include the sale of equipment, which is not significant to our business.

For access services, we generally bill fixed monthly charges one month in advance to customers and recognize revenue as service is provided over the contract term in alignment with the customer's receipt of service. For usage, installation and other ancillary services, we generally bill in arrears and recognize revenue as usage or delivery occurs. In most cases, the amount invoiced for our service offerings constitutes the price that would be billed on a standalone basis. To the extent certain products or services are discounted as a part of a bundle arrangement, the bundle discounts are included in our calculation of the total transaction price with the customer, which is allocated to the various services in the bundle offering based on the estimated selling price of services included in each bundle combination.

Under ASC 606, we recognize revenue for services when we provide the applicable service or when control is transferred. Recognition of certain payments received in advance of services being provided is deferred until the service is provided. These advance payments include certain activation and certain installation charges. If the activation and installation charges are not separate performance obligations, we recognize as revenue over the actual or expected contract term using historical experience, which ranges from one year to seven years depending on the service. In most cases, termination fees or other fees on existing contracts that are negotiated in conjunction with new contracts are deferred and recognized over the new contract term. A performance obligation is a promise in a contract with a customer to provide a good or service to the customer. We recognize revenue for services when we satisfy our performance obligation.

Promotional or performance-based incentive payments are estimated at contract inception (and updated on a periodic basis as needed) and accounted for as variable consideration. In certain cases, customers may be permitted to modify their contracts without incurring a penalty. We evaluate the change in scope or price to identify whether the modification should be treated as a separate contract, whether the modification is a termination of the existing contract and creation of a new contract, or if it is a change to the existing contract. The impact of contract modifications has not been significant to our results in 2018.

Customer contracts are evaluated to determine whether the performance obligations are separable. If the performance obligations are deemed separable and separate earnings processes exist, the total transaction price that we expect to receive with the customer is allocated to each performance obligation based on its relative standalone selling price. The revenue associated with each performance obligation is then recognized as earned. The portion of any advance payment allocated to the service based upon its relative selling price is recognized ratably over the contract term.

We periodically sell optical capacity on our network. These transactions are structured as indefeasible rights of use, commonly referred to as IRUs, which are the exclusive right to use a specified amount of capacity or fiber for a specified term, typically 10 to 20 years. In most cases, we account for the cash consideration received on transfers of optical capacity as ASC 606 revenue which we recognize ratably over the term of the agreement. Dark fiber is accounted for as non-ASC 606 lease revenue, which we also recognize ratably over the term of the agreement. We do not recognize revenue on any contemporaneous exchanges of our optical capacity assets for other non-owned optical capacity assets.

In connection with offering products and services provided to the end user by third-party vendors, we review the relationship between us, the vendor and the end user to assess whether revenue should be reported on a gross or net basis. In assessing whether revenue should be reported on a gross or net basis, we consider whether we act as a principal in the transaction and control the goods and services used to fulfill the performance obligations associated

with the transaction. Based on our agreement with DIRECTV, we offer this service through a sales agency relationship which we report on a net basis.

We have service level commitments pursuant to contracts with certain of our customers. To the extent that such service levels are not achieved or are otherwise disputed due to performance or service issues or other service interruptions or conditions, we will estimate the amount of credits to be issued and record a corresponding reduction to revenues in the period that the service level commitment was not met.

Customer payments are made based on billing schedules included in our customer contracts, which is typically on a monthly basis. For certain products or services and customer types, payment is required before products or services are provided.

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Comparative Results

During the three months ended September 30, 2018, we identified and corrected certain issues in the accounting system we utilize in calculating the effects of ASC 606. Our revenue for the three months ended September 30, 2018 includes an adjustment of \$43 million that is attributable to the six months ended June 30, 2018.

The following tables present our reported results under ASC 606 and a reconciliation to results using the historical accounting method:

	Three Months Ended September 30, 2018 (Dollars in millions, except per share amounts and shares in thousands)		
	Reported Balance as of September 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Operating revenues	\$5,818	(14)	\$ 5,804
Cost of services and products (exclusive of depreciation and amortization)	2,672	8	2,680
Selling, general and administrative	967	16	983
Interest expense	557	(7)	550
Income tax expense	57	(8)	49
Net income	\$272	(23)	\$ 249
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$0.25	(0.02)	0.23
DILUTED	\$0.25	(0.02)	0.23
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	1,066,904		1,066,904
DILUTED	1,072,351		1,072,351
	Nine Months Ended September 30, 2018 (Dollars in millions, except per share amounts and shares in thousands)		
	Reported Balances as of September 30, 2018	Impact of ASC 606	ASC 605 Historical Adjusted Balances
Operating revenues	\$17,665	12	\$ 17,677
Cost of services and products (exclusive of depreciation and amortization)	8,205	18	8,223
Selling, general and administrative	3,191	42	3,233
Interest expense	1,638	(7)	1,631
Income tax expense	123	(11)	112

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Net income	\$679	(30)	\$ 649
BASIC AND DILUTED EARNINGS PER COMMON SHARE			
BASIC	\$0.64	(0.03)	0.61
DILUTED	\$0.63	(0.03)	0.60
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING			
BASIC	1,065,410—		1,065,410
DILUTED	1,069,726—		1,069,726

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The following table presents a reconciliation of certain consolidated balance sheet captions under ASC 606 to the balance sheet results using the historical accounting method:

	As of September 30, 2018 (Dollars in millions)		
	Reported Balance	Impact ASC 605 as of September 30, 2018	Historical Adjusted Balances
Other current assets	\$ 1,237	(390)	\$ 847
Other long-term assets, net	1,014	(93)	921
Deferred revenue	2,547	(101)	2,446
Deferred income taxes, net	2,502	(127)	2,375
Other long-term liabilities	1,075	122	1,197
Retained earnings	777	(377)	400

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Disaggregated Revenue by Service Offering

The following tables provide disaggregation of revenue from contracts with customers based on service offerings for the three and nine months ended September 30, 2018, respectively. It also shows the amount of revenue that is not subject to ASC 606, but is instead governed by other accounting standards. The adjustment of \$43 million noted above was included in the revenue of the consumer segment for the three months ended September 30, 2018; \$34 million was recorded to voice and collaboration and \$9 million was recorded to transport and infrastructure.

	Three Months Ended September 30, 2018 (Dollars in millions)		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽⁸⁾	Total Revenue from Contracts with Customers
Business segment			
IP & Data Services ⁽¹⁾	\$1,726	—	\$ 1,726
Transport & Infrastructure ⁽²⁾	1,331	(71)	1,260
Voice & Collaboration ⁽³⁾	1,075	—	1,075
IT & Managed Services ⁽⁴⁾	153	—	153
Total business segment revenues	4,285	(71)	4,214
Consumer segment			
IP & Data Services ⁽⁵⁾	70	(9)	61
Transport & Infrastructure ⁽⁶⁾	720	(54)	666
Voice & Collaboration ⁽³⁾	565	—	565
Total consumer segment revenues	1,355	(63)	1,292
Non-segment revenues			
Regulatory revenues ⁽⁷⁾	178	(178)	—
Total non-segment revenues	178	(178)	—
Total revenues	\$5,818	\$ (312)	\$ 5,506
Timing of Revenue			
Goods transferred at a point in time			\$ 51
Services performed over time			5,455
Total revenues from contracts with customers			\$ 5,506

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	Nine Months Ended September 30, 2018 (Dollars in millions)		
	Total Revenue	Adjustments for Non-ASC 606 Revenue ⁽⁸⁾	Total Revenue from Contracts with Customers
Business segment			
IP & Data Services ⁽¹⁾	\$5,212	—	\$ 5,212
Transport & Infrastructure ⁽²⁾	4,021	(217)	3,804
Voice & Collaboration ⁽³⁾	3,324	—	3,324
IT & Managed Services ⁽⁴⁾	476	—	476
Total business segment revenues	13,033	(217)	12,816
Consumer segment			
IP & Data Services ⁽⁵⁾	249	(25)	224
Transport & Infrastructure ⁽⁶⁾	2,171	(159)	2,012
Voice & Collaboration ⁽³⁾	1,666	—	1,666
Total consumer segment revenues	4,086	(184)	3,902
Non-segment revenues			
Regulatory revenues ⁽⁷⁾	546	(546)	—
Total non-segment revenues	546	(546)	—
Total revenues	\$17,665	(947)	\$ 16,718

Timing of Revenue

Goods transferred at a point in time	\$ 132
Services performed over time	16,586
Total revenues from contracts with customers	\$ 16,718

(1) Includes primarily VPN data network, Ethernet, IP, video and ancillary revenues.

(2) Includes primarily broadband, private line (including business data services), colocation and data centers, wavelength and ancillary revenues.

(3) Includes local, long-distance and other ancillary revenues.

(4) Includes IT services and managed services revenues.

(5) Includes retail video revenues (including our facilities-based video revenues).

(6) Includes primarily broadband and equipment sales and professional services revenues.

(7) Includes CAF Phase I, CAF Phase 2, federal and state USF support revenue, sublease rental income and failed-sale leaseback income.

(8) Includes regulatory revenues, lease revenues, sublease rental income, revenue from fiber capacity lease arrangements and failed sale leaseback income, which are not within the scope of ASC 606.

Customer Receivables and Contract Balances

The following table provides balances of customer receivables, contract assets and contract liabilities as of September 30, 2018 and January 1, 2018:

September 30, 2018
January 1, 2018

(Dollars in millions)

Customer receivables ⁽¹⁾	\$2,436	2,504
Contract liabilities	716	623
Contract assets	352	255

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⁽¹⁾ Gross customer receivables of \$2.6 billion and \$2.7 billion, net of allowance for doubtful accounts of \$153 million and \$155 million, at September 30, 2018 and January 1, 2018, respectively.

Contract liabilities are consideration we have received from our customers in advance of providing goods or services promised in the future. We defer recognizing this consideration as revenue until we have satisfied the related performance obligation to the customer. Contract liabilities include recurring services billed one month in advance and installation and maintenance charges that are deferred and recognized over the actual or expected contract term, which ranges from one to seven years depending on the service. Contract liabilities are included within deferred revenue in our consolidated balance sheet.

Performance Obligations

We do not disclose the value of unsatisfied performance obligations for contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed (for example, uncommitted usage or non-recurring charges associated with professional or technical services to be completed), or contracts that are classified as leasing arrangements that are not subject to ASC 606.

As of September 30, 2018, our estimated revenue expected to be recognized in the future related to performance obligations associated with customer contracts that are unsatisfied (or partially satisfied) is approximately \$9.2 billion. We expect to recognize approximately 73% of this revenue through 2020, with the balance recognized thereafter.

Contract Costs

The following table provides changes in our contract acquisition costs and fulfillment costs:

	Three Months		Nine Months	
	Ended September		Ended September	
	30, 2018		30, 2018	
	(Dollars in millions)			
	Acquisition		Fulfillment	
	Costs	Costs	Costs	Costs
Beginning of period balance	\$286	161	268	133
Costs incurred	53	46	152	105
Amortization	(44)	(34)	(125)	(65)
End of period balance	\$295	173	295	173

Acquisition costs include commission fees paid to employees as a result of obtaining contracts. Fulfillment costs include third party and internal costs associated with the provision, installation and activation of telecommunications services to customers, including labor and materials consumed for these activities.

Deferred acquisition and fulfillment costs are amortized based on the transfer of services on a straight-line basis over the average customer life of 30 months for consumer customers and 12 to 60 months for business customers and are included in cost of services and products and selling, general and administrative expenses in our consolidated statement of operations. The amount of these deferred costs that are anticipated to be amortized in the next twelve months are included in other current assets on our consolidated balance sheets. The amount of deferred costs expected to be amortized beyond the next twelve months is included in other non-current assets on our consolidated balance sheets. We recognize incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets is less than one year. Deferred acquisition and fulfillment costs are assessed for impairment on a quarterly basis. During the three months ended September 30, 2018 we made a \$45 million adjustment to the beginning balance of the fulfillment costs shown in the table above for additional fulfillment costs we identified that

should have been considered in our adoption. The impact to our expenses was less than \$3 million for both the three and nine months ended September 30, 2018.

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(6) Long-Term Debt and Credit Facilities

The following chart reflects our consolidated long-term debt, including unamortized discounts and premiums and unamortized debt issuance costs, but excluding intercompany debt:

	Interest Rates ⁽¹⁾	Maturities	September 30, 2018	December 31, 2017
(Dollars in millions)				
Senior Secured Debt:				
CenturyLink, Inc.				
2017 Revolving Credit Facility ⁽²⁾	4.898% - 4.908%	2022	\$590	405
Term Loan A	4.992%	2022	1,643	1,575
Term Loan A-1	4.992%	2022	356	370
Term Loan B	4.992%	2025	5,955	6,000
Subsidiaries:				
Level 3 Financing, Inc.				
Tranche B 2024 Term Loan ⁽³⁾	4.432%	2024	4,611	4,611
Embarq Corporation subsidiaries				
First mortgage bonds	7.125% - 8.370%	2023 - 2025	138	151
Senior Notes and Other Debt:				
CenturyLink, Inc.				
Senior notes	5.625% - 7.650%	2019 - 2042	8,115	8,125
Subsidiaries:				
Level 3 Financing, Inc.				
Senior notes	5.125% - 6.125%	2021 - 2026	5,315	5,315
Level 3 Parent, LLC				
Senior notes	5.125% - 6.1250%	2022	600	600
Qwest Corporation				
Senior notes	6.125% - 7.750%	2021 - 2057	5,955	7,294
Term loan	4.250%	2025	100	100
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	979	981
Embarq Corporation and subsidiary				
Senior note	7.995%	2036	1,485	1,485
Other	9.000%	2019	150	150
Capital lease and other obligations	Various	Various	825	891
Unamortized premiums and other, net			2	23
Unamortized debt issuance costs			(292)	(350)
Total long-term debt			36,527	37,726
Less current maturities			(778)	(443)
Long-term debt, excluding current maturities			\$35,749	37,283

(1) As of September 30, 2018.

The weighed-average interest rate payable on our outstanding revolving line of credit borrowings at December 31, 2017 was 4.186%. The aggregate amount of outstanding revolving line of credit borrowings typically change on a regular basis.

(3) The Tranche B 2024 Term Loan is a secured obligation and is guaranteed by Level 3 Parent, LLC and certain other subsidiaries. The Tranche B 2024 Term Loan had an interest rate of 4.432% as of September 30, 2018 and 3.557% as of December 31, 2017. The interest rate on the Tranche B 2024 Term Loan is set with a minimum London

Interbank Offered Rate ("LIBOR") of zero percent.

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Long-Term Debt Maturities

Set forth below is the aggregate principal amount of our long-term debt (excluding unamortized discounts, net and unamortized debt issuance costs) maturing during the following years:

	(Dollars in millions) ⁽¹⁾⁽²⁾
2018 (remaining three months)	\$ 241
2019	651
2020	1,202
2021	3,115
2022	5,323
2023 and thereafter	25,785
Total long-term debt	\$ 36,317

In Note 3—Sale of Data Centers and Colocation Business, we describe an imputed financing obligation. The amount outstanding on that imputed financing obligation at September 30, 2018 was \$568 million. The aggregate (1) maturities of long-term debt do not include \$499 million of this obligation, which prior to the end of the lease term on April 30, 2020, will be derecognized along with the remaining net book value of the associated real estate assets.

(2) Actual principal paid in any year may differ due to the possible future refinancing of outstanding debt or the issuance of new debt. The projected amounts in the table also exclude any impacts from any further acquisitions.

Repayments

During the three months ended September 2018, we retired approximately \$1.3 billion in debt securities including approximately \$164 million of Qwest 7.5% Notes due 2051, \$925 million of Qwest 7.0% Notes due 2052, and \$250 million of Qwest 7.25% Notes due 2035.

Covenants

Certain of our debt instruments contain affirmative and negative covenants. Debt at CenturyLink, Inc., Level 3 Parent, LLC, and Level 3 Financing, Inc. contain more extensive covenants including, among other things and subject to certain exceptions, restrictions on their ability to declare or pay dividends, repay certain other indebtedness, create liens, incur additional indebtedness, make investments, engage in transactions with their affiliates, dispose of assets and merge or consolidate with any other person. Also, CenturyLink, Inc. and certain of its affiliates will be required to offer to purchase certain of their respective outstanding debt under certain circumstances in connection with certain specified "change of control" transactions.

Certain of our debt instruments contain cross acceleration provisions.

Compliance

As of September 30, 2018, we were in compliance with the provisions and financial covenants in our material debt agreements.

Other

For additional information on our long-term debt and credit facilities, see Note 5—Long-Term Debt and Credit Facilities to our consolidated financial statements in Item 8 of Part II of our annual report on Form 10-K for the year ended

December 31, 2017.

(7) Severance and Leased Real Estate

Periodically, we reduce our workforce and accrue liabilities for the related severance costs. These workforce reductions result primarily from the progression or completion of our post-acquisition integration plans, increased competitive pressures, cost reduction initiatives, process improvements through automation and reduced workload demands due to the loss of customers purchasing certain services.

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We have recognized liabilities to reflect our estimates of the fair values of the existing lease obligations for real estate which we have ceased using, net of estimated sublease rentals. At September 30, 2018, the current and noncurrent portions of our leased real estate accrual were \$21 million and \$87 million, respectively. The remaining lease terms range from 0.26 years to 12.3 years, with a weighted-average of 7.0 years.

Changes in our accrued liabilities for severance expenses and leased real estate were as follows:

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2017	\$33	64
Accrued to expense	126	60
Payments, net	(137)	(16)
Balance at September 30, 2018	\$22	108

(8) Employee Benefits

Net periodic benefit (income) expense for our qualified and non-qualified pension plans included the following components:

	Pension Plans			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(Dollars in millions)			
Service cost	\$17	16	49	47
Interest cost	99	102	296	308
Expected return on plan assets	(171)	(166)	(513)	(499)
Recognition of prior service credit	(2)	(2)	(6)	(6)
Recognition of actuarial loss	45	51	135	154
Net periodic pension benefit (income) expense	\$(12)	1	(39)	4

Net periodic benefit expense for our post-retirement benefit plans included the following components:

	Post-Retirement Benefit Plans			
	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(Dollars in millions)			
Service cost	\$4	4	13	13
Interest cost	24	25	73	75
Expected return on plan assets	(1)	—	(1)	(1)
Recognition of prior service cost	5	5	15	15
Net periodic post-retirement benefit expense	\$32	34	100	102

Benefits paid by our qualified pension plan are paid through a trust that holds all plan assets. Based on current laws and circumstances, we do not expect any contributions to be required for our qualified pension plan during the remainder of 2018. However, we made voluntary contributions of \$500 million to the trust for our qualified pension plan during the nine months ended September 30, 2018, including \$400 million during the third quarter of 2018.

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(9) Earnings Per Common Share

Basic and diluted earnings per common share were calculated as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(Dollars in millions, except per share amounts, shares in thousands)			
Income (Numerator):				
Net income	\$272	92	679	272
Earnings applicable to non-vested restricted stock	—	—	—	—
Net income applicable to common stock for computing basic earnings per common share	272	92	679	272
Net income as adjusted for purposes of computing diluted earnings per common share	\$272	92	679	272
Shares (Denominator):				
Weighted-average number of shares:				
Outstanding during period	1,080,589	99,618	1,077,712	548,779
Non-vested restricted stock	(13,685)	(8,097)	(12,302)	(7,666)
Weighted-average shares outstanding for computing basic earnings per common share	1,066,904	91,521	1,065,410	541,113
Incremental common shares attributable to dilutive securities:				
Shares issuable under convertible securities	10	10	10	10
Shares issuable under incentive compensation plans	5,437	432	4,306	756
Number of shares as adjusted for purposes of computing diluted earnings per common share	1,072,351	91,963		