

CENTURYLINK, INC
Form 10-K
March 01, 2011

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, 2010

or

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission file number 1-7784

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

Louisiana
(State or other jurisdiction of
incorporation or organization)

72-0651161
(IRS Employer
Identification No.)

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

71203
(Zip Code)

Registrant's telephone number, including area code - (318) 388-9000

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 Berlin Stock Exchange

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

Stock Options
(Title of class)

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 Act 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

1

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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.

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates (affiliates being for these purposes only directors, executive officers and holders of more than five percent of our outstanding voting securities) was \$8.7 billion as of June 30, 2010. As of February 28, 2011, there were 305,609,343 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2011 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

2

Table of Contents

	Page
Part I.	
Item 1. Business	4
Item 1A. Risk Factors	25
Item 1B. Unresolved Staff Comments	49
Item 2. Properties	50
Item 3. Legal Proceedings	51
Item 4. [Reserved]	52
Part II.	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	53
Item 6. Selected Financial Data	54
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	56
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	80
Item 8. Financial Statements and Supplementary Data	81
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	130
Item 9A. Controls and Procedures	131
Item 9B. Other Information	131
Part III.	
Item 10. Directors, Executive Officers and Corporate Governance	132
Item 11. Executive Compensation	133
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	133
Item 13. Certain Relationships and Related Transactions, and Director Independence	133
Item 14. Principal Accountant Fees and Services	133
Part IV.	
Item 15. Exhibits and Financial Statement Schedules	134

All references herein to “we”, “us”, “our” or “CenturyLink” refer to CenturyLink, Inc. and its consolidated subsidiaries, including, for all references to dates or periods on or after July 1, 2009 (except as otherwise stated herein), Embarq Corporation and its subsidiaries, which we acquired on July 1, 2009. In addition, “access lines” mean telephone lines that connect homes or businesses to the public switched telephone network; “competitive local exchange carriers,” or “CLECs,” mean telecommunications providers that compete in a particular local service area with the ILEC by providing local voice or other services, frequently by using the ILEC’s network; “FCC” means the Federal Communications Commission; “incumbent local exchange carrier,” or “ILEC,” means a traditional telecommunications provider that, prior to the Telecommunications Act of 1996, had the exclusive right and responsibility for providing

local telecommunications services in its local service area; “LEC” means any local exchange carrier; “Notes” means the Notes to the Financial Statements included in Item 8 of this Annual Report or Form 10-K; “SEC” means the U.S. Securities and Exchange Commission; “Universal Service Fund,” or “USF,” refers collectively to federal funds established primarily to promote the availability of telecommunications services to all consumers at reasonable and affordable rates; and “Voice Over Internet Protocol,” or “VoIP,” means an application that enables broadband Internet subscribers to engage in two-way voice communication similar to our traditional voice services.

PART I

Item 1. Business

On July 1, 2009, we acquired Embarq Corporation (“Embarq”) in a transaction that substantially expanded the size and scope of our business, and on April 1, 2011 we expect to acquire Qwest Communications International Inc. (“Qwest”) in a transaction that will similarly impact the size and scope of our business. Due to the significant size of Embarq, direct comparisons of our recent results of operations or operating data to periods prior to July 1, 2009 are less meaningful than usual because most of the variances are due to the Embarq acquisition. Similarly, due to the significant size of Qwest, direct comparisons of our future results and data for periods following the upcoming anticipated closing date of the Qwest acquisition to prior periods will be less meaningful than usual for similar reasons. For additional information on our Embarq acquisition, see “– Embarq acquisition” below, and for additional information on our pending Qwest acquisition, see “– Pending acquisition of Qwest” below.

General. CenturyLink, together with its subsidiaries, is an integrated communications company engaged primarily in providing a broad array of communications services, including voice, Internet, data and video services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide a complete offering of integrated communications services. We primarily conduct our operations in 33 states located within the continental United States.

At December 31, 2010, our incumbent local exchange telephone subsidiaries operated approximately 6.5 million telephone access lines in 33 states, with over 75% of these lines located in Florida, North Carolina, Missouri, Nevada, Ohio, Wisconsin, Virginia, Texas, Pennsylvania, and Alabama. According to published sources, we are currently the fourth largest local exchange telephone company in the United States based on the number of access lines served.

We also provide fiber transport, wholesale communications services, competitive local exchange carrier service, security monitoring and other communications, professional and business information services in certain local and regional markets.

For information on the amount of revenue derived by our various lines of services, see “Operations - Services” below and Item 7 of this annual report. The financial information included in this Item 1 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.

Pending acquisition of Qwest. On April 21, 2010, we entered into a definitive agreement to acquire Qwest in a tax-free stock-for-stock transaction. Under the terms of the agreement, Qwest shareholders will receive 0.1664 CenturyLink shares for each share of Qwest common stock they own at closing. CenturyLink shareholders are expected to own approximately 50.5% and Qwest shareholders are expected to own approximately 49.5% of the combined company at closing. As of December 31, 2010, Qwest had outstanding approximately (i) 1.764 billion shares of common stock and (ii) \$11.947 billion of long-term debt.

4

While we have received most of the necessary approvals from state public service commissions, completion of the transaction is still subject to the receipt of approvals from the Federal Communications Commission and several other state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction on April 1, 2011. During the process of securing the required state regulatory

approvals, we have committed to spend an aggregate of approximately \$400 million in capital expenditures over a five-year period to expand our broadband deployment. We anticipate making additional complementary broadband commitments as part of the FCC approval process to expand broadband deployment in the Qwest fourteen state region. If the merger agreement is terminated under certain circumstances, we may be obligated to pay Qwest a termination fee of \$350 million.

See Item 1A, Risk Factors, for additional information concerning the pending acquisition of Qwest. Additional information about Qwest is included in documents filed by it with the SEC. See “Where to find additional information” below.

The foregoing description of the pending Qwest merger is not complete, and is qualified in its entirety by reference to our Current Reports on Form 8-K filed with the SEC on April 22 and April 27, 2010, including the exhibits thereto.

Embarq acquisition. On July 1, 2009, we acquired Embarq, which was spun-off from Sprint Nextel Corporation in 2006, and is currently a wholly-owned subsidiary of CenturyLink. As a result of this merger transaction, each outstanding share of Embarq common stock was converted into 1.37 shares of CenturyLink common stock, with cash paid in lieu of fractional shares. In addition to delivering the aggregate merger consideration valued at \$6.1 billion, we also assumed approximately \$5.1 billion of Embarq’s indebtedness upon the consummation of the transaction. As of the acquisition date, Embarq served approximately 5.4 million access lines and 1.5 million high-speed Internet customers located in 18 states.

See Item 1A, Risk Factors, for additional information concerning the acquisition of Embarq. Additional information about Embarq is included elsewhere herein and in documents that it previously filed with the SEC. See “Where to find additional information” below.

Other recently completed acquisitions. On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. (“Madison River”) for approximately \$322 million cash. In connection with the acquisition, we also paid all of Madison River’s existing indebtedness (including accrued interest), which approximated \$522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states.

In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. for approximately \$75.5 million cash, which has enabled us to offer broadband and competitive local exchange services to customers in these markets. During 2008, we sold the assets in six of these markets in two separate transactions.

5

We also acquired approximately 660,000, 490,000 and 650,000 telephone access lines in transactions completed in 1997, 2000 and 2002, respectively, each of which substantially expanded our operations. The 2002 acquisition of telephone access lines was funded primarily from proceeds received from the sale of substantially all of our wireless operations in August 2002. In addition, in 2003 we acquired fiber transport assets in the central United States that enabled us to significantly expand our wholesale data transport services.

We continually evaluate the possibility of acquiring additional communications 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. Although our primary focus will continue to be on acquiring interests that are proximate to our properties or that serve a customer base large enough for us to operate efficiently, we may also acquire other communications interests and these acquisitions could have a material impact upon us.

Where to find additional information. We make available all of our filings with the SEC (including Forms 10-K, 10-Q and 8-K) on our website (www.centurylink.com) as soon as reasonably practicable after we complete such filings with the SEC. These documents may also be obtained from the SEC's website at www.sec.gov. You may obtain copies of Embarq's previous filings with the SEC from our website or the SEC's website. You may obtain copies of Qwest's SEC filings from Qwest's website or the SEC's website.

We also make available on our website our Corporate Governance Guidelines, our corporate ethics and compliance program and the charters of our audit, compensation, risk evaluation, and nominating and corporate governance committees. We will furnish printed copies of these materials free of charge upon the request of any shareholder. If a provision of our corporate ethics and compliance program is amended, other than by a technical, administrative or other non-substantive amendment, or a waiver under this program is granted to a director or executive officer, we will post notice of such amendment or waiver on our website or disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors, or an authorized committee of the board, may consider a waiver of our corporate ethics and compliance program for a director or executive officer.

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act's related regulations. In addition, during 2010 our chief executive officer certified to the New York Stock Exchange that he was unaware of any violation by us of the New York Stock Exchange's corporate governance listing standards.

Industry information. Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the communications industry generally. We believe these estimates and assumptions are accurate as of the date made; however, this information may prove to be inaccurate because it cannot always be verified with certainty. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A of this annual report.

6

Other. As of December 31, 2010, we had approximately 20,300 employees, of which approximately 6,600 were members of 45 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. As of December 31, 2010, five of the union contracts that represent approximately 1,600 employees had expired; however, employees continue to perform their work activities while contract negotiations continue. An additional 14 union contracts representing approximately 2,500 employees are scheduled to expire in 2011. We believe that relations with our employees continue to be generally good. Over the last several years, we announced reductions of our workforce primarily due to (i) progress made on our integration efforts from recent acquisitions (including the recently completed Embarq acquisition); (ii) increased competitive pressures and the loss of access lines over the last several years, and (iii) the elimination of certain customer service personnel due to reduced call volumes.

We were incorporated under Louisiana law in 1968 to serve as a holding company for several telephone companies acquired over the previous 15 to 20 years. Our principal executive offices are located at 100 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

OPERATIONS

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According to published sources, our acquisition of Embarq on July 1, 2009 positioned us as the fourth largest local exchange telephone company in the United States, based on the approximately 6.5 million access lines we served at December 31, 2010, all of which are digitally switched.

Before the Embarq acquisition, (i) CenturyLink provided local exchange telephone services to predominantly rural areas and small to mid-size cities in 25 states and (ii) Embarq provided local exchange telephone services to a wide variety of markets in 18 states, including Las Vegas, Nevada, and the suburbs of Orlando, Florida and several other large U.S. cities. At the time of the acquisition, the average population density of CenturyLink's and Embarq's local exchange markets was 25 and 94 persons per square mile, respectively. Although the services provided by each company prior to the acquisition were substantially similar, the merger resulted in several important changes to our operations, including:

providing services to an expanded number of densely-populated markets, which tend to afford consumers access to a greater range of competitive communications products than less dense markets and exposes the incumbent telephone service provider to higher levels of service terminations;

7

reducing the percentage of our total revenue derived from governmental support programs, which typically focus on disbursing payments to companies operating in less densely-populated areas;

expanding and reconfiguring our operating regions to incorporate the Embarq service areas in order to provide day-to-day decision making at the regional level as opposed to Embarq's prior operating model which operated under a more centralized structure; and

offering certain services, such as inmate payphone services, that CenturyLink did not historically provide.

If and when we complete our pending Qwest acquisition, it will result in material changes to our operations, including changes similar to those listed above and changes in our mix of product and service offerings.

The following table lists information (rounded to the nearest thousand lines) regarding our access lines as of December 31, 2010 and December 31, 2009.

State	December 31, 2010		December 31, 2009	
	Number of access lines	Percent of access lines	Number of access lines	Percent of access lines
Florida	1,234,000	19 %	1,352,000	19 %
North Carolina	910,000	14	997,000	14
Missouri	516,000	8	548,000	8
Nevada	463,000	7	523,000	7
Ohio	354,000	5	388,000	5
Wisconsin (1)	326,000	5	343,000	5
Virginia	315,000	5	334,000	5
Texas	286,000	4	303,000	4
Pennsylvania	252,000	4	271,000	4
Alabama	237,000	4	254,000	4
Washington	189,000	3	200,000	3
Indiana	172,000	3	186,000	3
Arkansas	170,000	3	182,000	3

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Tennessee	162,000	2	176,000	2
Minnesota	133,000	2	144,000	2
New Jersey	130,000	2	145,000	2
Oregon	102,000	2	109,000	2
All other states (2)	553,000	8	584,000	