

CENTURYLINK, INC
Form 10-Q
November 06, 2014

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, 2014

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,
Monroe, Louisiana 71203
(Address of principal executive (Zip Code)
offices)

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

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

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

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

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

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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 October 31, 2014, there were 570,705,291 shares of common stock outstanding.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions except per share amounts and shares in thousands)			
OPERATING REVENUES	\$4,514	4,515	13,593	13,553
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	1,975	1,918	5,872	5,587
Selling, general and administrative	823	1,047	2,497	2,679
Depreciation and amortization	1,097	1,135	3,297	3,375
Impairment of goodwill	—	1,100	—	1,100
Total operating expenses	3,895	5,200	11,666	12,741
OPERATING INCOME (LOSS)	619	(685)	) 1,927	812
OTHER INCOME (EXPENSE)				
Interest expense	(325)	) (329)	) (981)	) (970)
Other income, net	5	9	7	52
Total other income (expense)	(320)	) (320)	) (974)	) (918)
INCOME (LOSS) BEFORE INCOME TAX EXPENSE	299	(1,005)	) 953	(106)
Income tax expense	111	40	369	372
NET INCOME (LOSS)	\$188	(1,045)	) 584	(478)
BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE				
BASIC	\$0.33	(1.76)	) 1.03	(0.79)
DILUTED	\$0.33	(1.76)	) 1.02	(0.79)
DIVIDENDS DECLARED PER COMMON SHARE	\$0.54	0.54	1.62	1.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	565,965	594,587	569,472	606,104
DILUTED	567,432	594,587	570,640	606,104

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(Dollars in millions)				
NET INCOME (LOSS)	\$ 188	(1,045	) 584	(478)
OTHER COMPREHENSIVE (LOSS) INCOME:					
Items related to employee benefit plans:					
Change in net actuarial loss, net of \$(2), \$(8), \$(6) and \$(25) tax	3	13	9	40	
Change in net prior service credit, net of \$(2), \$—, \$(7) and \$(1) tax		1	11	2	
Foreign currency translation adjustment and other, net of \$—, \$—, \$— and \$— tax	(16	) 13	(7	) (1)
Other comprehensive (loss) income	(10	) 27	13	41	
COMPREHENSIVE INCOME (LOSS)	\$ 178	(1,018	) 597	(437)
See accompanying notes to consolidated financial statements.					

CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2014	December 31, 2013
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$734	168
Accounts receivable, less allowance of \$155 and \$155	1,978	1,977
Deferred income taxes, net	715	1,165
Other	591	597
Total current assets	4,018	3,907
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	35,970	34,307
Accumulated depreciation	(17,647	) (15,661
Net property, plant and equipment	18,323	18,646
GOODWILL AND OTHER ASSETS		
Goodwill	20,664	20,674
Customer relationships, less accumulated amortization of \$4,430 and \$3,641	5,146	5,935
Other intangible assets, less accumulated amortization of \$1,632 and \$1,401	1,664	1,802
Other	831	823
Total goodwill and other assets	28,305	29,234
TOTAL ASSETS	\$50,646	51,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$1,169	785
Accounts payable	1,069	1,111
Accrued expenses and other liabilities		
Salaries and benefits	699	650
Income and other taxes	372	339
Interest	330	273
Other	224	514
Advance billings and customer deposits	714	737
Total current liabilities	4,577	4,409
LONG-TERM DEBT	19,982	20,181
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	4,629	4,753
Benefit plan obligations, net	3,761	4,049
Other	1,252	1,204
Total deferred credits and other liabilities	9,642	10,006
COMMITMENTS AND CONTINGENCIES (Note 8)		
STOCKHOLDERS' EQUITY		
Preferred stock—non-redeemable, \$25.00 par value, authorized 2,000 shares, issued and outstanding 7 and 7 shares	—	—
Common stock, \$1.00 par value, authorized 1,600,000 and 1,600,000 shares, issued and outstanding 570,678 and 583,637 shares	571	584

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Additional paid-in capital	16,532	17,343	
Accumulated other comprehensive loss	(789) (802)
Retained earnings	131	66	
Total stockholders' equity	16,445	17,191	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$50,646	51,787	
See accompanying notes to consolidated financial statements.			

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

	Nine Months Ended September 30,		
	2014	2013	
	(Dollars in millions)		
OPERATING ACTIVITIES			
Net income (loss)	\$584	(478))
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,297	3,375	
Impairment of goodwill	—	1,100	
Impairment of assets	32	—	
Deferred income taxes	301	349	
Provision for uncollectible accounts	110	111	
Gain on sale of intangible assets	—	(32))
Net long-term debt premium amortization	(30)	(45))
Changes in current assets and current liabilities:			
Accounts receivable	(111)	(105))
Accounts payable	(21)	—	
Accrued income and other taxes	38	30	
Other current assets and liabilities, net	(130)	303	
Retirement benefits	(255)	(288))
Changes in other noncurrent assets and liabilities, net	66	61	
Other, net	56	27	
Net cash provided by operating activities	3,937	4,408	
INVESTING ACTIVITIES			
Payments for property, plant and equipment and capitalized software	(2,113)	(2,211))
Proceeds from sale of intangible assets or property	—	75	
Other, net	—	19	
Net cash used in investing activities	(2,113)	(2,117))
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	483	1,740	
Payments of long-term debt	(162)	(1,169))
Net payments on credit facility	(140)	(620))
Dividends paid	(924)	(986))
Net proceeds from issuance of common stock	45	54	
Repurchase of common stock	(558)	(1,252))
Other, net	(2)	(3))
Net cash used in financing activities	(1,258)	(2,236))
Net increase in cash and cash equivalents	566	55	
Cash and cash equivalents at beginning of period	168	211	
Cash and cash equivalents at end of period	\$734	266	
Supplemental cash flow information:			
Income taxes (paid), net	\$(21)	(45))
Interest (paid) (net of capitalized interest of \$34 and \$30)	\$(934)	(915))
See accompanying notes to consolidated financial statements.			

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

	Nine Months Ended September 30,	
	2014	2013
	(Dollars in millions)	
COMMON STOCK		
Balance at beginning of period	\$584	626
Issuance of common stock through dividend reinvestment, incentive and benefit plans	4	2
Repurchase of common stock	(17	) (35
Balance at end of period	571	593
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	17,343	19,079
Issuance of common stock through dividend reinvestment, incentive and benefit plans	43	50
Repurchase of common stock	(497	) (1,219
Shares withheld to satisfy tax withholdings	(15	) (16
Share-based compensation and other, net	63	60
Dividends declared	(405) —
Balance at end of period	16,532	17,954
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of period	(802	) (1,701
Other comprehensive income	13	41
Balance at end of period	(789	) (1,660
RETAINED EARNINGS		
Balance at beginning of period	66	1,285
Net income (loss)	584	(478
Dividends declared	(519	) (980
Balance at end of period	131	(173
TOTAL STOCKHOLDERS' EQUITY	\$16,445	16,714

See accompanying notes to consolidated financial statements.

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

Unless the context requires otherwise, references in this report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries.

(1) Basis of Presentation

General

We are an integrated communications company engaged primarily in providing an array of communications services to our residential, business, governmental and wholesale customers. Our communications services include local and long-distance, broadband, private line (including special access), Multi-Protocol Label Switching ("MPLS"), data integration, managed hosting (including cloud hosting), colocation, Ethernet, network access, public access, wireless, video and other ancillary services.

Our consolidated balance sheet as of December 31, 2013, 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 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 for the first nine months of the year are not necessarily indicative of the consolidated results of operations that might be expected for the entire year. These consolidated financial statements 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, 2013.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries over which we exercise control. All intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

In the second quarter of 2014, we recorded an impairment charge of \$16 million in connection with negotiating a sale-leaseback transaction involving an office building. This impairment charge is included in selling, general and administrative expense in our consolidated statements of operations for the nine months ended September 30, 2014. In October 2014, we entered into an agreement to sell the above noted office building and no additional impairment charge is expected to be recorded upon completion of the sale, which is expected to close in the fourth quarter of 2014.

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), (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 pay dividends out of retained earnings to the extent we have retained earnings on the date the dividend is declared. If the dividend is in excess of our retained earnings on the declaration date, then the excess is drawn from our additional paid-in capital.

We reclassified certain prior period amounts to conform to the current period presentation, including the categorization of our revenues and our segment expense reporting. See Note 7—Segment Information for additional information. These changes had no impact on total revenues, total operating expenses or net income for any period.

Change in Estimates

As a result of our annual reviews to evaluate the reasonableness of the depreciable lives for our property, plant and equipment, effective January 2014, we changed the estimates of the remaining economic lives of certain switch and circuit network equipment. These changes resulted in a net increase in depreciation expense of approximately \$19 million and \$58 million for the three and nine months ended September 30, 2014, respectively, and are expected to result in a net increase in depreciation expense of approximately \$78 million for the year ending December 31, 2014. This net increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$12 million,

or \$0.02 per basic and diluted common share, and \$36 million, or \$0.06 per basic and diluted common share, for the three and nine months ended September 30, 2014, respectively, and is expected to reduce consolidated net income by approximately \$48 million, or \$0.08 per basic and diluted common share, for the year ending December 31, 2014.

During the fourth quarter 2013, we changed the estimates of the remaining economic lives of certain intangible assets, specifically, the Savvis trade name, which is no longer being utilized and certain Savvis cloud software, which has been replaced by cloud software acquired through our more recent acquisitions. These changes resulted in a net increase in amortization expense of approximately \$23 million for the nine months ended September 30, 2014. This net increase in amortization expense, net of tax, reduced consolidated net income by approximately \$14 million, or \$0.02 per basic and diluted common share for the nine months ended September 30, 2014. As of September 30, 2014, the Savvis trade name and the Savvis cloud software have been fully amortized.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09” or “new standard”). The new standard is effective for annual and interim periods beginning January 1, 2017, and early adoption is prohibited. ASU 2014-09 may be adopted by applying the provisions of the new standard on a retrospective basis to the periods included in the financial statements or on a modified retrospective basis which would result in the recognition of a cumulative effect of adopting ASU 2014-09 in the first quarter of 2017. We have not yet decided which implementation method we will adopt.

The new standard replaces virtually all existing generally accepted accounting principles (“GAAP”) 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 currently do not defer any contract acquisition costs and defer contract fulfillment costs only up to the extent of any revenue deferred.

We are studying the new standard and are in the early stages of assessing the impact the new standard will have on us and our consolidated financial statements. We cannot, however, provide any estimate of the impact of adopting the new standard at this time.

(2) Long-Term Debt and Credit Facilities

As of the dates indicated below, our long-term debt, including unamortized discounts and premiums, was as follows:

	Interest Rates	Maturities	September 30, 2014	December 31, 2013
(Dollars in millions)				
CenturyLink, Inc.				
Senior notes	5.000% - 7.650%	2015 - 2042	\$7,825	7,825
Credit facility ⁽¹⁾	2.160% - 4.250%	2017	585	725
Term loan	2.410%	2019	385	402
Subsidiaries				
Qwest Corporation				
Senior notes	6.125% - 8.375%	2014 - 2054	7,911	7,411
Qwest Capital Funding, Inc.				
Senior notes	6.500% - 7.750%	2018 - 2031	981	981
Embarq Corporation				
Senior notes	7.082% - 7.995%	2016 - 2036	2,669	2,669
First mortgage bonds	7.125% - 8.770%	2017 - 2025	232	262
Other	9.000%	2019	150	150
Capital lease and other obligations	Various	Various	521	619
Unamortized discounts, net			(108	) (78
Total long-term debt			21,151	20,966
Less current maturities			(1,169	) (785
Long-term debt, excluding current maturities			\$19,982	20,181

The outstanding amounts of our credit facility ("Credit Facility") borrowings at September 30, 2014 and

⁽¹⁾ December 31, 2013 were \$585 million and \$725 million, respectively, with weighted average interest rates of 2.160% and 2.176%, respectively. These amounts change on a regular basis.

New Issuances

On September 29, 2014, QC issued \$500 million aggregate principal amount of 6.875% Notes due 2054, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$483 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, on or after October 1, 2019, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

Repayments

On April 1, 2014, a subsidiary of Embarq Corporation ("Embarq") paid at maturity the \$30 million principal amount of its 7.46% first mortgage bonds.

Covenants

As of September 30, 2014, we believe we were in compliance with the provisions and covenants contained in our Credit Facility and other material debt agreements.

Subsequent Event

On October 1, 2014, QC paid at maturity the \$600 million principal amount of its 7.50% Notes.

(3) Severance and Leased Real Estate

Periodically, we have reductions in our workforce and have accrued liabilities for the related severance costs. These workforce reductions resulted primarily from the progression or completion of our post-acquisition integration plans, increased competitive pressures, cost reduction initiatives and reduced workload demands due to the loss of customers purchasing certain legacy services.

We report severance liabilities within accrued expenses and other liabilities—salaries and benefits in our consolidated balance sheets and report severance expenses in cost of services and products and selling, general and administrative expenses in our consolidated statements of operations. As noted in Note 7—Segment Information, we do not allocate these severance expenses to our segments.

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. Our fair value estimates were determined using discounted cash flow methods. We recognize expense to reflect accretion of the discounted liabilities and periodically we adjust the expense when our actual subleasing experience differs from our initial estimates. We report the current portion of liabilities for ceased-use real estate leases in accrued expenses and other liabilities—other and report the noncurrent portion in deferred credits and other liabilities in our consolidated balance sheets. We report the related expenses in selling, general and administrative expenses in our consolidated statements of operations. At September 30, 2014, the current and noncurrent portions of our leased real estate accrual were \$15 million and \$85 million, respectively. The remaining lease terms range from 0.3 to 11.2 years, with a weighted average of 8.5 years. Changes in our accrued liabilities for severance expenses and leased real estate during the first nine months of 2014 were as follows:

	Severance (Dollars in millions)	Real Estate (Dollars in millions)
Balance at December 31, 2013	\$17	113
Accrued to expense	65	1
Payments, net	(63	) (12
Reversals and adjustments	—	(2
Balance at September 30, 2014	\$19	100

(4) Employee Benefits

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

	Pension Plans		Nine Months Ended September	
	Three Months Ended September 30,		30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost	\$19	22	58	70
Interest cost	151	137	453	407
Expected return on plan assets	(223	) (224	) (669	) (672
Recognition of prior service cost	1	1	5	4
Recognition of actuarial loss	5	20	15	61
Net periodic pension benefit income	\$(47	) (44	) (138	) (130

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

	Post-Retirement Benefit Plans		Nine Months Ended September	
	Three Months Ended September 30,		30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost	\$5	6	16	18
Interest cost	40	35	119	105
Expected return on plan assets	(8	) (10	) (24	) (30
Recognition of prior service cost	4	—	13	—
Recognition of actuarial loss	—	1	—	3
Net periodic post-retirement benefit expense	\$41	32	124	96

We report net periodic benefit (income) expense for our qualified pension, non-qualified pension and post-retirement benefit plans in cost of services and products and selling, general and administrative expenses on our consolidated statements of operations.

(5) Earnings (Loss) Per Common Share

Basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2014 and 2013 were calculated as follows:

	Three Months Ended September 30, 2014		2013		Nine Months Ended September 30, 2014		2013	
	(Dollars in millions, except per share amounts, shares in thousands)							
Income (Loss) (Numerator):								
Net income (loss)	\$ 188	(1,045	)	584	(478)		
Earnings applicable to non-vested restricted stock	—	—)	—	—)		
Net income (loss) applicable to common stock for computing basic earnings (loss) per common share	188	(1,045	)	584	(478)		
Net income (loss) as adjusted for purposes of computing diluted earnings (loss) per common share	\$ 188	(1,045	)	584	(478)		
Shares (Denominator):								
Weighted average number of shares:								
Outstanding during period	570,545	598,350		573,661	609,542			
Non-vested restricted stock	(4,580	)	(3,763	)	(4,189	)	(3,438)
Weighted average shares outstanding for computing basic earnings (loss) per common share	565,965	594,587		569,472	606,104			
Incremental common shares attributable to dilutive securities:								
Shares issuable under convertible securities	10	—		10	—			
Shares issuable under incentive compensation plans	1,457	—		1,158	—			
Number of shares as adjusted for purposes of computing diluted earnings (loss) per common share	567,432	594,587		570,640	606,104			
Basic earnings (loss) per common share	\$0.33	(1.76	)	1.03	(0.79)		
Diluted earnings (loss) per common share	\$0.33	(1.76	)	1.02	(0.79)		

Our calculation of diluted earnings (loss) per common share excludes shares of common stock that are issuable upon exercise of stock options when the exercise price is greater than the average market price of our common stock during the periods reflected in the table above. Such potentially issuable shares averaged 2.1 million and 2.7 million for the three months ended September 30, 2014 and 2013, respectively and 2.5 million for both the nine months ended September 30, 2014 and 2013. For the three and nine months ended September 30, 2013, due to the net loss position, we excluded from the calculation of diluted loss per share 1.16 million and 1.37 million shares, respectively, which were potentially issuable under incentive compensation plans or convertible securities, as their effect, if included, would have been anti-dilutive.

(6) Fair Value Disclosure

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt, excluding capital lease obligations. Due to their short-term nature, the carrying amounts of our cash and cash equivalents, accounts receivable and accounts payable approximate their fair values.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent and knowledgeable parties who are willing and able to transact for an asset or liability at the measurement date. We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs when determining fair value and then we rank the estimated values based on the reliability of the inputs used following the fair value hierarchy set forth by the FASB.

We determined the fair values of our long-term debt, including the current portion, based on quoted market prices where available or, if not available, based on discounted future cash flows using current market interest rates.

The three input levels in the hierarchy of fair value measurements are defined by the FASB generally as follows:

Input Level Description of Input

Level 1 Observable inputs such as quoted market prices in active markets.

Level 2 Inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 Unobservable inputs in which little or no market data exists.

The following table presents the carrying amounts and estimated fair values of our long-term debt, excluding capital lease and other obligations, as well as the input level used to determine the fair values as of the dates indicated below:

	Input Level	September 30, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in millions)					
Liabilities—Long-term debt, excluding capital lease and other obligations	2	\$20,630	21,673	20,347	20,413

(7) Segment Information

Segment Data

We currently report the following four segments in our consolidated financial statements: consumer, business, wholesale and hosting. Each of the segments is described further below:

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

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

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

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

Our segment results are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(Dollars in millions)				
Total segment revenues	\$4,264	4,267	12,836	12,799	
Total segment expenses	2,161	2,089	6,378	6,056	
Total segment income	\$2,103	2,178	6,458	6,743	
Total margin percentage	49	% 51	% 50	% 53	%
Consumer:					
Revenues	\$1,491	1,503	4,500	4,508	
Expenses	611	605	1,793	1,728	
Income	\$880	898	2,707	2,780	
Margin percentage	59	% 60	% 60	% 62	%
Business:					
Revenues	\$1,569	1,544	4,692	4,574	
Expenses	997	932	2,935	2,701	
Income	\$572	612	1,757	1,873	
Margin percentage	36	% 40	% 37	% 41	%
Wholesale:					
Revenues	\$843	878	2,571	2,694	
Expenses	285	293	844	868	
Income	\$558	585	1,727	1,826	
Margin percentage	66	% 67	% 67	% 68	%
Hosting:					
Revenues	\$361	342	1,073	1,023	
Expenses	268	259	806	759	
Income	\$93	83	267	264	
Margin percentage	26	% 24	% 25	% 26	%

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. The change in our organizational structure will likely result in some modifications of our segment reporting, which we expect to finalize in the fourth quarter of 2014 and report in our consolidated financial statements for the year ending December 31, 2014.

Recent Changes in Segment Reporting

During the first quarter of 2014, we adopted several changes with respect to the assignment of certain expenses to our segments. We have restated our previously reported segment results for the three and nine months ended September 30, 2013, to conform to the current presentation. The nature of the most significant changes and the related effect on segment expenses for the three and nine months ended September 30, 2013, are as follows:

The method for allocating certain shared costs of consumer sales and care, including bad debt expense and credit card fees, was revised, which resulted in an increase in consumer segment expenses of \$25 million and \$67 million with a corresponding decrease in business segment expenses for the three and nine months ended September 30, 2013, respectively; and

Hosting segment expenses have been conformed to the reporting of our other segments' expenses. Specifically, the progress of our integration efforts and centralization of certain administrative functions enabled us to discontinue including certain finance, information technology, legal and human resources expenses in the hosting segment, which resulted in a decrease of \$16 million and \$55 million in hosting segment expenses for the three and nine months ended September 30, 2013, respectively.

Product and Service Categories

We categorize our products, services and revenues among the following four categories:

Strategic services, which include primarily broadband, private line (including special access which we market to wholesale and business customers), MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video service), hosting (including cloud hosting and managed hosting), colocation, Ethernet, video (including resold satellite and our facilities-based video services), VoIP and Verizon Wireless services;

Legacy services, which include primarily local, long-distance, switched access, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications) and traditional wide area network ("WAN") services (which allow a local communications network to link to networks in remote locations);

Data integration, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our governmental and business customers; and

Other revenues, which consist primarily of Universal Service Fund ("USF") revenue and surcharges. Unlike the first three revenue categories, other revenues are not included in our segment revenues.

Our operating revenues for our products and services consisted of the following categories:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Strategic services	\$2,310	2,212	6,889	6,562
Legacy services	1,769	1,892	5,401	5,767
Data integration	185	163	546	470
Other	250	248	757	754
Total operating revenues	\$4,514	4,515	13,593	13,553

During 2013, operating revenues attributable to portions of certain bundled services were revised from legacy services to strategic services. Specifically, the revision resulted in a reduction of legacy services revenues of \$32 million and \$96 million and a corresponding increase in strategic services revenues for the three and nine months ended September 30, 2013, respectively. The revision was in response to over-allocating a percentage of the discounts to broadband services revenues and under-allocating a percentage of the discounts to local and long-distance services revenues under bundled services arrangements, which resulted in strategic services revenues being understated and legacy services revenues being overstated.

During 2013, operating revenues attributable to certain Competitive Local Exchange Carrier ("CLEC") retail services were revised from strategic services to legacy services. Specifically, the revision resulted in a reduction of strategic services revenues of \$10 million and \$29 million and a corresponding increase in legacy services revenues for the three and nine months ended September 30, 2013, respectively. The revision was in response to recording certain legacy services revenues generated through CLEC services arrangements as strategic services revenues, which resulted in strategic services revenues being overstated and legacy services revenues being understated.

Other operating revenues include revenues from universal service funds, which allow us to recover a portion of our costs under federal and state cost recovery mechanisms, and certain surcharges to our customers, including billings for our required contributions to several USF programs. We also generate other operating revenues from leasing and subleasing of space in our office buildings, warehouses and other properties. Because we centrally manage the activities that generate these other operating revenues, we do not allocate these revenues to any of our four segments presented above.

We recognize revenues in our consolidated statements of operations for certain USF surcharges and transaction taxes that we bill to our customers. Our consolidated statements of operations also reflects the related expense for the amounts we remit to the government agencies. The total amount of such surcharges that we included in revenues aggregated approximately \$128 million and \$119 million for the three months ended September 30, 2014 and 2013, respectively, and approximately \$395 million and \$368 million for the nine months ended September 30, 2014 and 2013, respectively. Those USF surcharges, where we record revenue, are included in the "other" operating revenues

and transaction tax surcharges are included in "legacy services" revenues. We also act as a collection agent for certain other USF and transaction taxes that we are required by government agencies to include in our bills to customers, for which we do not record any revenue or expense because we only act as a pass-through agent.

Allocations of Revenues and Expenses

Our segment revenues include all revenues from our strategic, legacy and data integration operations as described in more detail above. We assign each of our customers to a single segment and report all of the revenues we derive from that customer to that segment, with the exception of hosting revenue generated from business and wholesale customers, which is currently reported as hosting segment revenues. We report our segment expenses for our four segments as follows:

Direct expenses, which primarily are specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities; and

Allocated expenses, which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses.

We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, we do not assign to our segments severance expenses, restructuring expenses and certain centrally managed administrative functions (such as finance, information technology, legal and human resources). Interest expense is also excluded from segment results because we manage our financing on a total company basis and have not allocated assets or debt to specific segments. Similarly, we exclude other income (expense) from our segment results.

The following table reconciles segment income to net income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Total segment income	\$2,103	2,178	6,458	6,743
Other operating revenues	250	248	757	754
Depreciation and amortization	(1,097	) (1,135	) (3,297	) (3,375
Impairment of goodwill	—	(1,100	) —	(1,100
Other unassigned operating expenses	(637	) (876	) (1,991	) (2,210
Other income (expense)	(320	) (320	) (974	) (918
Income tax expense	(111	) (40	) (369	) (372
Net income (loss)	\$ 188	(1,045	) 584	(478

We do not have any single customer that provides more than 10% of our total consolidated operating revenues. Substantially all of our consolidated revenues come from customers located in the United States.

(8) Commitments and Contingencies

We are vigorously defending against all of the matters described below. As a matter of course, we are prepared both to litigate the matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities. In this Note, when we refer to a class action as "putative" it is because a class has been alleged, but not certified in that matter. We have established accrued liabilities for the matters described below where losses are deemed probable and reasonably estimable.

Pending Matters

In *William Douglas Fulghum, et al. v. Embarq Corporation, et al.*, filed on December 28, 2007 in the United States District Court for the District of Kansas, a group of retirees filed a putative class action lawsuit challenging the decision to make certain modifications in retiree benefits programs relating to life insurance, medical insurance and prescription drug benefits, generally effective January 1, 2006 and January 1, 2008 (which, at the time of the modifications, was expected to reduce estimated future expenses for the subject benefits by more than \$300 million). Defendants include Embarq, certain of its benefit plans, its Employee Benefits Committee and the individual plan administrator of certain of its benefits plans. Additional defendants include Sprint Nextel and certain of its benefit plans. The Court certified a class on certain of plaintiffs' claims, but rejected class certification as to other claims. On October 14, 2011, the Fulghum lawyers filed a new, related lawsuit, *Abbott et al. v. Sprint Nextel et al.* In *Abbott*, approximately 1,500 plaintiffs allege breach of fiduciary duty in connection with the changes in retiree benefits that also are at issue in the Fulghum case. The *Abbott* plaintiffs are all members of the class that was certified in *Fulghum* on claims for allegedly vested benefits (Counts I and III), and the *Abbott* claims are similar to the *Fulghum* breach of fiduciary duty claim (Count II), on which the *Fulghum* court denied class certification. The Court has stayed proceedings in *Abbott* indefinitely, except for limited discovery and motion practice as to approximately 80 of the plaintiffs. On February 14, 2013, the *Fulghum* court dismissed the majority of the plaintiffs' claims in that case. On July 16, 2013, the *Fulghum* court granted plaintiffs' request to seek interlocutory review by the United States Court of Appeals for the Tenth Circuit. Embarq and the other defendants are defending the appeal, continue to vigorously contest any remaining claims in *Fulghum* and seek to have the claims in the *Abbott* case dismissed on similar grounds. We have not accrued a liability for these matters because we believe it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

In December 2009, subsidiaries of CenturyLink filed two lawsuits against subsidiaries of Sprint Nextel to recover terminating access charges for VoIP traffic owed under various interconnection agreements and tariffs which originally approximated \$34 million in the aggregate. In connection with the first lawsuit, a federal court in Virginia issued a ruling in our favor, which resulted in Sprint paying us approximately \$24 million. The other lawsuit is pending in federal court in Louisiana. In that case, in early 2011 the Court dismissed certain of CenturyLink's claims, referred other claims to the Federal Communications Commission ("FCC"), and stayed the litigation. In April 2012, Sprint Nextel filed a petition with the FCC, seeking a declaratory ruling that CenturyLink's access charges do not apply to VoIP originated calls, and earlier this year, CenturyLink filed a complaint with the Missouri Public Service Commission to collect the portion of the remaining unpaid charges arising in that state. We have not deferred any revenue recognition related to these matters.

On July 16, 2013, Comcast MO Group, Inc. ("Comcast") filed a lawsuit in Colorado state court against Qwest Communications International, Inc. ("Qwest"). Comcast alleges Qwest breached the parties' 1998 tax sharing agreement ("TSA") when it refused to partially indemnify Comcast for a tax liability settlement Comcast reached with the Commonwealth of Massachusetts in a dispute to which we were not a party. Comcast seeks approximately \$80 million in damages, excluding interest. Qwest and Comcast are parties to the TSA in their capacities as successors to the TSA's original parties, U S WEST, Inc., a telecommunications company, and MediaOne Group, Inc., a cable television company, respectively. In October 2014, the state court granted summary judgment in Qwest's favor. An appeal is possible. We have not accrued a liability for this matter because we do not believe that liability is probable. On September 13, 2006, Cargill Financial Markets, Plc ("Cargill") and Citibank, N.A. ("Citibank") filed a lawsuit in the District Court of Amsterdam, the Netherlands, against Qwest, Koninklijke KPN N.V., KPN Telecom B.V., and other former officers, employees or supervisory board members of KPNQwest N.V. ("KPNQwest"), some of whom were formerly affiliated with Qwest. The lawsuit alleges that defendants misrepresented KPNQwest's financial and business condition in connection with the origination of a credit facility and wrongfully allowed KPNQwest to borrow funds under that facility. Plaintiffs allege damages of approximately €219 million (or approximately \$278 million based on the exchange rate on September 30, 2014). The value of this claim will be reduced to the degree plaintiffs receive recovery from a distribution of assets from the bankruptcy estate of KPNQwest. The extent of such expected recovery is not yet known. On April 25, 2012, the court issued its judgment denying the claims asserted by Cargill and Citibank in their lawsuit. Cargill and Citibank are appealing that decision. We do not believe that liability is probable in this matter.

The terms and conditions of applicable bylaws, certificates or articles of incorporation, agreements or applicable law may obligate Qwest to indemnify its former directors, officers or employees with respect to the Cargill matter described above, and Qwest has been advancing legal fees and costs to certain former directors, officers or employees in connection with that matter.

Several putative class actions relating to the installation of fiber optic cable in certain rights-of-way were filed against Qwest on behalf of landowners on various dates and in courts located in 34 states in which Qwest has such cable (Alabama, Arizona, California, Colorado, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia, and Wisconsin.) For the most part, the complaints challenge our right to install our fiber optic cable in railroad rights-of-way. The complaints allege that the railroads own the right-of-way as an easement that did not include the right to permit us to install our cable in the right-of-way without the plaintiffs' consent. In general, the complaints seek damages on theories of trespass and unjust enrichment, as well as punitive damages. After previous attempts to enter into a single nationwide settlement in a single court proved unsuccessful, the parties proceeded to seek court approval of settlements on a state-by-state basis. To date, the parties have received final approval of such settlements in 30 states. The settlement administration process, including claim submission and evaluation, is continuing in relation to a number of these settlements. The parties have not yet received final approval in one state (Texas), and have not yet received either preliminary or final approval in two states where an action is pending (Massachusetts and New Mexico) and one state where an action was at one time, but is not currently, pending (Arizona). We have accrued an amount that we believe is probable for resolving these matters; however, the amount is not material to our consolidated financial statements.

CenturyLink and certain of its affiliates are defendants in one consolidated securities and four shareholder derivative actions. The actions are pending in federal court in the Western District of Louisiana. Plaintiffs in these actions have variously alleged, among other things, that CenturyLink and certain of its current and former officers and directors violated federal securities laws and/or breached fiduciary duties owed to the Company and its shareholders. Plaintiffs' complaints focus on alleged material misstatements or omissions concerning CenturyLink's financial condition and changes in CenturyLink's capital allocation strategy in early 2013. These matters are in preliminary phases and the Company intends to defend against the filed actions vigorously. We have not accrued a liability for these matters as it is premature (i) to determine whether an accrual is warranted and (ii) if so, to determine a reasonable estimate of probable liability.

Other Proceedings and Disputes

From time to time, we are involved in other proceedings incidental to our business, including patent infringement allegations, administrative hearings of state public utility commissions relating primarily to our rates or services, actions relating to employee claims, various tax issues, environmental law issues, grievance hearings before labor regulatory agencies, and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable. However, based on current circumstances, we do not believe that the ultimate resolution of these other proceedings, after considering available defenses and any insurance coverage or indemnification rights, will have a material adverse effect on our financial position, results of operations or cash flows.

We are currently defending several patent infringement lawsuits asserted against us by non-practicing entities. These cases have progressed to various stages and one or more may go to trial in the coming 24 months if they are not otherwise resolved. Where applicable, we are seeking full or partial indemnification from our vendors and suppliers.

As with all litigation, we are vigorously defending these actions and, as a matter of course, are prepared both to litigate the matters to judgment, as well as to evaluate and consider all reasonable settlement opportunities.

We are aware of disputes and litigation within the industry, including litigation against us, regarding the proper charges to be applied between interexchange and local exchange carriers for certain calls between mobile and wireline devices that are routed through an interexchange carrier. Some carriers are refusing to pay these access charges and some are seeking refunds of past charges paid. As both an interexchange carrier and a local exchange carrier, we both pay and assess substantial amounts of the charges in question. The outcome of these disputes and litigation are currently not predictable. If we are required to stop assessing these charges or to pay refunds of any such charges, our financial results could be negatively affected.

(9) Other Financial Information

Other Current Assets

The following table presents details of other current assets in our consolidated balance sheets as of the dates indicated below:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Prepaid expenses	\$260	266
Materials, supplies and inventory	134	167
Assets held for sale	54	26
Deferred activation and installation charges	105	94
Other	38	44
Total other current assets	\$591	597

Assets held for sale includes several properties that we expect to sell within the next twelve months. During the second quarter of 2014, we began discussions to sell our remaining 700 MHz A-Block wireless spectrum licenses, which we purchased in 2008 but never placed into service. As a result of changes in market conditions and prevailing spectrum prices, we recorded a second quarter 2014 impairment charge of \$14 million, which is included in other income, net in our consolidated statements of operations for the nine months ended September 30, 2014. During the second quarter of 2014, we reclassified the remaining \$39 million of wireless spectrum assets from other intangible assets to assets held for sale, as we anticipate completing the sale of such assets within one year. We evaluated spectrum prices using market conditions to determine a Level 3 estimate of the fair value of the wireless spectrum licenses. In July 2014, we entered into a definitive agreement to sell and assign our remaining 700 MHz A-Block wireless spectrum licenses for \$39 million in cash in the aggregate. The sale closed on November 3, 2014, and we received \$39 million in cash in the aggregate.

Selected Current Liabilities

Current liabilities reflected in our consolidated balance sheets include accounts payable and other current liabilities as of the dates indicated below:

	September 30, 2014	December 31, 2013
	(Dollars in millions)	
Accounts payable	\$1,069	1,111
Other current liabilities:		
Accrued rent	\$33	52
Legal reserves	18	273
Other	173	189
Total other current liabilities	\$224	514

Included in accounts payable at September 30, 2014 and December 31, 2013, were \$77 million and \$88 million, respectively, representing book overdrafts and \$120 million and \$140 million, respectively, associated with capital expenditures. Included in legal reserves at December 31, 2013, was \$235 million related to the then tentative settlement agreement with the trustees in the KPNQwest Dutch bankruptcy proceeding. In February 2014, we paid approximately €171 million (or approximately \$235 million) to settle this proceeding.

(10) Repurchase of CenturyLink Common Stock

In February 2013, our Board of Directors authorized us to repurchase up to \$2 billion of our outstanding common stock. On May 29, 2014, we completed the 2013 stock repurchase program, repurchasing over the course of the program a total of 59.5 million shares in the open market at an average purchase price of \$33.63 per share. Of those aggregate amounts, we repurchased 13.7 million shares in the open market during the first half of 2014 for an aggregate market price of \$433 million, or an average purchase price of \$31.54 per share. All shares of common stock repurchased under our 2013 program have been retired.

In February 2014, our Board of Directors authorized a new 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This new program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. During the nine months ended September 30, 2014, we repurchased 2.9 million shares of our outstanding common stock in the open market under our 2014 stock repurchase program. These shares were repurchased for an aggregate market price of \$109 million, or an average purchase price of \$37.29 per share. The repurchased common stock has been retired. As of September 30, 2014, we had approximately \$891 million remaining available for stock repurchases under the 2014 stock repurchase program.

(11) Accumulated Other Comprehensive Loss

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the three and nine months ended September 30, 2014:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at June 30, 2014	\$(661	) (116	) (2	) (779
Other comprehensive income before reclassifications	—	—	(16	) (16
Amounts reclassified from accumulated other comprehensive income	4	2	—	6
Net current-period other comprehensive income	4	2	(16	) (10
Balance at September 30, 2014	\$(657	) (114	) (18	) (789

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at December 31, 2013	\$(669	) (122	) (11	) (802
Other comprehensive income before reclassifications	—	—	(7	) (7
Amounts reclassified from accumulated other comprehensive income	12	8	—	20
Net current-period other comprehensive income (loss)	12	8	(7) 13
Balance at September 30, 2014	\$(657) (114) (18) (789

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The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended September 30, 2014:

Three Months Ended September 30, 2014	(Decrease) Increase in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$(5	) See Note 4-Employee Benefits
Prior service cost	(5	) See Note 4-Employee Benefits
Total before tax	(10)
Income tax expense	4	Income tax expense
Net of tax	\$(6)
		Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
Nine Months Ended September 30, 2014	(Decrease) Increase in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$(15	) See Note 4-Employee Benefits
Prior service cost	(18	) See Note 4-Employee Benefits
Total before tax	(33)
Income tax expense	13	Income tax expense
Net of tax	\$(20)

The tables below summarize changes in accumulated other comprehensive loss recorded on our consolidated balance sheets by component for the three and nine months ended September 30, 2013:

	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment and Other	Total
	(Dollars in millions)			
Balance at June 30, 2013	\$(1,372	) (288	) (27	) (1,687
Other comprehensive income before reclassifications	—	—	13	13
Amounts reclassified from accumulated other comprehensive income	13	1	—	14
Net current-period other comprehensive income	13	1	13	27
Balance at September 30, 2013	\$(1,359	) (287	) (14	) (1,660
	Pension Plans	Post-Retirement Benefit Plans	Foreign Currency Translation Adjustment	Total

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	(Dollars in millions)		and Other	
Balance at December 31, 2012	\$(1,399) (289) (13) (1,701
Other comprehensive income before reclassifications	—	—	(1	) (1
Amounts reclassified from accumulated other comprehensive income	40	2	—	42
Net current-period other comprehensive income (loss)	40	2	(1) 41
Balance at September 30, 2013	\$(1,359) (287) (14) (1,660

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The tables below present further information about our reclassifications out of accumulated other comprehensive loss by component for the three and nine months ended September 30, 2013:

Three Months Ended September 30, 2013	(Decrease) Increase in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$(21)	) See Note 4-Employee Benefits
Prior service cost	(1)	) See Note 4-Employee Benefits
Total before tax	(22))
Income tax expense	8	Income tax expense
Net of tax	\$(14))
		Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
Nine Months Ended September 30, 2013	(Decrease) Increase in Net Income	Affected Line Item in Consolidated Statement of Operations or Footnote Where Additional Information is Presented If The Amount is not Recognized in Net Income in Total
	(Dollars in millions)	
Amortization of pension & post-retirement plans		
Net actuarial loss	\$(64)	) See Note 4-Employee Benefits
Prior service cost	(4)	) See Note 4-Employee Benefits
Total before tax	(68))
Income tax expense	26	Income tax expense
Net of tax	\$(42))

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this report to "CenturyLink," "we," "us" and "our" refer to CenturyLink, Inc. and its consolidated subsidiaries.

All references to "Notes" in this Item 2 refer to the Notes to Consolidated Financial Statements included in Item 1 of Part I of this report.

Certain statements in this report constitute forward-looking statements. See the last paragraph of this Item 2 and "Risk Factors" in Item 1A of Part II of this report for a discussion of certain factors that could cause our actual results to differ from our anticipated results or otherwise impact our business, financial condition, results of operations, liquidity or prospects.

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our Annual Report on Form 10-K for the year ended December 31, 2013, and with the consolidated financial statements and related notes in Item 1 of Part I of this report. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations that might be expected for the entire year.

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

At September 30, 2014, we operated 12.5 million access lines in 37 states, served approximately 6.1 million broadband subscribers, and operated 58 data centers throughout North America, Europe and Asia. Access lines are telephone lines reaching from the customers' premises to a connection with the public switched telephone network and broadband subscribers are customers who purchase high-speed internet connection services through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables. Our methodology for counting access lines, subscriber lines and data centers, which is described further in the operational metrics table below under "Results of Operations", may not be comparable to those of other companies.

We currently report the following four segments in our consolidated financial statements:

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

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

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

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

Our segment information does not include capital expenditures, total assets, or certain revenues and expenses that we manage on a centralized basis and are reviewed by our chief operating decision maker ("CODM") only on a consolidated basis. Our segment results are not necessarily indicative of the results of operations that our segments would have achieved had they operated as stand-alone entities during the periods presented. For additional information about our segments, see Note 7—Segment Information to our consolidated financial statements in Item 1 of Part I of this report and "Results of Operations—Segment Results" below.

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. The change in our organizational structure will likely result in some modification of our segment reporting, which we expect to finalize in the fourth quarter of 2014 and report in our consolidated financial statements for the year ending December 31, 2014.

Results of Operations

The following table summarizes the results of our consolidated operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Dollars in millions except per share amounts)			
Operating revenues	\$4,514	4,515	13,593	13,553
Operating expenses	3,895	5,200	11,666	12,741
Operating income (loss)	619	(685)	1,927	812
Other income (expense)	(320)	(320)	(974)	(918)
Income tax expense	111	40	369	372
Net income (loss)	\$188	(1,045)	584	(478)
Basic earnings (loss) per common share	\$0.33	(1.76)	1.03	(0.79)
Diluted earnings (loss) per common share	\$0.33	(1.76)	1.02	(0.79)

The following table summarizes our broadband subscribers, access lines, data centers and number of employees as of September 30, 2014 and 2013:

	As of September 30,		Increase / (Decrease)	% Change
	2014	2013		
	(in thousands except for data centers, which are actual amounts)			
Operational metrics:				
Total broadband subscribers ⁽¹⁾	6,063	5,942	121	2.0%
Total access lines ⁽¹⁾	12,537	13,150	(613)	(4.7)%
Total data centers ⁽²⁾	58	55	3	5.5%
Total employees	45.1	46.7	(1.6)	(3.4)%

Broadband subscribers are customers that purchase high-speed Internet connection service through their existing telephone lines, stand-alone telephone lines, or fiber-optic cables, and access lines are lines reaching from the customers' premises to a connection with the public network. Our methodology for counting our broadband subscribers and access lines includes only those lines that we use to provide services to external customers and excludes lines used solely by us and our affiliates. It also excludes unbundled loops and includes stand-alone broadband subscribers. We count lines when we install the service.

⁽²⁾ Data centers are located throughout North America, Europe and Asia.

During the last several years, we have experienced revenue decline (excluding the impact of acquisitions) primarily due to declines in access lines, access rates and minutes of use. To mitigate these declines, we remain focused on efforts to, among other things:

- promote long-term relationships with our customers through bundling of integrated services;
- provide a wide array of diverse services, including additional services that may become available in the future due to, among other things, advances in technology or improvements in our infrastructure;
- provide our broadband and premium services to a higher percentage of our customers;
- pursue acquisitions of additional assets if available at attractive prices;
- increase prices on our products and services if and when practicable;
- increase usage of our networks; and
- market our products and services to new customers.

Operating Revenues

We categorize our products, services and revenues among the following four categories:

Strategic services, which include primarily broadband, private line (including special access, which we market to wholesale and business customers), MPLS (which is a data networking technology that can deliver the quality of service required to support real-time voice and video service), hosting (including cloud hosting and managed hosting), colocation, Ethernet, video (including our facilities-based video services, which we now offer in twelve markets, and our resold satellite service), VoIP and Verizon Wireless services;

Legacy services, which include primarily local, long-distance, switched access, Integrated Services Digital Network ("ISDN") (which uses regular telephone lines to support voice, video and data applications), and traditional wide area network ("WAN") services (which allow a local communications network to link to networks in remote locations);

Data integration, which includes the sale of telecommunications equipment located on customers' premises and related professional services, such as network management, installation and maintenance of data equipment and building of proprietary fiber-optic broadband networks for our governmental and business customers; and

Other revenues, which consists primarily of USF revenue and surcharges. Unlike the first three revenue categories, other revenues are not included in our segment revenues.

The following tables summarize the amount of our operating revenues recorded under our four revenue categories:

	Three Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
	(Dollars in millions)				
Strategic services	\$2,310	2,212	98	4	%
Legacy services	1,769	1,892	(123)	(7)	%
Data integration	185	163	22	13	%
Other	250	248	2	1	%
Total operating revenues	\$4,514	4,515	(1)	—	%
	Nine Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
	(Dollars in millions)				
Strategic services	\$6,889	6,562	327	5	%
Legacy services	5,401	5,767	(366)	(6)	%
Data integration	546	470	76	16	%
Other	757	754	3	—	%
Total operating revenues	\$13,593	13,553	40	—	%

Our total operating revenues decreased by \$1 million, or less than 1%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to the continued decline in our legacy services revenues, which were substantially offset by the increases in strategic services revenues and data integration. Our total operating revenues increased by \$40 million, or less than 1%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to strong growth in both strategic services revenues and data integration, which were partially offset by a decline in legacy services revenues. The growth in our strategic services revenues is primarily due to increases in broadband, Ethernet, MPLS, facilities-based video, managed hosting and colocation services, which were slightly offset by declines in private line (including special access) services. The increase in data integration revenues, which are typically more volatile than several of our other sources of revenue, is primarily due to higher sales of customer premise equipment to governmental and business customers during the periods noted above. The decrease in legacy services revenues is attributable to declining local, long-distance and access services which reflect the continuing loss of access lines and loss of associated access revenues. At September 30, 2014, we had approximately 12.5 million access lines, or approximately 4.7% less than the number of access lines we operated at September 30, 2013. We believe the decline in the number of access lines was primarily due to the displacement of traditional wireline telephone services by other competitive products and services, including internet and wireless communication services. We estimate that the rate of our access lines losses will be between 4.4% and 5.0% over the full year of 2014. Other operating revenues increased for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013 primarily due to higher revenues related to an increased universal service fund contribution factor, which were substantially offset by lower revenues from intrastate universal service funds.

During 2013, operating revenues attributable to certain bundled and Competitive Local Exchange Carrier ("CLEC") retail services were revised, which resulted in a net increase to strategic service revenues of \$22 million and \$67 million, and a corresponding net reduction to legacy services revenues of \$22 million and \$67 million for the three and nine months ended September 30, 2013, respectively. For additional information on the revisions to certain bundled and CLEC services, see Note 7—Segment Information to our consolidated financial statements in Item 1 of Part I of this report.

Further analysis of our operating revenues by segment is provided below in "Segment Results."

Operating Expenses

Total operating expenses decreased by \$1.3 billion, or 25%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and operating expenses decreased by \$1.1 billion, or 8%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

The following tables summarize our operating expenses:

	Three Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
	(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$1,975	1,918	57	3	%
Selling, general and administrative	823	1,047	(224)	(21)	%
Depreciation and amortization	1,097	1,135	(38)	(3)	%
Impairment of goodwill	—	1,100	(1,100)	(100)	%
Total operating expenses	\$3,895	5,200	(1,305)	(25)	%
	Nine Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
	(Dollars in millions)				
Cost of services and products (exclusive of depreciation and amortization)	\$5,872	5,587	285	5	%
Selling, general and administrative	2,497	2,679	(182)	(7)	%
Depreciation and amortization	3,297	3,375	(78)	(2)	%

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Impairment of goodwill	—	1,100	(1,100) (100)%
Total operating expenses	\$11,666	12,741	(1,075) (8)%

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Cost of services and products (exclusive of depreciation and amortization) increased by \$57 million, or 3%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to increases in customer premise equipment installation expenses related to the increase in data integration revenues, facility and network costs and Prism TV programming expenses. Cost of services and products (exclusive of depreciation and amortization) increased by \$285 million, or 5%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increases in employee-related costs, customer premise equipment installation expenses related to the increase in data integration revenues, facility and network costs, real estate and power costs and Prism TV programming expenses.

Selling, general and administrative expenses decreased by \$224 million, or 21%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to a decrease in legal costs associated with the establishment of a legal reserve of \$233 million during the third quarter of 2013 in connection with settling a litigation matter. The decrease was partially offset by an increase in employee-related costs (including severance costs). Selling, general and administrative expenses decreased by \$182 million, or 7%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to the above-mentioned \$233 million decrease in legal reserves from the prior year's litigation settlement. The decrease was partially offset by increases in employee-related costs (including severance costs), marketing and advertising expenses and impairment charges related to office buildings currently being marketed and classified as assets held for sale.

Depreciation and amortization expenses decreased by \$38 million, or 3%, and by \$78 million, or 2%, for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013.

Depreciation expense was \$736 million for the three months ended September 30, 2014 as compared to \$747 million for the three months ended September 30, 2013. Depreciation expense was \$2.2 billion for both the nine months ended September 30, 2014 and 2013. Annual depreciation expense is impacted by several factors, including changes in our depreciable cost basis, changes in our estimates of the remaining economic life of certain assets and the addition of new plant. The 2014 depreciation expense related to our plant placed in service prior to 2014 is expected to be lower than the 2013 depreciation expense due to our plant aging and becoming fully depreciated or retired. This decrease is expected to be partially offset by new plant additions in 2014 and changes in the estimated lives of certain property, plant and equipment. During January 2014, we implemented changes in estimates that reduced the remaining economic lives of certain switch and circuit network equipment which we expect to result in increased 2014 annual depreciation expense. Additionally, we recently developed a plan to migrate customers from one of our networks to another between the fourth quarter of 2014 and the fourth quarter of 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. These changes will result in an increase in depreciation expense of approximately \$12 million for the three months ending December 31, 2014 and approximately \$48 million for 2015. We further expect depreciation expense will increase in the fourth quarter of 2014 compared to the third quarter of 2014 due to the timing of net additions of plant during 2014 and the additional depreciation related to anticipated changes in estimates to be implemented during the fourth quarter of 2014. For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation to our consolidated financial statements in Item 1 of Part I of this report.

Amortization expense decreased by \$27 million from \$388 million in the three months ended September 30, 2013 to \$361 million in the three months ended September 30, 2014 and decreased by \$67 million from approximately \$1.2 billion in the nine months ended September 30, 2013 to approximately \$1.1 billion in the nine months ended September 30, 2014 primarily due to the use of accelerated amortization methods for a portion of the customer relationship assets acquired in connection with the acquisitions of Embarq in 2009 and Qwest in 2011. These quarterly declines are expected to continue. Amortization of our software investments declined due to software becoming fully amortized faster than new software is acquired, which was partially offset by a change in the estimate of the remaining economic lives of the Savvis trade name and certain cloud software. For more information about the changes in our estimates of the remaining economic lives of these assets, see Note 1—Basis of Presentation to our consolidated financial statements in Item 1 of Part I of this report.

Goodwill Impairment

As of September 30, 2013, we tested our reporting units, which were our four current operating segments (consumer, business, wholesale and hosting), for goodwill impairment. As explained in greater detail in Note 3—Goodwill, Customer Relationships and Other Intangible Assets to our consolidated financial statements in Item 8 of Part II of our Annual Report Form 10-K for the year ended December 31, 2013, we concluded that our goodwill for the hosting segment was impaired as of September 30, 2013, and we recorded, during the third quarter of 2013, our best estimate of a non-cash, non-tax deductible goodwill impairment charge of \$1.1 billion for goodwill attributable to our hosting segment. Upon the completion of our analysis during the following quarter, we reduced the charge to \$1.092 billion as we recorded goodwill at its implied fair value.

During the fourth quarter of 2013, we elected to change the date of our annual assessment of goodwill impairment from September 30 to October 31, commencing October 31, 2014. Management believes this change more closely aligns the new assessment date with our strategic planning process. On October 31, 2014, we began our annual goodwill impairment assessment on our four current operating segments. As of this report date, we have not completed our goodwill impairment assessment and are unable to conclude whether or not the goodwill assigned to our operating segments is impaired. You should be aware that, as of the date of our prior quantitative assessment (September 30, 2013), the estimated fair value of our consumer segment equity exceeded its carrying value of equity by only 8%, and, after recording an impairment charge to the hosting segment, the estimated fair value of its equity equaled the carrying value of its equity. Please see the above-referenced Note 3 for additional information. We will finalize our assessment in the fourth quarter of 2014.

Further analysis of our operating expenses by segment is provided below in "Segment Results."

Other Consolidated Results

The following tables summarize our total other income (expense) and income tax expense:

	Three Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
(Dollars in millions)					
Interest expense	\$(325)	(329)	) (4	) (1))%
Other income, net	5	9	(4	) (44)%
Total other income (expense)	\$(320)	(320)) —	—	%
Income tax expense	\$111	40	71	178	%
	Nine Months Ended September		Increase / (Decrease)	% Change	
	30, 2014	2013			
(Dollars in millions)					
Interest expense	\$(981)	(970)	) 11	1	%
Other income, net	7	52	(45	) (87)%
Total other income (expense)	\$(974)	(918)	) 56	6	%
Income tax expense	\$369	372	(3	) (1)%

Interest Expense

Interest expense decreased by \$4 million, or 1%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to a reversal of an interest expense reserve as a result of a settlement of an operating tax liability. Interest expense increased by \$11 million, or 1%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to a higher average outstanding debt balance in 2014 and a reduction in the amortization of debt premiums, which were partially offset by a slightly lower weighted average interest rate, the reversal of certain tax interest reserves and increased capitalized interest.

Other Income, Net

Other income, net reflects certain items not directly related to our core operations, including our share of income from our 49% interest in a cellular partnership, interest income, gains and losses from non-operating asset dispositions and foreign currency gains and losses. Other income, net decreased by \$4 million, or 44%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to greater losses on foreign currency transactions in the current period as compared to the same 2013 period. Other income, net decreased by \$45 million, or 87%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to a second quarter of 2014 impairment charge of \$14 million recorded in connection with the pending sale of our 700 MHz A-Block wireless spectrum licenses and a \$32 million gain on the sale of wireless spectrum in the first quarter of 2013. The sale of our 700 MHz A-Block wireless spectrum licenses closed on November 3, 2014, and we received \$39 million in cash in the aggregate.

Income Tax Expense

For the three months ended September 30, 2014 and 2013, our effective income tax rate was 37.1% and (4.0)%, respectively, and for the nine months ended September 30, 2014 and 2013, our effective income tax rate was 38.7% and (350.9)%, respectively. The effective tax rate for the three months ended September 30, 2014, includes a year-to-date adjustment related to our forecast of taxes on foreign income and the effects of discontinuance of the Employee Stock Purchase Plan. The effective tax rate for the nine months ended September 30, 2014, reflects the absence of tax benefits from the impairment of our 700 MHz A-Block wireless spectrum licenses, because we are not likely to generate income of a character required to realize a tax benefit from the loss on ultimate disposition. The effective tax rates for the three and nine months ended September 30, 2013, reflects the net impact of the \$1.1 billion non-deductible goodwill impairment recorded in the third quarter of 2013, a favorable settlement with the Internal Revenue Service of \$33 million recorded in the second quarter of 2013 and an unfavorable accounting adjustment for nondeductible life insurance costs recorded in the first quarter of 2013.

Segment Results

General

Our segment results are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2014	2013	2014	2013	
	(Dollars in millions)				
Total segment revenues	\$4,264	4,267	12,836	12,799	
Total segment expenses	2,161	2,089	6,378	6,056	
Total segment income	\$2,103	2,178	6,458	6,743	
Total margin percentage	49	% 51	% 50	% 53	%
Consumer:					
Revenues	\$1,491	1,503	4,500	4,508	
Expenses	611	605	1,793	1,728	
Income	\$880	898	2,707	2,780	
Margin percentage	59	% 60	% 60	% 62	%
Business:					
Revenues	\$1,569	1,544	4,692	4,574	
Expenses	997	932	2,935	2,701	
Income	\$572	612	1,757	1,873	
Margin percentage	36	% 40	% 37	% 41	%
Wholesale:					
Revenues	\$843	878	2,571	2,694	
Expenses	285	293	844	868	
Income	\$558	585	1,727	1,826	
Margin percentage	66	% 67	% 67	% 68	%
Hosting:					
Revenues	\$361	342	1,073	1,023	
Expenses	268	259	806	759	
Income	\$93	83	267	264	
Margin percentage	26	% 24	% 25	% 26	%

During the first quarter of 2014, we adopted several changes with respect to the assignment of certain expenses to our segments. We have restated the previously reported segment results for the three and nine months ended September 30, 2013 to conform to the current presentation. For additional information on these changes, see Note 7—Segment Information to our consolidated financial statements in Item 1 of Part I of this report.

Our segment revenues include all revenues from our strategic and legacy services and data integration as described in more detail above. We assign each of our customers to a single segment and report all of the revenues we derive from that customer to that segment, with the exception of hosting revenue generated from business and wholesale customers, which is reported in hosting segment revenues. We report our segment expenses for our four segments as follows:

Direct expenses, which primarily are specific expenses incurred as a direct result of providing services and products to segment customers, along with selling, general and administrative expenses that are directly associated with specific segment customers or activities; and

Allocated expenses, which include network expenses, facilities expenses and other expenses such as fleet and real estate expenses.

We do not assign depreciation and amortization expense or impairments to our segments, as the related assets and capital expenditures are centrally managed and are not monitored by or reported to the chief operating decision maker ("CODM") by segment. Similarly, we do not assign to our segments severance expenses, restructuring expenses and, certain centrally managed administrative functions (such as finance, information technology, legal and human resources). Interest expense is also excluded from segment results because we manage our financing on a total company basis and have not allocated assets or debt to specific segments. Similarly, we exclude other income (expense) from our segment results.

Consumer

The operations of our consumer segment have been impacted by several significant trends, including those described below:

Strategic services. In order to remain competitive and attract additional residential broadband subscribers, we believe it is important to continually increase our broadband network's scope and connection speeds. As a result, we continue to invest in our broadband network, which allows for the delivery of higher speed broadband services to a greater number of customers. We compete in a maturing broadband market in which most consumers already have broadband services and growth rates in new subscribers have slowed. Moreover, as described further in Item 1A of Part II of this report, demand for our broadband services could be adversely affected by competitors continuing to provide services at higher broadband speed than ours or expanding their advanced wireless data service offerings. We also continue to expand our other strategic product offerings, including facilities-based video services. The expansion of our facilities-based video service infrastructure requires us to incur start-up expenses in advance of the revenue that this service is expected to generate. Although, over time, we expect that our revenue for facilities-based video services will offset the expenses incurred, the timing of this revenue growth is uncertain and the video business is growing increasingly competitive. We believe these efforts to expand our strategic products will improve our ability to compete and increase our strategic revenues;

Legacy services. Our voice revenues have been, and we expect they will continue to be, adversely affected by access line losses. Intense competition and product substitution continue to drive our access line losses. For example, many consumers are substituting cable and wireless voice services and electronic mail, texting and social networking non-voice services for traditional voice telecommunications services. We expect that these factors will continue to negatively impact our business. As a result of the expected loss of high margin services associated with access lines, we continue to offer our customers service bundling and other product promotions to help mitigate this trend, as described below;

Service bundling and product promotions. We offer our customers the ability to bundle multiple products and services. These customers can bundle local services with other services such as broadband, video, long-distance and wireless. While we believe our bundled service offerings can help retain customers, they also tend to lower our profit margins in the consumer segment; and

Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our consumer segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our consumer segment:

	Consumer Segment		Increase / (Decrease)	% Change	
	Three Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues:					
Strategic services	\$712	669	43	6	%
Legacy services	778	833	(55)	(7))%
Data integration	1	1	—	—	%
Total revenues	1,491	1,503	(12)	(1))%
Segment expenses:					
Direct	486	481	5	1	%
Allocated	125	124	1	1	%
Total expenses	611	605	6	1	%
Segment income	\$880	898	(18)	(2))%
Segment margin percentage	59	% 60	%		

	Consumer Segment		Increase / (Decrease)	% Change	
	Nine Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues:					
Strategic services	\$2,123	1,967	156	8	%
Legacy services	2,374	2,537	(163)	(6))%
Data integration	3	4	(1)	(25))%
Total revenues	4,500	4,508	(8)	—	%
Segment expenses:					
Direct	1,430	1,375	55	4	%
Allocated	363	353	10	3	%
Total expenses	1,793	1,728	65	4	%
Segment income	\$2,707	2,780	(73)	(3))%
Segment margin percentage	60	% 62	%		

Segment Revenues

Consumer revenues decreased by \$12 million, or 1%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and decreased by \$8 million, or less than 1%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in strategic services revenues for both periods was due primarily to increases in the number of our facilities-based video customers and increases in the number of broadband subscribers, as well as from price increases on various services. The decline in legacy services revenues for both periods was primarily due to declines in local and long-distance service volumes associated with access line losses resulting from the competitive and technological changes described above.

Segment Expenses

Consumer expenses increased by \$6 million, or 1%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to an increase in programming expenses for Prism TV content resulting from subscriber growth in our Prism TV markets, which were partially offset by decreases in employee-related costs. Consumer expenses increased by \$65 million, or 4%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increases in marketing and advertising expenses, Prism TV content resulting from subscriber growth in our Prism TV markets and the number of modems shipped for Prism customer premise equipment, which were partially offset by reductions in employee-related costs.

Segment Income

Consumer income decreased by \$18 million, or 2%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and decreased by \$73 million, or 3%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decline in consumer segment income for both periods was primarily due to customers migrating from legacy services to lower margin strategic services, which caused our segment expenses to increase at a faster pace than segment revenues.

Business

The operations of our business segment have been impacted by several significant trends, including those described below:

Strategic services. Our mix of total segment revenues continues to migrate from legacy services to strategic services as our commercial, enterprise, global and governmental customers increasingly demand customized and integrated data, Internet and voice services. We offer diverse combinations of emerging technology products and services such as private line, MPLS, and VoIP services. We believe these services afford our customers more flexibility in managing their communications needs and improve the effectiveness and efficiency of their operations. Although we are experiencing price compression on our strategic services due to competition, we expect strategic revenues from these services to continue to grow during 2014;

Legacy services. We face intense competition with respect to our high margin legacy services and continue to see customers migrating away from these services and into lower margin strategic services. In addition, our legacy services revenues have been, and we expect they will continue to be, adversely affected by access line losses and price compression;

Data integration. We expect both data integration revenue and the related costs will fluctuate from quarter to quarter as this offering tends to be more sensitive than others to changes in the economy and in spending trends of our federal, state and local governmental customers, many of whom have recently experienced substantial budget cuts with the possibility of additional future budget cuts; and

Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions, while achieving operational efficiencies and improving our processes through automation. However, our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas, including the hiring of additional sales employees. We also expect our business segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our business segment:

	Business Segment		Increase / (Decrease)	%Change	
	Three Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues:					
Strategic services	\$677	638	39	6	%
Legacy services	708	744	(36)	(5))%
Data integration	184	162	22	14	%
Total revenues	1,569	1,544	25	2	%
Segment expenses:					
Direct	885	816	69	8	%
Allocated	112	116	(4)	(3))%
Total expenses	997	932	65	7	%
Segment income	\$572	612	(40)	(7))%
Segment margin percentage	36	% 40	%		

	Business Segment		Increase / (Decrease)	%Change	
	Nine Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues:					
Strategic services	\$1,995	1,867	128	7	%
Legacy services	2,154	2,241	(87)	(4))%
Data integration	543	466	77	17	%
Total revenues	4,692	4,574	118	3	%
Segment expenses:					
Direct	2,605	2,373	232	10	%
Allocated	330	328	2	1	%
Total expenses	2,935	2,701	234	9	%
Segment income	\$1,757	1,873	(116)	(6))%
Segment margin percentage	37	% 41	%		

Segment Revenues

Business segment revenues increased by \$25 million, or 2%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and increased by \$118 million, or 3%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in business segment revenues for both periods was primarily due to growth in our strategic services revenues and data integration revenues, which were partially offset by a decline in legacy services revenues. The growth in our strategic services revenues for both periods was primarily due to strong MPLS unit growth and higher Ethernet volume, which were slightly offset by a decline in private line (including special access) services. The increase in data integration revenues for both periods was primarily due to higher sales of customer premise equipment to governmental and business customers during the period. The decline in legacy services revenues for both periods was attributable to lower volumes of local and traditional WAN services.

Segment Expenses

Business expenses increased by \$65 million, or 7%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to increases in employee-related expenses attributable to higher wages and benefits, customer premise equipment costs resulting from the higher governmental and business sales noted above and facility costs driven by MPLS unit growth. Business expenses increased by \$234 million, or 9%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increases in employee-related expenses attributable to higher wages, benefits and internal commissions, professional fees, customer premise equipment costs resulting from higher governmental and business sales noted above and facility costs driven by MPLS unit growth.

Segment Income

Business income decreased by \$40 million, or 7%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and decreased by \$116 million, or 6%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decrease in business segment income for both periods was primarily due to customers migrating from legacy services to lower margin strategic services, which caused our segment expenses to increase at a faster pace than segment revenues.

Wholesale

The operations of our wholesale segment have been impacted by several significant trends, including those described below:

Strategic services. Demand for our private line services (including special access) continues to decline due to our customers' optimization of their networks, industry consolidation and technological migration. While we expect that these factors will continue to negatively impact our wholesale segment, we believe the demand for our fiber-based special access services provided to wireline and wireless carriers for backhaul will partially offset the decline in copper-based special access services provided to wireline and wireless carriers as they migrate to Ethernet services, although the timing and magnitude of this technological migration remains uncertain;

Legacy services. Our access, local services and long-distance revenues have been and we expect will continue to be adversely affected by customer migration to more technologically advanced services, declining demand for traditional voice services, industry consolidation and price compression caused by regulation and rate reductions. For example, many wholesale consumers are substituting cable, wireless and VoIP services for traditional voice telecommunications services, resulting in continued access revenue loss. Our switched access revenues have been and will continue to be impacted by changes related to the Connect America and Intercarrier Compensation Reform order ("CAF order") adopted by the Federal Communications Commission ("FCC") on October 27, 2011, which we believe has increased the pace of reductions in the amount of switched access revenues we receive in our wholesale segment. Conversely, the FCC instituted an access recovery charge that we believe will allow us to recover the majority of these lost revenues directly from end users in our consumer and business segments. We expect the net effect of these factors will continue to adversely impact our wholesale segment; and

Operating efficiencies. We continue to evaluate our operating structure and focus. This involves balancing our segment workforce in response to our workload requirements, productivity improvements and changes in industry, competitive, technological and regulatory conditions. We also expect our wholesale segment to benefit indirectly from enhanced efficiencies in our company-wide network operations.

The following tables summarize the results of operations from our wholesale segment:

	Wholesale Segment				
	Three Months Ended September				
	30,		Increase /		% Change
	2014	2013	(Decrease)		
	(Dollars in millions)				
Segment revenues:					
Strategic services	\$560	563	(3	) (1)%
Legacy services	283	315	(32	) (10)%
Total revenues	843	878	(35	) (4)%
Segment expenses:					
Direct	47	46	1	2	%
Allocated	238	247	(9	) (4)%
Total expenses	285	293	(8	) (3)%
Segment income	\$558	585	(27	) (5)%
Segment margin percentage	66	% 67	%		

	Wholesale Segment				
	Nine Months Ended September 30,				
	2014	2013	Increase /		% Change
	(Dollars in millions)		(Decrease)		
Segment revenues:					
Strategic services	\$1,698	1,705	(7) —	%
Legacy services	873	989	(116	) (12)%
Total revenues	2,571	2,694	(123	) (5)%
Segment expenses:					
Direct	134	126	8	6	%
Allocated	710	742	(32	) (4)%
Total expenses	844	868	(24	) (3)%
Segment income	\$1,727	1,826	(99	) (5)%
Segment margin percentage	67	% 68	%		

Segment Revenues

Wholesale revenues decreased by \$35 million, or 4%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and decreased by \$123 million, or 5%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decline in legacy services revenues for both periods reflects continuing declines in the volume of our access and long-distance services due to the substitution of cable, wireless and VoIP services for traditional voice telecommunications services. The decline in strategic services revenues for both periods was due to lower private line and special access services revenues, which were substantially offset by an increase in the volume of our Ethernet services.

Segment Expenses

Wholesale expenses decreased by \$8 million, or 3%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Total direct expenses remained flat for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Allocated expenses for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 decreased primarily due to a reduction in allocated facility costs and employee salaries. Wholesale expenses decreased by \$24 million, or 3%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Total direct expenses increased for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increases in access expense and amortization of deferred costs for new circuit installations. Allocated expenses for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 decreased primarily due to lower allocated facility costs and employee related expenses.

Segment Income

The decline in segment expenses was more than offset by declines in both strategic and legacy services revenues, which largely contributed to the lower wholesale segment income of \$27 million, or 5%, and \$99 million, or 5%, for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013.

Hosting

The operations of our hosting segment have been impacted by several significant trends, including those described below:

Colocation. Colocation services are designed for customers seeking data center space and power for their server and networking equipment needs. Our data centers provide our customers around the world with a secure, high-powered, purpose-built location for their IT equipment. We anticipate continued pricing pressure for these services as wholesale vendors continue to expand their enterprise colocation operations. We believe, however, that our hybrid data centers, which offer multiple products and services (including colocation, managed hosting, cloud and network services), will help differentiate our products and services from those offered by competitors with a narrower range of products and services;

Managed hosting. Managed hosting services provide a fully managed solution for customers' IT infrastructure and network needs, and include dedicated and cloud hosting services, computing capacity, consulting and managed security services. We have remained focused on expanding our managed hosting business, specifically our cloud services offering, by endeavoring to add differentiating features to our cloud products and acquiring additional companies that we believe have strengthened our cloud products. In recent years, our competitors, as well as several large diversified technology companies, have made substantial investments in cloud computing, which has intensified competitive pressures. We believe that this expansion in competitive cloud computing offerings has led to increased pricing pressure and competition for enterprise customers, and expect those trends to continue;

Network services. Network services are comprised of our hosting area network products supporting colocation and managed hosting service offerings. Network services also include managed VPN and bandwidth services. Segment income for these services has been relatively flat due to pricing pressures on VPN and bandwidth services, and a decrease in the volume of our hosting area network services; and

Operating efficiencies. We continue to evaluate our operating structure and focus. Our ongoing efforts to increase revenue will continue to require that we incur higher costs in some areas, including the hiring of additional sales employees.

The following tables summarize the results of operations from our hosting segment, which are all categorized as strategic services:

	Hosting Segment		Increase / (Decrease)	% Change	
	Three Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues	\$361	342	19	6	%
Segment expenses	268	259	9	3	%
Segment income	\$93	83	10	12	%
Segment margin percentage	26	% 24	%		
	Hosting Segment		Increase / (Decrease)	% Change	
	Nine Months Ended September 30, 2014	2013			
	(Dollars in millions)				
Segment revenues	\$1,073	1,023	50	5	%
Segment expenses	806	759	47	6	%
Segment income	\$267	264	3	1	%
Segment margin percentage	25	% 26	%		

Segment Revenues

Hosting revenues increased by \$19 million, or 6%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 and increased by \$50 million, or 5%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The increase in segment revenues for both periods was primarily due to growth in managed hosting and colocation services, which were slightly offset by a decline in MPLS services. The increase in revenues for both periods was driven by customer growth and the impact of revenues contributed from recent acquisitions.

Segment Expenses

Hosting expenses increased by \$9 million, or 3%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to increases in employee related costs, network expenses and real estate and power costs, which were partially offset by a decrease in facility costs. Hosting expenses increased by \$47 million, or 6%, for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to increases in employee related costs, professional fees, network expenses, external commissions and real estate and power costs, which were partially offset by a reduction in facility costs.

Segment Income

Hosting income increased by \$10 million, or 12%, for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013 primarily due to the increase in segment revenues out pacing segment expenses. Hosting income remained largely flat for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013.

Liquidity and Capital Resources

Overview

At September 30, 2014, we held cash and cash equivalents of \$734 million and we had approximately \$1.4 billion of borrowing capacity available under our \$2.0 billion revolving credit facility (referred to as our "Credit Facility", which is described further below). At September 30, 2014, cash and cash equivalents of \$79 million were held in foreign bank accounts for the purpose of funding our foreign operations. Due to various factors, our access to foreign cash is generally much more restricted than our access to domestic cash.

We and our Board of Directors monitor our use of cash throughout the year, but with enhanced scrutiny early each year in connection with the review of annual budgets. In connection with our budgeting process in early 2014, our executive officers and our Board of Directors reviewed our sources and potential uses of cash over the next several years, including among other things the previously-disclosed effect of the anticipated depletion of our federal net operating loss carryforwards by the end of 2015 and the implementation of a new 2014 share repurchase program. Based on our current capital allocation objectives, during the last three months of 2014 we anticipate expending approximately \$930 million of cash for capital investment in property, plant and equipment and up to \$308 million for dividends on our common stock, based on the current quarterly common stock dividend rate of \$0.54 and the current number of outstanding common shares. Following our payment of \$600 million aggregate principal amount to retire QC's notes due on October 1, 2014, we expect to pay, during the remainder of the fourth quarter of 2014, scheduled debt principal payments of \$6 million and scheduled capital lease and other obligation payments of approximately \$35 million. We also anticipate expending cash for repurchasing common stock, but the amount will largely depend on market conditions.

We will continue to monitor our future sources and uses of cash, and anticipate that we will make adjustments to our capital allocation strategies when, as and if determined by our Board of Directors. We use our revolving credit facility as a source of liquidity for operating activities and to give us additional flexibility to finance, among other things, our capital investments, repayments of debt, pension contributions, dividends or stock repurchases.

Capital Expenditures

We incur capital expenditures on an ongoing basis in order to enhance and modernize our networks, compete effectively in our markets and expand our service offerings. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations. Based on our current objectives, we estimate our total capital expenditures to be approximately \$930 million for the remaining three months of 2014. Our capital expenditures continue to be focused on our strategic services such as video, broadband and managed hosting services. In particular, we expect to continue to focus on (i) expanding our fiber infrastructure, including installations of "fiber to the tower," which is a type of telecommunications network consisting of fiber-optic cables that run from a wireless carrier's mobile telephone switching office to cellular towers to enable the delivery of higher bandwidth services supporting mobile technologies than would otherwise generally be available through a more traditional copper-based telecommunications network and (ii) software development. For more information on capital spending, see Items 1 and 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

Debt and Other Financing Arrangements

Subject to market conditions, we expect to continue to issue debt securities from time to time in the future to refinance a substantial portion of our maturing debt, including issuing Qwest Corporation debt securities to refinance its maturing debt to the extent feasible. The availability, interest rate and other terms of any new borrowings will depend on the ratings assigned to us and Qwest Corporation by credit rating agencies, among other factors.

As of the date of this report, the credit ratings for the senior unsecured debt of CenturyLink, Inc. and Qwest Corporation were as follows:

Agency	CenturyLink, Inc.	Qwest Corporation
Standard & Poor's	BB	BBB-
Moody's Investors Service, Inc.	Ba2	Baa3
Fitch Ratings	BB+	BBB-

Our credit ratings are reviewed and adjusted from time to time by the rating agencies, and downgrades of CenturyLink's senior unsecured debt ratings could, under certain circumstances, incrementally increase the cost of our borrowing under the Credit Facility. Moreover, any downgrades of CenturyLink's or Qwest Corporation's senior unsecured debt ratings could impact our access to debt capital or further raise our borrowing costs. See "Risk Factors—Risks Affecting our Liquidity and Capital Resources" in Item 1A of Part II of this report.

Dividends

We currently expect to continue our current practice of paying quarterly cash dividends in respect of our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason. In early 2013, our Board of Directors approved a 25.5% reduction in our quarterly common stock dividend rate to \$0.54 per share, which we believe resulted in a dividend payout rate that is more sustainable over the long-term, and thereby increased our flexibility to balance our multiple objectives of managing our business, paying our fixed commitments and returning cash to our shareholders. Assuming continued payment at this rate of \$0.54 per share, our total dividends paid each quarter would be approximately \$308 million based on our current number of outstanding shares (which does not reflect shares that we might repurchase or issue in future periods). See "Risk Factors—Risks Affecting Our Business" in Item 1A of Part II of this report and the discussion of our stock repurchase program below.

Stock Repurchase Programs

In February 2014, our Board of Directors authorized a new 24-month program to repurchase up to an aggregate of \$1 billion of our outstanding common stock. This new 2014 stock repurchase program took effect on May 29, 2014, immediately upon the completion of our predecessor 2013 stock repurchase program. As of September 30, 2014, we had approximately \$891 million remaining available for stock repurchases under this 2014 stock repurchase program. For the nine months ended September 30, 2014, we had repurchased 2.9 million shares for \$109 million or an average purchase price of \$37.29 per share under this 2014 stock repurchase program. The repurchased common stock has been retired. From October 1, 2014 through November 4, 2014, no additional shares were repurchased. We expect to continue executing this 2014 share repurchase program in open market transactions, subject to market conditions and other factors. For additional information on repurchases made during the three months ended September 30, 2014, see Item 2 of Part II of this report.

Credit Facilities

We have access to up to \$2 billion aggregate principal amount of revolving credit under an amended and restated revolving credit facility that matures in April 2017. The credit facility (the "Credit Facility") has 18 lenders, with commitments ranging from \$2.5 million to \$181 million and allows us to obtain revolving loans and to issue up to \$400 million of letters of credit, which upon issuance reduce the amount available for other extensions of credit. Interest is assessed on borrowings using either the LIBOR or the base rate (each as defined in the Credit Facility) plus an applicable margin between 1.25% and 2.25% per annum for LIBOR loans and 0.25% and 1.25% per annum for base rate loans depending on our then current senior unsecured long-term debt rating. Our obligations under the Credit Facility are currently guaranteed by three of our wholly-owned subsidiaries, Embarq, QCII and Savvis, Inc., one of QCII's wholly-owned subsidiaries and one of Savvis, Inc.'s wholly-owned subsidiaries. At September 30, 2014, we had \$585 million in borrowings and no amounts of letters of credit outstanding under the Credit Facility.

Under the Credit Facility, we, and our indirect subsidiary, Qwest Corporation, must maintain a debt to EBITDA (earnings before interest, taxes, depreciation and amortization, as defined in our Credit Facility) ratio of not more than 4.0:1.0 and 2.85:1.0, respectively, as of the last day of each fiscal quarter for the four quarters then ended. The Credit Facility also contains a negative pledge covenant, which generally requires us to secure equally and ratably any advances under the Credit Facility if we pledge assets or permit liens on our property for the benefit of other debtholders. The Credit Facility also has a cross payment default provision, and the Credit Facility and certain of our debt securities also have cross acceleration provisions. When present, these provisions could have a wider impact on liquidity than might otherwise arise from a default or acceleration of a single debt instrument. To the extent that our EBITDA (as defined in our Credit Facility) declines for any reason, our debt to EBITDA ratios under certain debt agreements will be adversely affected. This could reduce our financing flexibility due to potential restrictions on incurring additional debt under certain provisions of our debt agreements or, in certain circumstances, could result in a default under certain provisions of such agreements.

At September 30, 2014, we owed \$385 million under a term loan maturing in 2019, which includes covenants substantially the same as those set forth in the Credit Facility.

We have a \$160 million uncommitted revolving letter of credit facility which enables us to provide letters of credit under terms that may be more favorable than those under the Credit Facility. At September 30, 2014, our outstanding letters of credit totaled \$124 million under this facility.

Future Contractual Obligations

For information regarding our estimated future contractual obligations, see the MD&A discussion included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Pension and Post-retirement Benefit Obligations

We are subject to material obligations under our existing defined benefit pension plans and post-retirement benefit plans. The accounting unfunded status or benefit obligations as of December 31, 2013 of our defined benefit pension plans and post-retirement plans were \$1.055 billion and \$3.153 billion, respectively. See Note 8—Employee Benefits to our consolidated financial statements in Item 8 of Part II of our Annual Report Form 10-K for the year ended December 31, 2013 for additional information about our pension and post-retirement benefit arrangements.

Benefits paid by our qualified pension plans are paid through a trust that holds all plan assets. In the first nine months of 2014, we made cash contributions to the trust totaling \$157 million. Based on current laws and circumstances, we expect to be required to make approximately \$26 million in contributions to the plans in 2015. The amount of required contributions to our plans in 2016 and beyond will depend on a variety of factors, most of which are beyond our control, including earnings on plan investments, prevailing interest rates, demographic experience, changes in plan benefits and changes in funding laws and regulations.

Certain of our post-retirement health care and life insurance benefits plans are unfunded. Several trusts hold assets that are used to help cover the health care costs of certain retirees. As of December 31, 2013, the fair value of these trust assets was \$535 million; however, a portion of these assets is comprised of investments with restricted liquidity. We estimate that the more liquid assets in the trust will be adequate to provide continuing reimbursements for covered post-retirement health care costs for approximately three years. Thereafter, covered benefits will be paid either directly by us or from the trusts as the remaining assets become liquid. This projected three year period could be substantially shorter or longer depending on changes in healthcare cost trends, our actual returns on plan assets, the timing of maturities of illiquid plan assets, the actual timing of reimbursement payments and future changes in benefits.

For 2014, our estimated annual long-term rate of return is 7.5% and 7.3%, respectively, for the pension plan trust assets and post-retirement plans assets, in each case based on the assets currently held. However, actual returns could be substantially different.

For additional information on factors that could influence our funding commitments under these and other plans, see "Critical Accounting Policies and Estimates—Pension and Post-Retirement Benefits" in this Item 7 of Part II of our Annual Report Form 10-K for the year ended December 31, 2013 and "Risk Factors—Risks Affecting our Liquidity and Capital Resources—Increases in costs for pension and healthcare benefits for our active and retired employee may reduce our profitability and increase our funding commitments" in Item 1A of Part II of this report.

Net Operating Loss Carryforwards

We are currently using NOLs to offset a portion of our federal taxable income. Based on current laws and circumstances, we expect to deplete most of these NOLs and certain other deferred tax attributes by the end of 2014, and substantially all of these tax benefits by the end of 2015. Once our NOLs are fully utilized, we expect that the amounts of our cash flows dedicated to the payment of federal taxes will increase substantially. The amounts of those payments will depend upon many factors, including future earnings, tax law changes and future tax circumstances. For additional information, see "Risk Factors—Risks Affecting our Liquidity and Capital Resources" appearing in Item 1A of Part II of this report.

Connect America Fund

On October 27, 2011, the FCC adopted the Connect America and Intercarrier Compensation Reform order ("CAF order") intended to reform the existing regulatory regime to recognize ongoing shifts to new technologies. Among other changes, this initial ruling established the framework for a multi-year transition of federal universal service funding to a new system where such funding is explicitly targeted to the deployment and provisioning of broadband services in high cost areas. We expect the FCC to adopt detailed rules relating to this transition in late 2014 or early 2015.

Although we anticipate that the FCC's CAF rules will materially increase the federal support funding available to us, we also expect that to the extent we choose to accept these funds, we will incur significant incremental costs to provide the requisite broadband services. To the extent that we choose not to accept CAF funds in any state, we expect that those funds will be awarded at auction, and that our federal universal service support for that state will be ended, or significantly reduced.

For additional information, see "Risk Factors—Risks Relating to Legal and Regulatory Matters" in Item 1A of Part II of this report.

Historical Information

The following table summarizes our consolidated cash flow activities:

	Nine Months Ended September 30,		Increase / (Decrease)
	2014	2013	
	(Dollars in millions)		
Net cash provided by operating activities	\$3,937	4,408	(471)
Net cash used in investing activities	(2,113)	(2,117)	(4)
Net cash used in financing activities	(1,258)	(2,236)	(978)

Net cash provided by operating activities decreased by \$471 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to a decrease in the change in other current assets and liabilities, net, which includes a payment of approximately \$235 million in the first quarter of 2014 to settle certain litigation and a positive variance in net income adjusted for non-cash items. These decreases were substantially offset by positive variances in the changes in retirement benefits and other noncurrent assets and liabilities, net. For additional information about our operating results, see "Results of Operations" above. For additional information about the settlement payment, see Note 9—Other Financial Information to our consolidated financial statements in Item 1 of Part I of this report.

Net cash used in investing activities decreased by \$4 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to a decrease in payments for property, plant and equipment, which was substantially offset by the change in proceeds received from the sale of intangible assets. Net cash used in financing activities decreased by \$978 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 primarily due to reductions in net debt paydowns, common stock repurchases and dividend payments.

On September 29, 2014, QC issued \$500 million aggregate principal amount of 6.875% Notes due 2054, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of \$483 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, on or after October 1, 2019, at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to the redemption date.

On April 1, 2014, a subsidiary of Embarq paid at maturity the \$30 million principal amount of its 7.46% first mortgage bonds.

During the nine months ended September 30, 2014, we repurchased 16.7 million shares of the company's outstanding common stock in the open market. These shares were repurchased for an aggregate market price of \$542 million, or an average purchase price of \$32.55 per share. The repurchased common stock has been retired. For additional information, see "Liquidity and Capital Resources—Stock Repurchase Programs" above.

On October 1, 2014, QC paid at maturity the \$600 million principal amount of its 7.50% Notes, which is not reflected in the table above as it occurred subsequent to the nine months ended September 30, 2014.

Certain Matters Related to Acquisitions

Qwest's pre-acquisition debt obligations consisted primarily of debt securities issued by QCII and two of its subsidiaries while Savvis' remaining long-term debt obligations consist primarily of capital leases, the remaining outstanding portions of which are all now included in our consolidated debt balances. The indentures governing Qwest's debt securities contain customary covenants that restrict the ability of Qwest or its subsidiaries from making certain payments and investments, granting liens and selling or transferring assets. Based on current circumstances, we do not anticipate that these covenants will significantly restrict our ability to manage cash balances or transfer cash between entities within our consolidated group of companies as needed.

In accounting for the Qwest acquisition, we recorded Qwest's debt securities at their estimated fair values, which totaled \$12.292 billion as of April 1, 2011. Our acquisition date fair value estimates were based primarily on quoted market prices in active markets and other observable inputs where quoted market prices were not available. The fair value of Qwest's debt securities exceeded their stated principal balances on the acquisition date by \$693 million, which we recorded as a premium.

The table below summarizes the portions of this premium recognized as a reduction to interest expense or extinguished during the periods indicated:

	Nine Months Ended September 30, 2014	From April 1, 2011 through December 31, 2013	Total Since Acquisition
	(Dollars in millions)		
Amortized	\$36	302	338
Extinguished ⁽¹⁾	—	276	276
Total	\$36	578	614

⁽¹⁾ Extinguished in connection with the payment of Qwest debt securities prior to maturity.

The remaining premium of \$79 million as of September 30, 2014, will reduce interest expense in future periods, unless otherwise extinguished.

Other Matters

CenturyLink has cash management arrangements with certain of its principal subsidiaries, in which substantial portions of the subsidiaries' cash is regularly advanced to CenturyLink. Although CenturyLink periodically repays these advances to fund the subsidiaries' cash requirements throughout the year, at any given point in time CenturyLink may owe a substantial sum to our subsidiaries under these advances, which, in accordance with generally accepted accounting principles, are eliminated in consolidation and therefore not recognized on our consolidated balance sheets.

In July 2014, we entered into a definitive agreement to sell and assign our remaining 700 MHz wireless spectrum licenses for \$39 million in cash in the aggregate. The sale closed on November 3, 2014, and we received \$39 million in cash in the aggregate. Additionally, in July 2014, we entered into a definitive agreement to sell a building for \$14 million. This agreement was terminated in September 2014 and we continue to market it for sale. Also, in October of 2014, we entered into a separate definitive agreement to sell an office buildings for \$13 million, which we expect to close in the fourth quarter of 2014, subject to customary closing conditions.

We also are involved in various legal proceedings that could have a material adverse effect on our financial position. See Note 8—Commitments and Contingencies to our consolidated financial statements in Item 1 of Part I of this report for the current status of such legal proceedings.

Market Risk

We are exposed to market risk from changes in interest rates on our variable rate long-term debt obligations and fluctuations in certain foreign currencies. We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates.

Management periodically reviews our exposure to interest rate fluctuations and periodically implements strategies to manage the exposure. From time to time, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. As of September 30, 2014, we had no such instruments outstanding. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes.

We do not believe that there were any material changes to market risks arising from changes in interest rates for the nine months ended September 30, 2014, when compared to the disclosures provided in our Annual Report on Form 10-K for the year ended December 31, 2013.

Off-Balance Sheet Arrangements

We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support and we do not engage in leasing, hedging, or other similar activities that expose us to any significant liabilities that are not (i) reflected on the face of the consolidated financial statements, (ii) disclosed in Note 15—Commitments and Contingencies 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, 2013 or (iii) discussed under the heading "Market Risk" above.

Other Information

Our website is www.centurylink.com. We routinely post important investor information in the "Investor Relations" section of our website at ir.centurylink.com. The information contained on, or that may be accessed through, our website is not part of this quarterly report. You may obtain free electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports in the "Investor Relations" section of our website (ir.centurylink.com) under the heading "SEC Filings." These reports are available on our website as soon as reasonably practicable after we electronically file them with the SEC.

Certain of the industry and market data (such as the size of certain markets and our position within these markets) used throughout this report are based on independent industry publications, government publications, reports by market research firms or other published independent sources. Some market data and statistical information are also based on our good faith estimates, which are derived from our review of internal surveys, as well as the independent sources listed above. This information may prove to be inaccurate because of the method by which we obtain some of the data for our estimates or because this information cannot always be verified with certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy and completeness.

In addition to historical information, this MD&A includes certain forward-looking statements that are based upon our judgment and assumptions as of the date of this report concerning future developments and events, many of which are beyond our control. These forward-looking statements, and the assumptions upon which they are based, are inherently speculative and are subject to a number of 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 underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change, including product displacement; the effects of ongoing changes in the regulation of the communications industry (including the outcome of regulatory or judicial proceedings relating to intercarrier compensation, access charges, universal service, broadband deployment, data protection and net neutrality); our ability to effectively adjust to changes in the communications industry and changes in the composition of our markets and product mix caused by our recent acquisitions; our ability to successfully integrate recently-acquired operations into our incumbent operations, including the possibility that the anticipated benefits from our recent acquisitions cannot be fully realized in a timely manner or at all; our ability to effectively manage our expansion opportunities, including retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services, including our ability to effectively respond to increased demand for high-speed broadband services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the adverse impact on our business and network from possible equipment failures, security breaches or similar attacks on our network; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; our ability to use our net operating loss carryforwards in projected amounts; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to maintain favorable relations with our key business partners, suppliers, vendors, landlords and financial institutions; any adverse developments in legal or regulatory proceedings involving us; changes in our operating plans, corporate strategies, dividend payment plans or other capital allocation plans, including those caused by changes in our cash requirements, capital expenditure needs, debt obligations, pension funding requirements, cash flows, or financial position, or other similar changes; the effects of adverse weather; other risks referenced in this report (including in "Risk Factors" in Item 1A of Part II of this report) or from time to time in other of our filings with the SEC; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical, pension or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business and our recent acquisitions are described in greater detail in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, as updated and supplemented by our subsequent SEC reports, including this report. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the

extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. Given these uncertainties, we caution investors not to unduly rely on our forward-looking statements. We undertake no obligation to 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 this report, and is based upon, among other things, the existing regulatory and technological environment, industry and competitive conditions, and economic and market conditions, and our assumptions as of such date. We may change our intentions, strategies or plans (including our dividend or stock repurchase plans) at any time and without notice, based upon any changes in such factors, in our assumptions or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Liquidity and Capital Resources—Market Risk" in Item 2 of Part I above for quantitative and qualitative disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The effectiveness of our or any system of disclosure controls and procedures is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events and the inability to eliminate misconduct completely. As a result, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. By their nature, our or any system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, or the "Exchange Act") at September 30, 2014. Based on that evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures are designed, and are effective, to provide reasonable assurance that the information required to be disclosed by us in the reports that we file under the Exchange Act is timely recorded, processed, summarized and reported and to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including Messrs. Post and Ewing, in a manner that allows timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the third quarter of 2014 that materially affected, or that we believe are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information contained in Note 8—Commitments and Contingencies included in Item 1 of Part I of this report is incorporated herein by reference.

ITEM 1A. RISK FACTORS

The following discussion of “risk factors” identifies the most significant risks or uncertainties that could (i) materially and adversely affect our business, financial condition, results of operations, liquidity or prospects or (ii) cause our actual results to differ materially from our anticipated results or other expectations. The following information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this report. Please note that the following discussion is not intended to comprehensively list all risks or uncertainties faced by us. Our operations or actual results could also be similarly impacted by additional risks and uncertainties that are not currently known to us, that we currently deem to be immaterial or that are not specific to us, such as general economic conditions.

Risks Affecting Our Business

Increasing competition, including product substitution, continues to cause us to lose access lines, which has adversely affected and is expected to continue to adversely affect our operating results and financial condition.

Various developments over the past several years have caused us to continue to lose access lines and to experience increased competitive pressures impacting each of our business segments, and we expect these trends will continue. In addition to competition from larger national telecommunications providers, we are facing increasing competition from a variety of other sources, inclu