CENTURYLINK, INC
Form 10-Q
May 06, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

or

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

(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 ý No o

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 ý No o

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 ý | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

On April 30, 2015, there were 563,749,179 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 March 31, 2015 | 2014 |
|---|---|---|
| | (Dollars in millions except per share amounts and shares in thousands) | |
| OPERATING REVENUES | $4,451 | 4,538 |
| OPERATING EXPENSES | | |
| Cost of services and products (exclusive of depreciation and amortization) | 1,911 | 1,935 |
| Selling, general and administrative | 851 | 843 |
| Depreciation and amortization | 1,040 | 1,107 |
| Total operating expenses | 3,802 | 3,885 |
| OPERATING INCOME | 649 | 653 |
| OTHER (EXPENSE) INCOME | | |
| Interest expense | (328) | (331) |
| Other income, net | 2 | 9 |
| Total other expense, net | (326) | (322) |
| INCOME BEFORE INCOME TAX EXPENSE | 323 | 331 |
| Income tax expense | 131 | 128 |
| NET INCOME | $192 | 203 |
| BASIC AND DILUTED EARNINGS PER COMMON SHARE | | |
| BASIC | $0.34 | 0.35 |
| DILUTED | $0.34 | 0.35 |
| DIVIDENDS DECLARED PER COMMON SHARE | $0.54 | 0.54 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | | |
| BASIC | 561,969 | 574,535 |
| DILUTED | 563,505 | 575,456 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Dollars in millions) | |
| NET INCOME | $ 192 | 203 |
| OTHER COMPREHENSIVE INCOME: | | |
| Items related to employee benefit plans: | | |
| Change in net actuarial loss, net of $(15) and $(2) tax | 23 | 3 |
| Change in net prior service credit, net of $(2) and $(2) tax | 4 | 3 |
| Foreign currency translation adjustment and other, net of $— and $— tax | (11) | 1 |
| Other comprehensive income | 16 | 7 |
| COMPREHENSIVE INCOME | $ 208 | 210 |

See accompanying notes to consolidated financial statements.

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CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| | (Dollars in millions and shares in thousands) | |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $155 | 128 |
| Accounts receivable, less allowance of $163 and $162 | 1,973 | 1,988 |
| Deferred income taxes, net | 718 | 880 |
| Other | 622 | 580 |
| Total current assets | 3,468 | 3,576 |
| NET PROPERTY, PLANT AND EQUIPMENT | | |
| Property, plant and equipment | 37,100 | 36,718 |
| Accumulated depreciation | (18,917) | (18,285) |
| Net property, plant and equipment | 18,183 | 18,433 |
| GOODWILL AND OTHER ASSETS | | |
| Goodwill | 20,753 | 20,755 |
| Customer relationships, less accumulated amortization of $4,932 and $4,682 | 4,644 | 4,893 |
| Other intangible assets, less accumulated amortization of $1,809 and $1,729 | 1,616 | 1,647 |
| Other, net | 856 | 843 |
| Total goodwill and other assets | 27,869 | 28,138 |
| TOTAL ASSETS | $49,520 | 50,147 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | $202 | 550 |
| Accounts payable | 1,068 | 1,226 |
| Accrued expenses and other liabilities | | |
| Salaries and benefits | 578 | 641 |
| Income and other taxes | 418 | 309 |
| Interest | 315 | 256 |
| Other | 259 | 210 |
| Advance billings and customer deposits | 739 | 726 |
| Total current liabilities | 3,579 | 3,918 |
| LONG-TERM DEBT | 20,254 | 20,121 |
| DEFERRED CREDITS AND OTHER LIABILITIES | | |
| Deferred income taxes, net | 3,921 | 4,030 |
| Benefit plan obligations, net | 5,755 | 5,808 |
| Other | 1,246 | 1,247 |
| Total deferred credits and other liabilities | 10,922 | 11,085 |
| 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 565,530 and 568,517 shares | 566 | 569 |

| | | |
|---|---|---|
| Additional paid-in capital | 16,059 | 16,324 |
| Accumulated other comprehensive loss | (2,001) | (2,017) |
| Retained earnings | 141 | 147 |
| Total stockholders' equity | 14,765 | 15,023 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $49,520 | 50,147 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Dollars in millions) | |
| OPERATING ACTIVITIES | | |
| Net income | $192 | 203 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,040 | 1,107 |
| Impairment of assets | 8 | — |
| Deferred income taxes | 37 | 106 |
| Provision for uncollectible accounts | 42 | 30 |
| Net long-term debt premium amortization | (4) | (11) |
| Share-based compensation | 18 | 19 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | (27) | 60 |
| Accounts payable | (80) | 123 |
| Accrued income and other taxes | 136 | 65 |
| Other current assets and liabilities, net | (16) | (295) |
| Retirement benefits | (9) | (28) |
| Changes in other noncurrent assets and liabilities, net | (10) | 3 |
| Other, net | 9 | (2) |
| Net cash provided by operating activities | 1,336 | 1,380 |
| INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment and capitalized software | (616) | (670) |
| Proceeds from sale of intangible assets or property | 14 | 1 |
| Other, net | (8) | (13) |
| Net cash used in investing activities | (610) | (682) |
| FINANCING ACTIVITIES | | |
| Net proceeds from issuance of long-term debt | 594 | — |
| Payments of long-term debt | (386) | (47) |
| Net (payments) borrowings on credit facility | (425) | 30 |
| Dividends paid | (304) | (309) |
| Net proceeds from issuance of common stock | 8 | 7 |
| Repurchase of common stock | (185) | (328) |
| Other, net | (1) | — |
| Net cash used in financing activities | (699) | (647) |
| Net increase in cash and cash equivalents | 27 | 51 |
| Cash and cash equivalents at beginning of period | 128 | 168 |
| Cash and cash equivalents at end of period | $155 | 219 |
| Supplemental cash flow information: | | |
| Income taxes paid, net | $(5) | (10) |
| Interest paid (net of capitalized interest of $13 and $10) | $(270) | (265) |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Dollars in millions) | |
| COMMON STOCK | | |
| Balance at beginning of period | $569 | 584 |
| Issuance of common stock through dividend reinvestment, incentive and benefit plans | 2 | 1 |
| Repurchase of common stock | (5) | (10) |
| Balance at end of period | 566 | 575 |
| ADDITIONAL PAID-IN CAPITAL | | |
| Balance at beginning of period | 16,324 | 17,343 |
| Issuance of common stock through dividend reinvestment, incentive and benefit plans | 6 | 6 |
| Repurchase of common stock | (168) | (298) |
| Shares withheld to satisfy tax withholdings | (15) | (9) |
| Dividends declared | (105) | (184) |
| Share-based compensation and other, net | 17 | 16 |
| Balance at end of period | 16,059 | 16,874 |
| ACCUMULATED OTHER COMPREHENSIVE LOSS | | |
| Balance at beginning of period | (2,017) | (802) |
| Other comprehensive income | 16 | 7 |
| Balance at end of period | (2,001) | (795) |
| RETAINED EARNINGS | | |
| Balance at beginning of period | 147 | 66 |
| Net income | 192 | 203 |
| Dividends declared | (198) | (125) |
| Balance at end of period | 141 | 144 |
| TOTAL STOCKHOLDERS' EQUITY | $14,765 | 16,798 |

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, 2014, 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 three 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, 2014.

The accompanying consolidated financial statements include our accounts and the accounts of our subsidiaries. Intercompany amounts and transactions with our consolidated subsidiaries have been eliminated.

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, net, (ii) equity attributable to noncontrolling interests in additional paid-in capital and (iii) cash flows attributable to noncontrolling interests in other, net financing activities.

We 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 reporting. See Note 7—Segment Information for additional information. These changes had no impact on total operating revenues, total operating expenses or net income for any period.

### Change in Estimates

During the third quarter of 2014, we developed a plan to migrate customers from one of our networks to another between the fourth quarter of 2014 through the fourth quarter of 2015. As a result, we implemented changes in estimates that reduced the remaining economic lives of certain network assets. Although they are more than fully offset by decreases in depreciation expense resulting from normal aging of our property, plant and equipment, these changes in the estimated remaining economic lives resulted in an increase in depreciation expense of approximately \$12 million for the three months ended March 31, 2015, and are expected to increase depreciation expense by approximately \$48 million for the year ending December 31, 2015. This increase in depreciation expense, net of tax, reduced consolidated net income by approximately \$7 million, or \$0.01 per basic and diluted common share, for the three months ended March 31, 2015, and is expected to reduce consolidated net income by approximately \$30 million, or \$0.05 per basic and diluted common share for the year ending December 31, 2015.

Recent Accounting Pronouncements

Debt Issuance Costs

On April 7, 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015, and must be adopted by retrospectively applying the new standard to all periods presented in the financial statements. ASU 2015-03 may be adopted early for any financial statements that have not been issued.

ASU 2015-03 requires that the deferred costs associated with a debt issuance be recognized as a reduction in the carrying amount of the related debt rather than presented as a deferred charge included in other assets in our financial statements. ASU 2015-03 does not change the pattern of recognition for the deferred debt issuance costs. As of March 31, 2015, we have approximately $172 million of unamortized debt issuance costs that upon adoption of ASU 2015-03 will be reclassified out of other assets and recognized as a reduction in the carrying value of our long-term debt.

Revenue Recognition

On May 28, 2014, the FASB issued ASU 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. On April 1, 2015, the FASB proposed to defer the effective date of ASU 2014-09 by one year until January 1, 2018, but would allow early adoption as of the original January 1, 2017 effective date. 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

Long-term debt, including unamortized discounts and premiums, consisted of borrowings by CenturyLink, Inc. and certain of its subsidiaries, including Qwest Corporation ("QC"), Qwest Capital Funding, Inc. and Embarq Corporation and subsidiaries ("Embarq"), were as follows:

| | Interest Rates | Maturities | As of March 31, 2015 | As of December 31, 2014 |
|---|---|---|---|---|
| | | | (Dollars in millions) | |
| CenturyLink, Inc. | | | | |
| Senior notes | 5.150% - 7.650% | 2017 - 2042 | $7,975 | 7,825 |
| Credit facility [1] | 1.910% - 4.000% | 2019 | 300 | 725 |
| Term loan | 1.930% | 2019 | 374 | 380 |
| Subsidiaries | | | | |
| Qwest Corporation | | | | |
| Senior notes | 6.125% - 8.375% | 2015 - 2054 | 7,311 | 7,311 |
| Term Loan | 1.930% | 2025 | 100 | — |
| Qwest Capital Funding, Inc. | | | | |
| Senior notes | 6.500% - 7.750% | 2018 - 2031 | 981 | 981 |
| Embarq Corporation and subsidiaries | | | | |
| Senior notes | 7.082% - 7.995% | 2016 - 2036 | 2,669 | 2,669 |
| First mortgage bonds | 7.125% - 8.770% | 2017 - 2025 | 232 | 232 |
| Other | 9.000% | 2019 | 150 | 150 |
| Capital lease and other obligations | Various | Various | 479 | 509 |
| Unamortized discounts, net | | | (115) | (111) |
| Total long-term debt | | | 20,456 | 20,671 |
| Less current maturities | | | (202) | (550) |
| Long-term debt, excluding current maturities | | | $20,254 | 20,121 |

[1] The outstanding amount of our credit facility ("Credit Facility") borrowings at March 31, 2015 and December 31, 2014, were $300 million and $725 million, respectively, with weighted average interest rates of 1.930% and 2.270%, respectively. These amounts change on a regular basis.

New Issuances

On March 19, 2015, we issued $500 million aggregate principal amount of 5.625% Notes due 2025, in exchange for net proceeds, after deducting underwriting discounts and other expenses, of approximately $494 million. The Notes are senior unsecured obligations and may be redeemed, in whole or in part, at any time before January 1, 2025 at a redemption price equal to the greater of 100% of the principal amount of the Notes or the sum of the present value of the remaining scheduled payments of principal and interest on the Notes, discounted to the redemption date in the manner described in the Notes, plus accrued and unpaid interest to the redemption date. At any time on or after January 1, 2025, we may redeem the Notes at par plus accrued and unpaid interest to the redemption date. In addition, at any time on or prior to April 1, 2018, we may redeem up to 35% of the principal amount of the Notes at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date, with net cash proceeds of certain equity offerings. Under certain circumstances, we will be required to make an offer to repurchase the Notes at a price of 101% of the aggregate principal amount plus accrued and unpaid interest to the repurchase date.

Repayments

On February 17, 2015, we paid at maturity the $350 million principal and accrued and unpaid interest due under our Series M 5.000% Notes.

Term Loans and Revolving Line of Credit

On March 13, 2015, we amended our term loan agreement to reduce the interest rate payable by us thereunder and to modify some covenants to provide additional flexibility.

On February 20, 2015, QC entered into a term loan in the amount of $100 million with CoBank, ACB. The outstanding unpaid principal amount of this term loan plus any accrued and unpaid interest is due on February 20, 2025, the maturity date of the loan. Interest is paid quarterly based upon either the London Interbank Offered Rate ("LIBOR") or the base rate (as defined in the credit agreement) plus an applicable margin between 1.50% to 2.50% per annum for LIBOR loans and 0.50% to 1.50% per annum for base rate loans depending on QC's then current senior unsecured long-term debt rating. As of March 31, 2015, the outstanding principle balance on this term loan was $100 million.

In January 2015, we entered into a $100 million uncommitted revolving line of credit with one of the lenders under the Credit Facility.

Covenants

As of March 31, 2015, we believe we were in compliance with the provisions and covenants contained in our Credit Facility and other material debt agreements.

(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 March 31, 2015, the current and noncurrent portions of our leased real estate accrual were $12 million and $78 million, respectively. The remaining lease terms range from 0.3 to 10.7 years, with a weighted average of 8.5 years.

Changes in our accrued liabilities for severance expenses and leased real estate during the first three months of 2015 were as follows:

| | Severance | Real Estate |
|---|---|---|
| | (Dollars in millions) | |
| Balance at December 31, 2014 | $26 | 96 |
| Accrued to expense | 13 | — |
| Payments, net | (17) | (3) |
| Reversals and adjustments | — | (3) |
| Balance at March 31, 2015 | $22 | 90 |

(4) Employee Benefits

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

| | Pension Plans | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2015 | 2014 |
| | (Dollars in millions) | |
| Service cost | $22 | 20 |
| Interest cost | 141 | 151 |
| Expected return on plan assets | (226) | (223) |
| Recognition of prior service cost | 1 | 1 |
| Recognition of actuarial loss | 38 | 5 |
| Net periodic pension benefit income | $(24) | (46) |

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

| | Post-Retirement Benefit Plans | |
|---|---|---|
| | Three Months Ended March 31, | |
| | 2015 | 2014 |
| | (Dollars in millions) | |
| Service cost | $6 | 5 |
| Interest cost | 35 | 40 |
| Expected return on plan assets | (5) | (8) |
| Recognition of prior service cost | 5 | 4 |
| Net periodic post-retirement benefit expense | $41 | 41 |

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 in our consolidated statements of operations.

(5) Earnings Per Common Share

Basic and diluted earnings per common share for the three months ended March 31, 2015 and 2014 were calculated as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| | (Dollars in millions, except per share amounts, shares in thousands) | |
| Income (Numerator): | | |
| Net income | $192 | 203 |
| Earnings applicable to non-vested restricted stock | — | — |
| Net income applicable to common stock for computing basic earnings per common share | 192 | 203 |
| Net income as adjusted for purposes of computing diluted earnings per common share | $192 | 203 |
| Shares (Denominator): | | |
| Weighted average number of shares: | | |
| Outstanding during period | 566,687 | 578,197 |
| Non-vested restricted stock | (4,718) | (3,662) |
| Weighted average shares outstanding for computing basic earnings per common share | 561,969 | 574,535 |
| Incremental common shares attributable to dilutive securities: | | |
| Shares issuable under convertible securities | 10 | 10 |
| Shares issuable under incentive compensation plans | 1,526 | 911 |
| Number of shares as adjusted for purposes of computing diluted earnings per common share | 563,505 | 575,456 |
| Basic earnings per common share | $0.34 | 0.35 |
| Diluted earnings per common share | $0.34 | 0.35 |

Our calculation of diluted earnings 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 2.2 million and 3.1 million for the three months ended March 31, 2015 and 2014, respectively.

(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 indicated below:

| | | As of March 31, 2015 | | As of December 31, 2014 | |
|---|---|---|---|---|---|
| | Input Level | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | | (Dollars in millions) | | | |
| Liabilities—Long-term debt, excluding capital lease and other obligations | 2 | $19,977 | 21,409 | 20,162 | 21,255 |

(7) Segment Information

Segment Data

Effective November 1, 2014, we implemented a new organizational structure designed to strengthen our ability to attain our operational, strategic and financial goals. Prior to this reorganization, we operated and reported as four segments: consumer, business, wholesale and hosting. As a result of this reorganization, we now operate and report the following two segments in our consolidated financial statements:

- Business. Consists generally of providing strategic, legacy and data integration products and services to enterprise, wholesale and governmental customers, including other communication providers. Our strategic products and services offered to these customers include our private line (including special access), broadband, Ethernet, MPLS, Voice over Internet Protocol ("VoIP"), network management services, colocation, managed hosting and cloud hosting services. Our legacy services offered to these customers primarily include switched access, long-distance, and local services, including 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; and
- Consumer. Consists generally of providing strategic and legacy products and services to residential customers. 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.

The following table summarizes our segment results for the three months ended March 31, 2015 and 2014, based on the segment categorization we were operating under at March 31, 2015.

The results of our business and consumer segments are summarized below:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2015 | 2014 [(1)] |
| | (Dollars in millions) | |
| Total segment revenues | $4,194 | 4,284 |
| Total segment expenses | 2,073 | 2,096 |
| Total segment income | | |