CENTURYLINK, INC
Form 10-Q
August 07, 2014

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 June 30, 2014

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

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

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 (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 August 1, 2014, there were 570,164,804 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions except per share amounts and shares in thousands)			
OPERATING REVENUES	$4,541	4,525	9,079	9,038
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	1,962	1,873	3,897	3,669
Selling, general and administrative	831	814	1,674	1,632
Depreciation and amortization	1,093	1,123	2,200	2,240
Total operating expenses	3,886	3,810	7,771	7,541
OPERATING INCOME	655	715	1,308	1,497
OTHER INCOME (EXPENSE)				
Interest expense	(325)	(325)	(656)	(641)
Other (expense) income, net	(7)	4	2	43
Total other income (expense)	(332)	(321)	(654)	(598)
INCOME BEFORE INCOME TAX EXPENSE	323	394	654	899
Income tax expense	130	125	258	332
NET INCOME	$193	269	396	567
BASIC AND DILUTED EARNINGS PER COMMON SHARE				
BASIC	$0.34	0.45	0.69	0.93
DILUTED	$0.34	0.44	0.69	0.92
DIVIDENDS DECLARED PER COMMON SHARE	$0.54	0.54	1.08	1.08
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING				
BASIC	567,915	604,302	571,225	611,862
DILUTED	569,032	605,602	572,244	613,338

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
NET INCOME	$193	269	396	567
OTHER COMPREHENSIVE INCOME:				
Items related to employee benefit plans:				
Change in net actuarial loss, net of $(2), $(10), $(4) and $(18) tax	3	11	6	24
Change in net prior service credit, net of $(3), $—, $(5) and $(1) tax	5	1	8	2
Foreign currency translation adjustment and other, net of $—, $2, $— and $— tax	8	(5)	9	(13)
Other comprehensive income	16	7	23	13
COMPREHENSIVE INCOME	$209	276	419	580

See accompanying notes to consolidated financial statements.

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CENTURYLINK, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2014	December 31, 2013
	(Dollars in millions and shares in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$181	168
Accounts receivable, less allowance of $145 and $155	1,986	1,977
Deferred income taxes, net	803	1,165
Other	628	597
Total current assets	3,598	3,907
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	35,404	34,307
Accumulated depreciation	(16,969)	(15,661)
Net property, plant and equipment	18,435	18,646
GOODWILL AND OTHER ASSETS		
Goodwill	20,674	20,674
Customer relationships, less accumulated amortization of $4,174 and $3,641	5,402	5,935
Other intangible assets, less accumulated amortization of $1,534 and $1,401	1,676	1,802
Other	829	823
Total goodwill and other assets	28,581	29,234
TOTAL ASSETS	$50,614	51,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$1,188	785
Accounts payable	1,153	1,111
Accrued expenses and other liabilities		
Salaries and benefits	572	650
Income and other taxes	342	339
Interest	264	273
Other	208	514
Advance billings and customer deposits	716	737
Total current liabilities	4,443	4,409
LONG-TERM DEBT	19,771	20,181
DEFERRED CREDITS AND OTHER LIABILITIES		
Deferred income taxes, net	4,610	4,753
Benefit plan obligations, net	3,924	4,049
Other	1,268	1,204
Total deferred credits and other liabilities	9,802	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 571,344 and 583,637 shares	571	584

Additional paid-in capital	16,671	17,343
Accumulated other comprehensive loss	(779)	(802)
Retained earnings	135	66
Total stockholders' equity	16,598	17,191
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$50,614	51,787

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2014	2013
	(Dollars in millions)	
OPERATING ACTIVITIES		
Net income	$396	567
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,200	2,240
Impairment of assets	32	—
Deferred income taxes	208	307
Provision for uncollectible accounts	63	65
Gain on sale of intangible assets	—	(32)
Net long-term debt premium amortization	(21)	(32)
Changes in current assets and current liabilities:		
Accounts receivable	(72)	(48)
Accounts payable	75	123
Accrued income and other taxes	(11)	(11)
Other current assets and other current liabilities, net	(356)	(163)
Retirement benefits	(102)	(220)
Changes in other noncurrent assets and liabilities, net	66	48
Other, net	31	12
Net cash provided by operating activities	2,509	2,856
INVESTING ACTIVITIES		
Payments for property, plant and equipment and capitalized software	(1,401)	(1,410)
Proceeds from sale of intangible assets or property	—	75
Other, net	(18)	23
Net cash used in investing activities	(1,419)	(1,312)
FINANCING ACTIVITIES		
Net proceeds from issuance of long-term debt	—	1,740
Payments of long-term debt	(121)	(1,018)
Net borrowings (payments) on credit facility	120	(775)
Dividends paid	(616)	(661)
Net proceeds from issuance of common stock	32	40
Repurchase of common stock	(493)	(867)
Other, net	1	—
Net cash used in financing activities	(1,077)	(1,541)
Net increase in cash and cash equivalents	13	3
Cash and cash equivalents at beginning of period	168	211
Cash and cash equivalents at end of period	$181	214
Supplemental cash flow information:		
Income taxes (paid), net	$(23)	(46)
Interest (paid) (net of capitalized interest of $22 and $18)	$(672)	(647)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 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	2	2
Repurchase of common stock	(15)	(24)
Balance at end of period	571	604
ADDITIONAL PAID-IN CAPITAL		
Balance at beginning of period	17,343	19,079
Issuance of common stock through dividend reinvestment, incentive and benefit plans	30	38
Repurchase of common stock	(441)	(845)
Shares withheld to satisfy tax withholdings	(14)	(16)
Share-based compensation and other, net	42	35
Dividends declared	(289)	—
Balance at end of period	16,671	18,291
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance at beginning of period	(802)	(1,701)
Other comprehensive income	23	13
Balance at end of period	(779)	(1,688)
RETAINED EARNINGS		
Balance at beginning of period	66	1,285
Net income	396	567
Dividends declared	(327)	(659)
Balance at end of period	135	1,193
TOTAL STOCKHOLDERS' EQUITY	$16,598	18,400

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), Multiprotocol 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 six 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.

During the second quarter of 2014, we began negotiations of a sale-leaseback transaction of an office building and as a result of the indicated offer price we recorded an impairment charge of $16 million, which is included in selling, general and administrative expense in our consolidated statements of operations for the three and six months ended June 30, 2014. We evaluated the indicated offer price using market conditions and determined that it represented a level 3 estimate of the fair value of the building. The negotiations on the sale of the office building are not final and the sales price could still change.

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 retained earnings balance on the declaration date, then the excess is recorded to 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 $20 million and $39 million for the three and six months ended June 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 $24 million, or $0.04 per basic and diluted common share, for the three and six months ended June 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 due to the previously announced trade name change from Savvis to CenturyLink Technology Solutions ("CTS"), 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 six months ended June 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 six months ended June 30, 2014. For the three months ended June 30, 2014, we recognized an immaterial amount of amortization expense on the Savvis cloud software. As of June 30, 2014, the Savvis trade name and the Savvis cloud software has 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 starting to evaluate and determine the impact the new standard will have on the timing of revenue recognition under our customer agreements and the amount of contract related costs that will be deferred. 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	June 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	845	725
Term loan	2.400%	2019	391	402
Subsidiaries				
Qwest Communications International Inc. [2]				
Senior notes	6.125% - 8.375%	2014 - 2053	8,392	8,392
Embarq Corporation ("Embarq")				
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	553	619
Unamortized discounts, net			(98)	(78)
Total long-term debt			20,959	20,966
Less current maturities			(1,188)	(785)
Long-term debt, excluding current maturities			$19,771	20,181

(1) The outstanding amounts of our credit facility ("Credit Facility") borrowings at June 30, 2014 and December 31, 2013 were $845 million and $725 million, respectively, with weighted average interest rates of 2.642% and 2.176%, respectively. These amounts change on a regular basis.

(2) The information presented here includes Qwest Corporation's senior notes of $7.411 billion and Qwest Capital Funding, Inc.'s senior notes of $981 million as of June 30, 2014 and December 31, 2013.

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 June 30, 2014, 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 legacy revenues.

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 but, as noted in Note 7—Segment Information, we do not allocate these 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 June 30, 2014, the current and noncurrent portions of our leased real estate accrual were $16 million and $88 million, respectively. The remaining lease terms range from 0.6 to 11.5 years, with a weighted average of 8.6 years.

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

	Severance	Real Estate
	(Dollars in millions)	
Balance at December 31, 2013	$17	113
Accrued to expense	51	—
Payments, net	(46)	(8)
Reversals and adjustments	—	(1)
Balance at June 30, 2014	$22	104

(4) Employee Benefits

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

	Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost	$19	23	39	48
Interest cost	151	135	302	270
Expected return on plan assets	(223)	(224)	(446)	(448)
Recognition of prior service cost	3	1	4	2
Recognition of actuarial loss	5	20	10	40
Net periodic pension benefit income	$(45)	(45)	(91)	(88)

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

	Post-Retirement Benefit Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Service cost	$5	6	11	12
Interest cost	40	35	79	70
Expected return on plan assets	(8)	(10)	(16)	(20)
Recognition of prior service cost	5	—	9	—
Recognition of actuarial loss	—	1	—	2
Net periodic post-retirement benefit expense	$42	32	83	64

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 Per Common Share

Basic and diluted earnings per common share for the three and six months ended June 30, 2014 and 2013 were calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions, except per share amounts, shares in thousands)			
Income (Numerator):				
Net income	$193	269	396	567
Earnings applicable to non-vested restricted stock	—	—	—	—
Net income applicable to common stock for computing basic earnings per common share	193	269	396	567
Net income as adjusted for purposes of computing diluted earnings per common share	$193	269	396	567
Shares (Denominator):				
Weighted average number of shares:				
Outstanding during period	572,240	607,755	575,218	615,138
Non-vested restricted stock	(4,325)	(3,453)	(3,993)	(3,276)
Weighted average shares outstanding for computing basic earnings per common share	567,915	604,302	571,225	611,862
Incremental common shares attributable to dilutive securities:				
Shares issuable under convertible securities	10	10	10	10
Shares issuable under incentive compensation plans	1,107	1,290	1,009	1,466
Number of shares as adjusted for purposes of computing diluted earnings per common share	569,032	605,602	572,244	613,338
Basic earnings per common share	$0.34	0.45	0.69	0.93
Diluted earnings per common share	$0.34	0.44	0.69	0.92

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 2.4 million for the three months ended June 30, 2014 and 2013, and 2.8 million and 2.4 million for the six months ended June 30, 2014 and 2013, 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 as of the dates indicated below:

		June 30, 2014		December 31, 2013	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(Dollars in millions)			
Liabilities—Long-term debt, excluding capital lease and other obligations	2	$20,406	21,692	20,347	20,413

(7) Segment Information

We 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, 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, 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Dollars in millions)			
Total segment revenues	$4,288	4,276	8,572	8,532
Total segment expenses	2,118	2,041	4,217	3,969
Total segment income	$2,170	2,235	4,355	4,563
Total margin percentage	51 %	52 %	51 %	53 %
Consumer:				
Revenues	$1,500	1,494	3,009	3,005
Expenses	599	574	1,182	1,123
Income	$901	920	1,827	1,882
Margin percentage	60 %	62 %	61 %	63 %
Business:				
Revenues	$1,564	1,525	3,123	3,030
Expenses	972	912	1,938	1,769
Income	$592	613	1,185	1,261
Margin percentage	38 %	40 %	38 %	42 %
Wholesale:				
Revenues	$866	910	1,728	1,816
Expenses	283	301	559	575
Income	$583	609	1,169	1,241
Margin percentage	67 %	67 %	68 %	68 %
Hosting:				
Revenues	$358	347	712	681
Expenses	264	254	538	502
Income	$94	93	174	179
Margin percentage				