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CTL - Q1 2013 CenturyLink, Inc. Earnings Conference Call

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OVERVIEW:

CTL reported 1Q13 consolidated operating revenues of $4.51b and adjusted diluted EPS of $0.76. Expects 2Q13 operating revenue to be $4.49-4.54b. Expects 2013 adjusted diluted EPS to be $2.60-2.75 and 2Q13 adjusted diluted EPS to be $0.63-0.68.

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CORPORATE PARTICIPANTS

Tony Davis *CenturyLink, Inc. - VP of IR*

Glen Post *CenturyLink, Inc. - CEO & President*

Stewart Ewing *CenturyLink, Inc. - CFO*

Jeff Von Deylen *CenturyLink, Inc. - President - Savvis*

Karen Puckett *CenturyLink, Inc. - COO*

CONFERENCE CALL PARTICIPANTS

David Barden *BofA Merrill Lynch - Analyst*

Batya Levi *UBS - Analyst*

Frank Louthan *Raymond James & Associates - Analyst*

John Mark Warren *Morgan Stanley - Analyst*

David Phipps *Citigroup - Analyst*

Michael Hodel *Morningstar - Analyst*

Stanley Martinez *Legal & General Investment Management - Analyst*

Mike McCormack *Nomura Securities Intl - Analyst*

Phil Cusick *JPMorgan - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to CenturyLink's first-quarter 2013 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the conference over to Mr. Tony Davis, Vice President of Investor Relations. Mr. Davis, you may begin.

Tony Davis - *CenturyLink, Inc. - VP of IR*

Thank you, Said. Good afternoon, everyone, and welcome to our call today to discuss CenturyLink's first-quarter 2013 results, released earlier this afternoon. The slide presentation we will be reviewing during the prepared remarks portion of today's call is available in the Investor Relations section of our corporate website at IR. CenturyLink.com. At the conclusion of the prepared remarks today, we will open the call for Q&A.

On slide 2, you will find our Safe Harbor language. We will be making certain forward-looking statements today, particularly as they pertain to guidance for second-quarter and full-year 2013, the integration of Qwest and Savvis, and other outlooks in our business. We ask that you review our disclosure found on this slide, as well as in our press release, and in our SEC filings, which describe factors that could cause our actual results to differ materially from those projected by us in our forward-looking statements.

We ask that you also note that our earnings release, issued earlier this afternoon, and the slide presentation and remarks made during this call, contain certain non-GAAP financial measures. Reconciliation between the non-GAAP financial measures and the GAAP financial measures are available in our earnings release, and on our website at www.CenturyLink.com.

Now, turning to slide 3. Your host for today's call is Glen Post, Chief Executive Officer and President of CenturyLink. Joining Glen will be Stewart Ewing, CenturyLink's Chief Financial Officer. And also available during the question-and-answer period of today's call will be Karen Puckett, CenturyLink's Chief Operating Officer, Bill Cheek, President of Wholesale and Jeff Von Deylen, President of Savvis.

Our call today will be available for telephone replay through May 15, 2013, and accessible by webcast through May 29, 2013. Anyone listening to a taped or webcast replay, or reading a written transcript of this call should note that all information presented is current only as of today, May 8, 2013, and should be considered valid only as of this date, regardless of the date heard or viewed.

As we move to slide 4, I'll now turn the call over to your host today, Glen Post. Glen?

Glen Post - *CenturyLink, Inc. - CEO & President*

Thank you, Tony. Good afternoon, everyone, and thank you for joining us today to discuss CenturyLink's first-quarter 2013 results. We will also provide guidance for our second quarter, and update full-year 2013 guidance, as well as other important updates about our business. We are pleased with our first-quarter results and we continue to make good progress on a number of fronts.

Starting on slide 5, I'd like to begin with some highlights from the quarter. We continue to generate solid operating results from subscriber metrics. Our annual rate of access line loss improved to only 5.7% in the first quarter of 2013 from 6.4% a year ago.

Also, we achieved better than expected broadband net adds of 66,700 during the quarter. This is obviously strong performance for the quarter. However, we do expect broadband subscriber growth to be significantly lower in the second quarter, due to normal seasonality in our industry.

During the quarter, we added 13,400 Prism TV customers, ending the period with 120,000 subscribers. We also believe video is an important product for our residential customers, and we continue to roll out the service to new markets.

From a business markets perspective, we experienced strong new sales to business customers across the Company for network and hosting services in the quarter. Our business strategic revenue grew over 6% in the first quarter of 2013, compared to the same period a year ago. We continue to see high demand for Ethernet, MPLS and Wavelength services, as they grew over 15% year-over-year.

In early January, we announced and implemented an organizational realignment that merged our entire retail, consumer, and business network services operations into a single operating group, led by our Chief Operating Officer, Karen Puckett. The key objective in this realignment was to ensure that we provided a more consistent go-to-market strategy, and an improved end-to-end service delivery experience to business customers, both in and out of region. During the first quarter of 2013, cash expenses declined 3% from the same period a year ago, driven by lower personnel-related costs, partially offset by higher collocation, managed hosting, and network expenses.

Finally, I'm pleased with the strong progress we made on the share repurchase program we announced in February. Through May 2013, we repurchased 19.2 million shares, or 3% of our outstanding common stock, for a total of $682 million. We repurchased shares aggressively over the past few months, and we expect to opportunistically buy stock going forward. We do expect to complete the $2 billion repurchase by February of 2015.

As you turn to slide 6, I'll provide an update on our key strategic initiatives, starting with broadband expansion enhancement. We continue to make significant investments in this area. With 67,000 high speed Internet customers added the first quarter, we now serve more than 5.91 million broadband subscribers.

Also as a result of our network investment and enhancements, broadband speed availability has continued to improve. Over 70% of enabled access lines received speeds of 6 megabits or higher. Over 60% of enabled lines received 10 megabits or higher. 32% have speeds of 20 megabits or higher, and nearly 15% have speeds of 40 megabits or higher.

As part of our broadband initiative, we also have focused on expanding our Ethernet and MPLS services for our business customers. During the quarter, we continued to expand our Ethernet over copper footprint. More than 3,300 of our central offices are now capable of providing Ethernet in our network. We expect to continue making investments in our network to enhance speed capabilities required to deliver competitive broadband products and services across our markets.

We recently announced the launch of 1 gigabit service pilot in Omaha, which will reach approximately 48,000 addressable homes, when the project is completed in the fourth quarter of this year. We will carefully evaluate the success of this pilot before determining further deployment of this advanced technology. We will be considering such factors as positive community support, competitive comparison to the marketplace, returns on our investments in these areas, among other key factors to help us make decisions regarding future investments in fiber-to-the-prem technology.

Turning to slide 7, our Prism TV service continues to perform well, and represents a very compelling entertainment alternative to cable TV. Service, in the markets where we offer the service, we added 13,400 Prism TV subscribers during the first quarter, for a total 120,000 subscribers. We now have a penetration rate of nearly 10% across the markets in which the service is available.

Over 50% of the customers added in the quarter were new customers to CenturyLink. These customers continue to have a high rate of broadband attachment, I believe about 94% attachment rate in the first quarter of the year.

This year, we continue to enhance our IPTV features by introducing new functionality and applications, including expansion of our TV Everywhere capabilities, our video on demand library, and our recent successful trial of wireless set-top boxes. We expect to continue to expand our Prism TV footprint, as well as drive additional subscriber growth.

As announced last quarter, Phoenix was the first legacy Qwest market to receive Prism TV service, and early results there are favorable. In the first quarter, we also soft-launched the service in Colorado Springs. While we previously indicated we expected to launch Phoenix plus one additional market this year, we now also expect to soft-launch Prism TV service in Omaha during the second quarter, with our fiber to the prem technology offering there.

Continuing on to slide 8. A third key strategic initiative is investing in fiber builds to as many towers in our service areas as economically feasible. During the first quarter, we completed approximately 800 fiber-to-the-tower builds, for a total of over 15,500 across our footprint. We currently expect to complete a total of 4,000 to 5,000 builds in 2013. We believe our fiber-to-the-tower program helps solidify our wholesale access revenue for the long term, and assists in stabilization of our revenue trend.

As we have discussed with you before, we're experiencing some revenue compression, as our wireless wholesale customers transition from copper-based DS1 facilities to fiber-based Ethernet services. However, we anticipate that wireless bandwidth growth will result in expansion of Ethernet consumption, reversing the current revenue compression by early 2014. On average, bandwidth capacity of initial fiber-based connections is increasing, which helps mitigate some of the transition revenue compression we had expected.

Now, moving to slide 9 and managed hosting and cloud services. We saw some weakness in first quarter data hosting revenue growth, due to soft third-quarter 2012 new sales. Also due to foreign exchange currency impact, as well as the impact of declining compute and storage costs. However, we continue to believe we are well positioned to capitalize on long-term secular growth opportunities in this space, where we have developed and are expanding our strong product offering for businesses of all sizes.

We continue to build upon solid momentum in the fourth quarter of 2012, as new sales were also strong again this quarter. Cross-sell opportunities for hosting products across the Company continue to be strong, with sales of hosting services to business network customers steadily growing. With our new Savvis Direct product, we have updated our bundled solutions to introduce cloud products to additional business customers throughout all of our sales channels. We also continue to invest to increase data center capacity, as well as expand our product portfolio to meet customer needs, and expand our market opportunities.

In the first quarter, we expanded capacity in three data centers, adding approximately 15,000 square feet of sellable floor space. Full year 2013, we expect to add a total of nearly 90,000 sellable square feet. In April, Savvis was recognized as a leader in Gartner's Magic Quadrant for managed hosting in North America, and we believe another confirmation of CenturyLink's leadership position in managed hosting.

Now to slide 10. In summary, before handing the call over to Stewart, let me say I am pleased with our first-quarter results. We continue to improve our top line revenue trend, and we continue to believe we will improve the year-over-year revenue trends for full-year 2013, and reach revenue stability in 2014.

We achieved strong high speed Internet and Prism TV subscriber growth. And the focused investments we have made in our key strategic initiatives have positively contributed to strategic revenue growth, and continued to improve our top line revenue trend. We believe the soft launch of Prism TV into additional markets in the first half of 2013, and planned subsequent commercial launches later this year will position us well to grow video subscribers during 2013 and beyond.

Also, with the realignment of our reporting structure, we continue to improve our go-to-market approach, and end-to-end service delivery model for business customers. And with the launch of Savvis Direct in late 2012, our managed hosting and cloud services portfolio is now positioned to address the data hosting needs of customers of all sizes. Additionally, our increased focus and accountability across the organization to sell data hosting solutions is leading to improved cross-sell opportunities.

With that, I'll turn the call over to Stewart for an in-depth look at our financial results. Stewart?

Stewart Ewing - *CenturyLink, Inc. - CFO*

Thank you, Glen. I'll spend the next few minutes reviewing the financial highlights from the first quarter. And then conclude my remarks with an overview of the second quarter and full-year 2013 guidance we included in our earnings release, issued earlier this afternoon. Turning to slide 12, I will be reviewing the results excluding special items, as outlined in the earnings release, and associated financial schedules.

With that, let's move to our first quarter results. As you can see, we generated solid operating revenues and cash flows. Operating revenues were $4.51 billion on a consolidated basis, at the top of our guidance for the quarter, and represents a 2.1% decline from first-quarter 2012 operating revenues. Strategic revenue in the quarter increased to 47% of total revenue from 45% in the first quarter a year ago, due to growth in strategic products such as high speed Internet, high bandwidth data services, Prism TV and managed hosting services.

Adjusted diluted earnings per share for the quarter was $0.76, exceeding the top end of our guidance by $0.04, which was primarily the result of our first-quarter operating expenses being lower than we had anticipated. As we've discussed on prior earnings calls, adjusted diluted EPS excludes special items and certain non-cash purchase accounting adjustments, as outlined in our press release and associated supplemental financial schedules. Total cash operating expenses decreased from first-quarter 2012 to first-quarter 2013. This decline was primarily the result of lower personnel-related cost, which were partially offset by higher data hosting and network cost.

We generated strong operating cash flow of approximately $1.93 billion for the first quarter, and achieved an operating cash flow margin of 42.8%. Additionally, we generated $1 billion of free cash flow during the quarter, which is defined as operating cash flow less cash taxes paid, interest, and capital expenditures, and additional adjustments to other income. Our strong cash flows continue to provide us the financial strength and flexibility to meet our business objectives, and drive long-term shareholder value.

Now, turning to slide 13, our year-over-year revenue declined 2.1% from first quarter 2012. This rate of decline represents a 60 basis point improvement over the 2.7% rate of decline in first-quarter 2012 operating revenues, compared to pro forma revenues for first quarter 2011. The decline in first-quarter 2013 operating revenues, compared to first quarter 2012, was primarily a result of growth in strategic revenues that was more than offset by lower legacy revenues, due to access line losses and lower minutes of use. And the impact of a lower universal service revenue contribution factor, that is the pass-through revenue recorded in our other revenue line item. The growth in our strategic revenues was primarily driven by strength in high speed Internet, high bandwidth business data services, and data hosting services.

Slide 14 highlights the revised reporting structure. In early January, we announced an organizational realignment combining our business sales and operations functions, that previously resided in enterprise markets, network services, and regional markets organizations into one organization, which is led by our Chief Operating Officer, Karen Puckett. We believe this change positions us to better serve our business customers by streamlining our end-to-end service delivery, supporting sales of Network Services to our enterprise customers, by creating one cohesive organization.

So beginning this quarter, the first quarter, and going forward, we are now reporting the following four segments. Consumer, business, wholesale, and data hosting services.

Now turning to slide 15, I'll discuss each of our operating segments, beginning with the consumer segment first. Consumer generated $1.51 billion in operating revenues, which represents a decline of 3.4% over first quarter a year ago. Strategic revenues in this segment grew 5.4% year-over-year to $620 million.

Our legacy services revenues for this segment declined 8.7% for first quarter 2012, due primarily to a continuing decline in access line and long distance revenues, partially mitigated by implementation of the excess recovery charge in July of 2012. Expenses declined $41 million or 7.2% during first quarter, compared to the same period a year ago, driven mainly by lower employee-related expenses, which were partially offset by higher Prism TV costs.

Moving to slide 16, our business segment generated $1.5 billion in operating revenues during the first quarter, which were in line with the same year-ago period. First-quarter strategic revenues for the segment increased by 6.4% to $615 million from the first quarter of 2012, driven primarily by strength in the high bandwidth services, such as MPLS, Ethernet and Wavelength. Excluding private line services, strategic revenue grew nearly 12% from a year ago.

Legacy services revenues for this segment declined 4.6% from first quarter 2012, due primarily to a continuing decline in access line and long distance revenues, partially again mitigated by implementation of the access recovery charge in mid-year 2012. Total segment expenses declined approximately $30 million or 3%, driven by lower employee and bad debt expense, partially offset by higher facility cost.

Turning to slide 17, our wholesale segment generated $907 million in operating revenues, a decrease of 5.7% from first-quarter 2012. Strategic revenues for wholesale were $573 million, down 1.5% from first quarter 2012, as declining low speed transport services revenue offset growth in Ethernet services and data bandwidth capacity expansion by wireless carriers.

Our legacy revenues in this segment declined by 12% to $334 million, reflecting the continued decline in access and long distance minutes of use and the implementation of lower access rights under the CAF Order rate step down. Operating expenses for the quarter were $274 million, 12% below the same period from the prior year, driven by lower personnel-related costs, lower access expense, and some favorable one-time access settlements during the quarter.

Now moving to slide 18, and our data hosting segment, which includes all collocation, managed hosting, cloud services and hosting related network services revenue for customers of all sizes. This segment generated $334 million in operating revenues, representing an increase of 7.7% from first-quarter 2012 revenues of $310 million. The growth came primarily from year-over-year increases of 4.3% in collocation revenues, and a 20% increase in managed hosting cloud services revenues.

First-quarter 2013 revenues include approximately $15 million of revenue contribution from the Ciber IT outsourcing assets acquired in October of 2012. Excluding this revenue, managed hosting revenue grew by approximately 6% year-over-year.

As Glen previously said, year-over-year revenue growth faced several headwinds this quarter, including soft new sales in third-quarter 2012, foreign currency exchange impact, and price compression, driven by declining compute and storage cost. In total, these items lowered first-quarter 2013 revenue by approximately $8 million, compared to the same period a year ago.

Data hosting operating expenses were $264 million in first quarter, compared to $231 million in first quarter 2012. This increase of 14% is driven by added data center expansion, operations, and sales and marketing headcount to support revenue growth, including headcount for Savvis Direct, and enabling sales channels, along with expenses related to the acquisition of the Ciber ITO assets, not present in the prior-year period.

Now turning to slide 19, we provide our second-quarter and full-year 2013 guidance. For second quarter 2013, we expect operating revenues of $4.49 billion to $4.54 billion, and operating cash flow between $1.82 billion and $1.86 billion. And adjusted diluted EPS is expected to range from $0.63 to $0.68 per share.

Our anticipated sequential decline in second-quarter operating cash flow and adjusted diluted EPS, compared to first-quarter results is primarily due to, one, higher seasonal expenses that we typically incur in the second quarter each year, including annual merit adjustments, the total of that equates to about $0.04 a share. Our normal legacy revenue decline, partially offset by continued expected growth in strategic revenue, which in aggregate is a decline of about $0.015 EPS, and costs related to our continued investment in key initiatives. And increased marketing and timing of some of our branding expenditures, expected to be about $0.03 during the quarter.

For the full-year 2013, our operating revenues, capital expenditures, and free cash flow guidance remain the same as we provided last quarter. However, we've increased our full-year 2013 operating cash flow and adjusted diluted EPS guidance, primarily as a result of our strong first-quarter results, and share repurchases through the end of the quarter.

We now expect operating cash flow to be in the $7.35 billion to $7.55 billion range, and adjusted diluted EPS to be in the range of $2.60 to $2.75 per share. It's also important to note that we expect our 2013 operating revenues, compared to our 2012 operating revenues, to reflect, one, approximately a $35 million decline in data integration revenues, due to anticipated lower customer premise equipment sales. And secondly, approximately $45 million lower other revenues, due primarily to the lower USF contribution factor anticipated this year versus 2012.

That concludes our prepared remarks for today, so at this time, I'll ask the operator to provide instructions for the Q&A portion of the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

And our first question comes from David Barden from Bank of America.

David Barden - *BofA Merrill Lynch - Analyst*

Nice quarter, to start off the year. A couple of questions if I could. First, Stewart, the buyback was very aggressive. You've got about a third of the $2 billion buyback that you've budgeted over the two years behind you now. When you say opportunistic, should we imagine that what you're really going for is a strict $1 billion of buyback this year, a strict $1 billion of buyback next year, or if the opportunity presents itself, how aggressive would you be prepared to be within the context of the full $2 billion buyback authorization?

And then second, just on the data center business, we've seen some very strong results from a lot of the data center companies out there. You talked about how this quarter's softness in terms of sequential growth was really in part a function of softness in billings in the third quarter. You saw strength in the fourth quarter. You saw strength this quarter in terms of bookings. Should we be expecting a nice acceleration, starting in 2Q? And if so, can you kind of size up what kind of growth we should be expecting from that unit? Thanks.

Stewart Ewing - *CenturyLink, Inc. - CFO*

So David, I'll answer the first question, so we were aggressive. By being opportunistic, we will potentially spend more than half of the program in 2013. It really just depends on the stock price, and the opportunity to accumulate more shares at lower prices. So I think we were pretty aggressive. We're not going to continue in all likelihood at the same pace that we did. We still expect to get the program done within the two-year period that we announced, but I would expect us to probably end the year at a little bit higher than $1 billion. Again, just really depending upon opportunity.

Glen Post - *CenturyLink, Inc. - CEO & President*

David, it's Glen. Just a brief comment. I'll ask Jeff Von Deylen to speak to your question, your second question a little more detailed. But we feel that the first quarter hopefully was a low point for our Data Hosting sales, a lot of momentum, we believe, in our -- in the network group, our cross-selling opportunities, we have our new Savvis Direct product coming out. As we pointed out, the sales are strong in the fourth and the first quarter, so we feel good about where we're headed here. Don't disclose exactly that our growth targets here, but Jeff can address some things we're doing here, and we are optimistic about the rest of the year. Jeff?

Jeff Von Deylen - *CenturyLink, Inc. - President - Savvis*

Yes, hi, David. Again, on the third quarter, bookings for that new sale sold in that quarter was a low point. I think the good news is Q4 and Q1, our new sales were on our plan, and we're about 30% higher than that Q3 low point. One of our other big initiatives in 2013 is leveraging the CenturyLink channel, got significant sellers, about 400, and about 5,000 enterprise customers that we're really -- there's some early good signs, a real good program, got really launched at the end of fourth quarter, early first quarter, and the results in Q1 were pretty positive, we're about 10% up from our Q4 sales. That gives us confidence in terms of our go-forward, that this Q1 number is the low point, and we'll grow sequentially from there.

I think the one thing we -- the headwinds we have are currency, and then we talked about the technology migrations, as some of our customers migrate from discrete hosting to more cloud-based services. There is some price erosion pressure. Our team, though, is very focused on capturing those customers, retaining them, and then we'll grow with them. So that's the key points that we're trying to execute on.

David Barden - *BofA Merrill Lynch - Analyst*

Thanks, guys.

Operator

Thank you. Our next question comes from Batya Levi from UBS.

Batya Levi - *UBS - Analyst*

Wanted to ask about consumer margins. 65% was a level that we haven't seen in over two years, and despite the fact that you had more IPTV in the business which I assume that it's lower margin business. Given the headcount reductions that you announced, should we assume that this is a sustainable level going forward, or do you anticipate some pressure going forward?

Stewart Ewing - *CenturyLink, Inc. - CFO*

No, Batya, we really anticipate some pressure going forward in the consumer segment, that would bring our margins down somewhat closer to, really in the low 60s, probably. In the second quarter, starting to roll out the Prism TV and starting to incur some of the expenses there. We have additional markets, as Glen mentioned, that we'll be rolling out during the year, so we expect to see increases quarter-to-quarter for some of the strategic products, including Prism which are in the consumer segment. So we expect to see that margins come down somewhat.

Batya Levi - *UBS - Analyst*

Okay.

Operator

Thank you. Our next question comes from Frank Louthan from Raymond James.

Frank Louthan - *Raymond James & Associates - Analyst*

Could you talk a little bit about your business services organization and what sort of benefits have you seen from that year-to-date? Thank you.

Glen Post - *CenturyLink, Inc. - CEO & President*

We'll let Karen address that, Frank.

Karen Puckett - *CenturyLink, Inc. - COO*

Frank, Karen, good afternoon. Business services, the realignment has been very helpful in terms of a cohesive go-to-market. In particular, real efficiencies in the marketing organization, in terms of one product roadmap. Getting the efficiencies out of one platform, like a BroadSoft, making sure that we're leveraging all the capability across all the sub-segments within the business in terms of enterprise, SMB. That's been very beneficial.

Geographically, getting aligned, so there's better coordination. There's never enough feet on the street. So it's actually better utilization of the sales organization. Really encouraged, I think the team is really encouraged, and we're looking forward to the second quarter.

Frank Louthan - *Raymond James & Associates - Analyst*

Okay. Any margin impact or anything we should expect going forward, or just more incremental blocking and tackling, smaller steps?

Karen Puckett - *CenturyLink, Inc. - COO*

Right now it's just incremental blocking and tackling.

Frank Louthan - *Raymond James & Associates - Analyst*

Okay. Great. Thank you.

Karen Puckett - *CenturyLink, Inc. - COO*

We'll take it from there.

Operator

Thank you. Our next question comes from John Mark Warren from Morgan Stanley.

John Mark Warren - *Morgan Stanley - Analyst*

I was just wondering if you could comment on any changes you've seen from your business customers, in terms of economic outlook or decision cycles, and then also, if you're seeing or foresee any impact from sequestration in your government business?

Glen Post - *CenturyLink, Inc. - CEO & President*

Yes, John. We think the economy is pretty fragile, still. However, in the business side, we're seeing still strong demand for business service, IT services. We're getting mixed signals. We have the housing starts improving, at the same time you've got the sequestration, as you mentioned. You've got the higher taxes from the first of the year. So it's really a mixed bag, what we're seeing here.

But bottom line, we think we're going to see consumer demand be weak. That's what's being forecast, we agree with that. We're going to see government demand weak, so we're going to rely on our growth coming from the business sector, is my view. We're seeing demand there, but we're seeing longer cycle times as well, in the business sector. So it's not totally negative, but we're not seeing the growth by any means there that we hope to see, in maybe the second half of the year. Karen, do you want to add to that?

Karen Puckett - *CenturyLink, Inc. - COO*

I would -- two adds there. In terms of just what the business is, the strength right now in business solutions really is around MPLS, Ethernet, bandwidth. So we've been very successful in getting large MPLS site types of customer. What's important for these large customers to have diversity, of course, and as they're looking around for that other carrier or wanting change, we're positioned extremely well, and we're winning a lot of deals in that particular segment.

Saying that relative to the economy and such, I would say that actually there's a bright spot here, because businesses, at least a lot of the businesses that I've spoken to recently, are looking for ways to do things differently. And so they really are very serious about looking at outsourcing and taking their IT and outsourcing, or even some of their network services and getting it outsourced. I'm seeing a conversation that's different even than it was six or eight months ago, because I believe businesses have to do things differently, and they see this as one opportunity for them. So we're pretty encouraged with that.

Operator

Thank you. Our next question comes from David Phipps from Citigroup.

David Phipps - *Citigroup - Analyst*

Thank you. Just following up on the stock repurchase conversation, would you consider using your revolver to repurchase stock, if you ran low on cash?

Stewart Ewing - *CenturyLink, Inc. - CFO*

David, I mean, we've really primarily used free cash flow during the first quarter. We don't have anything drawn on the revolver now. We would consider using the revolver to a certain extent, but again, it's going to be using it for opportunistic purchases. We did commit to the agencies, and just to ourselves from a liquidity standpoint, that since we're not investment grade now, at least at the parent Company, we're going to keep $1 billion free on the $2 billion revolver, just from a liquidity standpoint.

David Phipps - *Citigroup - Analyst*

Fair enough. And then just a data point update. Did you get any dividends from your subsidiaries, Embarq or QCI, this quarter?

Stewart Ewing - *CenturyLink, Inc. - CFO*

We did pay dividends. We do pay quarterly dividends from our subs up to the parent Company, yes, from Embarq and QC.

David Phipps - *Citigroup - Analyst*

Okay. And then finally, when would you expect to release the financials for Embarq this quarter?

Stewart Ewing - *CenturyLink, Inc. - CFO*

Actually, we add those to our website. Yes, they're password protected, and only go to the bond investors that own the bonds in Embarq. So they're not really widely distributed. The QC 10-Q, that will be filed prior to the due date, probably on Monday.

David Phipps - *Citigroup - Analyst*

Okay. All right. Thank you. That's all my questions.

Operator

Thank you. Our next question comes from Michael Hodel from Morningstar.

Michael Hodel - *Morningstar - Analyst*

Just really quick, nice step-up in DSL or broadband net adds versus last half of last year. I was curious if you could give us any more color on what that line item looks like, and any additional detail you could provide on what types of speeds customers are taking on average site change. That would be very helpful too. Thanks.

Glen Post - *CenturyLink, Inc. - CEO & President*

We missed part of your question. You got garbled there. Would you repeat your question, please?

Michael Hodel - *Morningstar - Analyst*

Sure. So on the DSO adds, just in terms of a competitive environment, any changes in there over the last quarter or so? And then what types of speeds you're seeing customers take, on average.

Karen Puckett - *CenturyLink, Inc. - COO*

I got the speed question. I'm not sure the first question. But on the speed, we're seeing the sweet spot really in the 10 to 12 meg category. We do see customers wanting to take higher speed, and if the first question was around the competitive environment, in general, it is a competitive environment. It will continue to be a competitive environment, but we continue to execute very well, and we will continue to be competitive.

Michael Hodel - *Morningstar - Analyst*

That's exactly what I was getting at.

Operator

(Operator Instructions)

Our next question comes from Stanley Martinez from Legal & General.

Stanley Martinez - *Legal & General Investment Management - Analyst*

And on behalf of the leveraged finance community, a very warm welcome. Stewart, in the bond issuance that you conducted in March, you did that at the senior unsecured level, and just wondering, was that expeditiously in order to access term capital relatively quickly, to pay down the revolver? Or as you pursue the share buyback, and you potentially draw on the facility more in Q2 and then have to, would you seek to use some of your capacity at the HoldCo at the senior secured, rather than senior unsecured, or potentially to issue notes, which are callable to provide yourself with more optionality, and maybe reduce your interest costs further?

Stewart Ewing - *CenturyLink, Inc. - CFO*

Stanley, at this point -- first of all, we did use $1 billion dollar issuance and we were really going for $500 million, and had so much demand and the rate was so good we decided to take $1 billion. But we basically used that to repay the credit facility, as well as we had a maturity coming up about that time on the parent company, so we paid that off as well. In terms of using senior secured debt, we've not discussed that at this point, and I think as long as the unsecured markets are where they are, we'll continue to use the unsecured markets on the parent Company.

Stanley Martinez - *Legal & General Investment Management - Analyst*

And what about in terms of adding some more interest rate optionality to the debt portfolio in terms of callables, versus the normal term loans that you do now, might that be an additional way to try to optimize things, as you bet into the high yield community?

Stewart Ewing - *CenturyLink, Inc. - CFO*

We'll look at it, Stanley, as it comes along and as we look at each potential issuance, if we can get a significantly better rate and get some optionality. But at this point, we're basically -- I mean, the first issuance we did was really almost just like we were an investment grade issuer, really was not much difference at all in terms of the execution, and the demand, and the rate, for that matter.

Stanley Martinez - *Legal & General Investment Management - Analyst*

Indeed. Thank you.

Operator

Thank you. And our next question comes from Mike McCormack from Nomura Securities.

THOMSON REUTERS

Mike McCormack - *Nomura Securities Intl - Analyst*

Can you make a comment regarding cable competition? I know, Karen, you said that you're pretty happy with your speeds relative to other competitors, but are you seeing cable getting more aggressive, and trying to attack you on speed? Also, on the small business side, what you're seeing from the cable perspective? Thanks.

Karen Puckett - *CenturyLink, Inc. - COO*

Yes, in terms of what I said, I think the question was around, we will remain competitive and that's really around the execution. In terms of speed, that is a challenge, clearly. DOCSIS 3 continues to be a challenge, it has been a challenge. It's not a different challenge. It's the same challenge, but pretty well deployed. In terms of the cable into small businesses, they've been aggressive. They've made large investments. They put feet on the street and they continue to progress in that particular area, and we will continue to be very focused in the SMB and small business side of the house, also.

Mike McCormack - *Nomura Securities Intl - Analyst*

Karen, just on the high speed side, is there any thoughts internally to be accelerating, trying to get fiber deeper, just as cable continues to roll out and we're seeing a lot more video consumption in the home?

Karen Puckett - *CenturyLink, Inc. - COO*

I would say that our history shows that I think relative to the type of Company we are, we have to have different toolboxes, depending on the density and the demographics. So we focus not only on density, but we try to use our capital in a very targeted way, and go in where we have the higher demographics to provide the GPON-type services, if that continues to work for us. Omaha definitely is a trial. We had a whole lot of fiber in this particular footprint from the prior video service that was there. This gives us a chance in a very economical way to go in and look at what are the propensity to buy, what are the churn rates, what are the feed take rates, what's the best go-to-market. We're really excited about that. On a greenfield basis, we always try to put fiber in. As long as we can continue to push fiber in, when we have the opportunity, we will. But again, fiber-to-the-node is incredibly important, so we've got different technologies depending on the profile of the network, and the customer segment we're going after.

Mike McCormack - *Nomura Securities Intl - Analyst*

Great. Thank you.

Operator

Thank you. And our final question for today comes from Phil Cusick from JPMorgan.

Phil Cusick - *JPMorgan - Analyst*

Can you talk a little bit more about the Prism TV efforts in Phoenix? You said it was a good start there, and talk more about the 1 gig efforts in Omaha and the pending soft launch. Should we expect higher general OpEx, both from the Omaha efforts and the soft launch, or is that baked into the guidance at this point, and you figured you could get through it?

Karen Puckett - *CenturyLink, Inc. - COO*

It's definitely baked into the guidance, and we've taken a lot of cost out of the business as we continue to bring Prism in. So we've done a pretty good job of balancing that. In terms of Phoenix and Prism, we're into a soft launch, incredibly encouraged by the results, not only from the customer take rate, but frankly, from the execution of the operational teams, and really it's one of the best soft launches that we have, but you get key learnings along the way.

In terms of Omaha, a couple of things. The reason we're there is because there was a video product that Qwest had there prior. The franchise agreement was up. We had some decisions to make. We looked at that footprint which is a nice, dense area, and it was just blessed with lots of fiber running right by the homes, so that give us a rich opportunity to really trial GPON in a bigger way. The reasons for that is to really test the technology, the take rates and go-to-market, and take our learnings, and make decisions from there.

Glen Post - *CenturyLink, Inc. - CEO & President*

I might just add to that, Phil. If you look at the rest of the year, and you look at the expenses that will be increasing, as Stewart mentioned earlier. A lot of the issues driving expenses, or the factors driving expenses are our investments in the new service like Prism, our data hosting expansion Our broadband expansion where we have business cases that are going to drive revenues, are tied to revenue, including our fiber-to-the-tower. A lot of our CapEx, as well as our OpEx the rest of the year are tied to growth efforts. We're pleased with our ability to really contain our expenses or focus our expense, our investments as we like to call them, on these growth areas, where we expect revenue growth to occur over the next couple years.

Phil Cusick - *JPMorgan - Analyst*

And if I may, one more quick one. I apologize if you talked about this in your prepared remarks, but you talked about one-time expense reductions that you experienced during the first quarter. Can you just detail for us a little bit?

Stewart Ewing - *CenturyLink, Inc. - CFO*

Yes, Phil. We had some, probably about $20 million of one-time items that were expense reductions, and really some timing items as well in the first quarter, that weren't spent, that will be spent later in the year, such as our branding campaign, that got started a little bit late, and so some of the expenses that we expect in the first quarter get pushed out to second quarter. So just a few items like that, a few items from the standpoint of either one-time credits that we had in the quarter, or expenses related to tax settlements, things like that. We had --

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Glen Post - *CenturyLink, Inc. - CEO & President*

A large access settlement.

Stewart Ewing - *CenturyLink, Inc. - CFO*

And we had an access settlement as well.

Phil Cusick - *JPMorgan - Analyst*

Got it. Thank you.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Glen Post for any closing remarks.

Glen Post - *CenturyLink, Inc. - CEO & President*

Thank you, Said. We are pleased with the solid results which we achieved during the first quarter. Our customer diversification and product portfolio expansion in recent years has positioned us well to grow strategic revenues from our mix of small to large enterprise customers. We also believe our strategic product portfolio positions us to differentiate our cloud and managed services offerings through the bundling of both network and cloud services. The expansion of our Prism TV service and the recent launch of Savvis Direct, our managed hosting cloud services platform for small and medium business customers further strengthens our product portfolio and should provide us additional revenue growth opportunities in 2013 and beyond. And finally, I am pleased with the strong progress we made on the share buyback program over the past three months, and we look forward to the opportunities that the remainder of this year presents. Thank you for joining our call today, and we look forward to speaking with you in the weeks ahead.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes our program for today. You may all disconnect, and have a wonderful day.
