

Embarq CORP
Form 10-Q
May 02, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 001-32732

Embarq Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5454 W. 110th Street

20-2923630
(IRS Employer

Identification No.)

66211

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Overland Park, Kansas
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (913) 323-4637

(Former name, former address and former fiscal year, if changed since last report)

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 these reports), and (2) has been subject to these filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

COMMON SHARES OUTSTANDING AT APRIL 30, 2007:

COMMON STOCK: 151,064,558

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	As of March 31, 2007 (Unaudited)	As of December 31, 2006
Assets		
Current assets		
Cash and equivalents	\$ 46	\$ 53
Accounts receivable, net of allowance for doubtful accounts of \$56 and \$53, respectively	629	660
Inventories, net	183	179
Prepaid expenses and other current assets	150	131
Total current assets	1,008	1,023
Gross property, plant and equipment	20,820	20,805
Accumulated depreciation	(12,910)	(12,817)
Net property, plant and equipment	7,910	7,988
Goodwill	27	27
Other assets	38	53
Total	\$ 8,983	\$ 9,091
Liabilities and Stockholders' Equity		
Current liabilities		
Current maturities of long-term debt	\$ 37	\$ 37
Accounts payable	447	503
Accrued taxes	242	164
Payroll and employee benefits	179	198
Deferred revenue	211	211
Accrued interest	126	52
Other current liabilities	175	99
Total current liabilities	1,417	1,264
Noncurrent liabilities		
Long-term debt	6,058	6,421
Deferred income taxes	1,000	1,039
Benefit plan obligations	682	685
Other noncurrent liabilities	157	150
Total noncurrent liabilities	7,897	8,295
Stockholders' equity		
Preferred stock, \$.01 par value; 200 shares authorized; no shares issued and outstanding		
Common stock, \$.01 par value; 1,250 shares authorized; 150.6 and 149.7 shares issued and outstanding	2	1
Treasury stock, 41 thousand shares, at cost	(2)	
Paid-in capital	(360)	(414)

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Retained earnings	391	308
Accumulated other comprehensive income (loss)	(362)	(363)
Total stockholders' equity	(331)	(468)
Total	\$ 8,983	\$ 9,091

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**EMBARQ CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (UNAUDITED)***(millions, except per share data)*

	For the Quarter and Year to Date Periods Ended March 31,	
	2007	2006
Net Operating Revenues		
Service revenues	\$ 1,458	\$ 1,386
Product revenues	131	175
Total net operating revenues	1,589	1,561
Operating Expenses		
Cost of services	417	378
Cost of products	127	160
Selling, general and administrative	404	419
Depreciation	270	238
Total operating expenses	1,218	1,195
Operating Income	371	366
Interest expense	109	19
Other (income) expense, net		(5)
Income Before Income Taxes	262	352
Income tax expense	102	138
Net Income	\$ 160	\$ 214
Amortization of benefit plan prior service cost and actuarial losses, net of tax	(2)	
Unrealized holding gains on cash flow derivatives, net of tax		(21)
Amortization of cash flow derivatives, net of tax	1	
Comprehensive Income, Net of Tax	\$ 161	\$ 235
Earnings per Common Share		
		Pro forma
Basic	\$ 1.07	\$ 1.44
Diluted	\$ 1.05	\$ 1.43
Weighted Average Common Shares Outstanding		
Basic	150.2	149.1
Potentially dilutive shares under equity incentive plans	2.2	0.7
Diluted	152.4	149.8

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See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**EMBARQ CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)***(millions)*

	For the Quarter and Year to Date Periods Ended March 31,	
	2007	2006
<i>Operating Activities</i>		
Net income	\$ 160	\$ 214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	270	238
Provision for losses on accounts receivable	17	12
Provisions for deferred and uncertain income tax positions	(36)	(9)
Stock-based compensation expense	14	
Net gain on sales of assets	(3)	(7)
Other, net	11	(4)
Changes in assets and liabilities:		
Accounts receivable	14	54
Inventories and other current assets	(28)	52
Accounts payable and other current liabilities	75	48
Noncurrent assets and liabilities, net	(14)	7
Net cash provided by operating activities	480	605
<i>Investing Activities</i>		
Capital expenditures	(183)	(184)
Proceeds from construction reimbursements	3	2
Proceeds from sales of assets	17	20
Net cash used by investing activities	(163)	(162)
<i>Financing Activities</i>		
Payments on long-term debt	(210)	
Borrowings under revolving credit agreement	50	
Repayments under revolving credit agreement	(200)	
Proceeds from common stock issued	35	
Purchase of treasury shares	(2)	
Dividends paid to stockholders	(4)	
Dividends paid to Sprint Nextel		(194)
Tax benefit from options exercised	5	
Other, net	2	
Net cash used by financing activities	(324)	(194)
<i>Increase (Decrease) in Cash and Equivalents</i>	(7)	249
<i>Cash and Equivalents at Beginning of Period</i>	53	103
<i>Cash and Equivalents at End of Period</i>	\$ 46	\$ 352

Supplemental Cash Flow Information

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Cash paid for interest, net of amounts capitalized	\$ 37	\$ 28
Cash paid (received) for income taxes	\$ 49	\$ (23)
<i>Non-cash Activities</i>		
Capital expenditure accrual	\$ 10	\$
Reduction of debt	\$ 3	\$
Common stock issued under the Employee Stock Purchase Plan	\$ 2	\$

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

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CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (UNAUDITED)

(millions)

	Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
January 1, 2007 balance	\$	\$ 1	\$	\$ (414)	\$ 308	\$ (363)	\$ (468)
Cumulative effect of adoption of FIN 48, net of tax					1		1
Net income		&					