EXHIBIT ___ GCB-1T

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of, Joint Application of Qwest Communications International Inc. and CenturyTel, Inc. for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company LLC, and Qwest LD Corp.	Docket No. UT-100820

DIRECT TESTIMONY

OF

G. CLAY BAILEY

CENTURYLINK

MAY 21, 2010

Q. Please state your name and business address.

A. My name is G. Clay Bailey and my business address is 100 CenturyLink Drive, Monroe, Louisiana 71203.

Q. Who is your employer and what is your position?

A. I am employed as Senior Vice President and Treasurer for CenturyLink, Inc. ("CenturyLink" or the "Company")

Q. Please describe your educational background, work experience, and present responsibilities.

A. I received a B.B.A. in Accounting from Northeast Louisiana University. I am a Certified Public Accountant (Inactive Status). Upon graduation, I was employed by the accounting firm, KPMG. During my tenure with the firm, I was involved in telecommunication audits. In 1992, I accepted a position with CenturyTel in the area of Government Relations. I held many positions in the area including Vice President, Government Relations. In that position, I was responsible for both federal and state government relations. In 2000, I accepted the position of Vice President and Treasurer. Earlier this year I became Senior Vice President and Treasurer.

Q. What is the purpose of your testimony?

A. I am testifying in support of the Joint Application ("Application") filed by CenturyLink and Qwest Communications International Inc. ("Qwest") with the

Washington Utilities and Transportation Commission ("Commission") on May 13, 2010. My testimony will provide a detailed overview of the financial characteristics of the combined company arising from the proposed transaction. Further, my testimony will support and demonstrate that the combination is in the public interest and affirmatively creates benefits for customers and the State of Washington.

Q. Are other witnesses filing direct testimony in this proceeding?

A. Yes. I have reviewed the testimonies of John Jones and Todd Schafer, representing CenturyLink, and Mark Reynolds, representing Qwest, all of which provide detail about other factors that support the proposed merger of CenturyLink with Qwest. My testimony complements those testimonies by providing additional information regarding important financial factors about the two companies and the proposed combination.

Q. Please summarize your testimony.

A. CenturyLink and Qwest announced on April 22, 2010, the two companies' agreement to merge to create one of the largest telecommunications companies in the U.S. From a financial perspective the all-stock transaction is compelling for a number of reasons: (1) no new debt or debt refinancing is required based on the borrowings at the time of the announcement[1]; (2) the transaction is a

[1] Qwest does have a credit facility that includes a change of control provision, but no funds were drawn against that facility at the time of the announcement.

straightforward stock-for-stock combination that does not involve any financial or tax-structure complexities (e.g., Reverse Morris Trust) similar to those employed in certain recent transactions; (3) the combined company will have increased financial resources with the flexibility to dedicate capital in response to business opportunities, to support ongoing capital investment, or to reduce debt; and (4) the combined company will have what we believe will be investment-grade characteristics based on solid debt coverage ratios, sufficient liquidity, and a manageable debt maturity schedule. The decision to merge is based on a compelling financial rationale and the public interest benefits that flow from the proposed merger. My testimony, therefore, will highlight factors that should give the Commission confidence that this combination is in the public interest, consistent with the State's standard of review and that the merger should be approved. Specifically, I will testify regarding three general subjects:

1. The financial profile of the two individual companies, as well as the merged company, at the corporate parent level;
2. The financially-based affirmative benefits of the proposed transaction; and
3. Specific financial characteristics of the merged company, including the rationale for a stock-for-stock transaction, the expectations for a strong and improving balance sheet, opportunities for meaningful cost savings due to enhanced scale and efficiencies, and the expected uses of the merged company's annual cash flows.

Q. Please provide a financial overview of the transaction.

A. As of December 31, 2009, CenturyLink and Qwest served local telecommunications markets as incumbent carriers in 37 states. The combined companies served approximately 17 million access lines, approximately 5 million broadband subscribers,[2] and more than one million enterprise customers. At yearend 2009, the combined company had pro forma revenues of $19.8 billion, earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately $8.2 billion, and free cash flow (cash flow available after all cash operating expenses and capital investment),[3] excluding any estimated synergies, of $3.4 billion.[4] With 2009 pro forma combined net leverage of 2.4 times before synergies and 2.2 times after run-rate estimated synergies (both ratios calculated excluding one-time integration costs),[5] the merged company is expected to have one of the strongest balance sheets in the U.S. telecommunications industry. The transaction is expected to be accretive to CenturyLink's free cash flow at closing, excluding one-time integration costs. The merged company is projected in three-to-five years to have an estimated $625 million in annual run-rate operating and

[2] *See* CenturyLink and Qwest Merger Conference Call, April 22, 2010, [hereafter "Merger Conference Call"]; slide 8; available at http://www.centurylinkqwestmerger.com/downloads/presentations/Investor%20Presentation-4-22-10.pdf Select slides from the Merger Conference Call are referred to throughout this testimony. They have been reproduced and attached collectively hereto as Exhibit ____ (GCB-2). References to individual slides will refer to them by their original slide number.

[3] *Id.*, slide 8. As indicated in Note (a) on the slide, "CenturyLink free cash flow [is] calculated as net income + D&A – capex. Qwest free cash flow calculated as net income + D&A + deferred income tax – capex."

[4] Merger Conference Call, slide 8.

[5] Merger Conference Call, slide 7. The one-time integration costs include operating costs of $650-$800 million, and capital costs of $150-$200 million to achieve synergies. See Merger Conference Call, slide 13.

capital synergies,[6] and a reasonable 45% 2009 pro forma dividend payout ratio, including synergies.[7] The combined company will be committed to network investment and appropriate balance sheet improvement (debt reduction), and is expected to produce sufficient operating cash flows to fund a stronger and more competitive business, as competitive threats increase from national companies such as AT&T, Verizon, Comcast, Time Warner Cable and Cox Communications. The testimony will emphasize that CenturyLink is a proven acquirer of telecommunications operations and is capable of creating a strong combined company to serve its customers. In short, the proposed transaction will create a carrier with major scope and scale, and the financial resources and flexibility to provide high-quality, competitive communications services to customers and communities across the country.

Q. Can you describe how your testimony relates to the Commission's review of the Transaction?

A. My understanding is that the State of Washington grants the Commission authority to approve the transfer requested in the application filed by CenturyLink and Qwest. In approving this Transaction, the Commission must consider whether the Transaction is consistent with the public interest. This testimony focuses on the financial characteristics of the proposed transaction which

[6] Merger Conference Call, slide 6.
[7] Merger Conference Call, slide 7.

demonstrate that the merged company will have more financial resources to serve customers and the public interest.

Regarding the capital structure of the operating subsidiaries, the transaction is structured in a transparent manner that results in no change in the operating entity capital structures. Specifically, Qwest will become a wholly-owned subsidiary of CenturyLink; the Qwest operating subsidiaries will continue to be Qwest subsidiaries; and the CenturyLink operating subsidiaries will continue to be CenturyLink subsidiaries; the operating entity balance sheets are not expected to be affected in any adverse manner; and the operating subsidiaries will benefit over the longer term from the improved financial position and credit quality of the combined company. Due to its financial profile—significant scope and scale, strong cash flows, moderate leverage, investment grade credit characteristics, and expanded equity “float” (larger market capitalization and more shares outstanding)—the merged company should have improved access to capital on reasonable terms. In short, the proposed transaction will not result in a deterioration of the financial condition of any of the operating companies and will over time improve, not harm, the companies’ ability to attract and access capital on reasonable terms.

I. Financial Profile of the Two Individual Companies.

Q. Can you provide a summary of the financial characteristics of CenturyLink?

A. CenturyLink, an S&P 500 company, is headquartered in Monroe, Louisiana. The Company's shares are publicly traded on the New York Stock Exchange under the ticker symbol "CTL." The newly-named Company was formed through the CenturyTel and Embarq merger. CenturyLink, through its wholly-owned operating subsidiaries, is a leading provider of communications services to consumers, businesses, and other carriers. Using its robust communications networks, the Company offers local and long-distance voice, wholesale local network access, high-speed internet, and information and video services in 33 states. As of December 31, 2009, CenturyLink provided incumbent local exchange carrier ("ILEC") services to approximately 7.04 million telephone access lines and 2.24 million broadband subscribers. CenturyLink also operates a fiber transport network that provides wholesale and retail fiber-based transport services in support of other carriers and retail customers. On a pro forma basis—assuming that CenturyTel and Embarq were combined for the full year ending December 31, 2009—the Company generated $7.53 billion in revenues and $3.80 billion in EBITDA, excluding non-recurring items. CenturyLink's net debt (total debt less cash and equivalents) at the end of 2009 was $7.59 billion, and its net debt-to-trailing (previous twelve months) EBITDA was 2.0 times. The Company had an equity market capitalization of $10.83 billion at the end of 2009,[8] resulting

[8] Market capitalization is based on 299.57 million shares outstanding and a closing price of $36.21 on the New York Stock Exchange on December 31, 2009.

in an $18.43 billion total enterprise value (equity market capitalization plus net debt).

Q. Can you provide a summary of the financial characteristics of Qwest?

A. Yes. Qwest is a Delaware corporation with its headquarters in Denver, Colorado. Qwest's shares are publicly traded on the New York Stock Exchange under the ticker symbol "Q." Qwest's ILEC subsidiary, Qwest Corporation ("QC"), serves wholesale and retail customers in the 14-state region of Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming. As of December 31, 2009, Qwest had approximately 10.27 million access lines and 4.70 million video, broadband and wireless connections, including 2.97 million high-speed lines. Qwest has another subsidiary, Qwest Communications Company, LLC ("QCC"), which operates a national fiber-optic network and provides retail and wholesale data, interexchange and local services. In 2009, the consolidated operations of Qwest generated $12.31 billion in revenues and $4.42 billion in adjusted EBITDA.[9] Qwest's net debt at December 31, 2009, was $11.79 billion, and its net debt-to-trailing EBITDA ratio was 2.7 times. Qwest had an equity market capitalization of $7.19 billion at the end of 2009,[10] resulting in an $18.98 billion total enterprise value.

[9] In Qwest's quarterly earnings releases, the company reports adjusted EBITDA that excludes items not representative of the core ongoing telecommunications operations.
[10] Market capitalization is based on 1.707 billion shares outstanding and a closing price of $4.21 on the New York Stock Exchange on December 31, 2009.

II. Financially-Based Affirmative Benefits of the Transaction.

Q. Please describe the transaction.

A. On April 22, 2010, CenturyLink and Qwest announced that their boards of directors had approved a definitive agreement by which a wholly-owned subsidiary of CenturyLink will merge with Qwest, with Qwest as the surviving entity wholly-owned by CenturyLink. Qwest's subsidiaries also will be indirectly wholly-owned by CenturyLink. In this stock-for-stock combination, Qwest shareholders will receive 0.1664 shares of CenturyLink stock for each of their Qwest shares, and CenturyLink will own 100% of the outstanding stock of Qwest.[11] No new debt financing will be required and, importantly, none of the debt outstanding at the time of the transaction announcement will require refinancing under change of control provisions.[12] At the consummation of the transaction, CenturyLink's pre-merger shareholders will own approximately 50.5% of the post-merger company and Qwest's pre-merger shareholders will own approximately 49.5% of post-merger CenturyLink.[13] The value of the transaction was estimated on the day of the announcement to be approximately $22.4 billion, reflecting a value of approximately $10.6 billion for Qwest's equity and including Qwest's net debt (total borrowings net of unamortized debt discount, less cash and cash equivalents and short term investments) of

[11] Merger Conference Call, slide 6.
[12] *Id.*, slide 7; Qwest's credit facility does have a change of control provision; however, no funds were drawn on that facility at the time of the merger announcement, so the change of control provision will not result in any refinancing of debt outstanding.
[13] *Id.*, slide 6.

approximately $11.8 billion, as of December 31, 2009.[14] The stock-for-stock transaction structure is simple and easily understood, and does not involve any of the financial or tax-structure complexities or characteristics (e.g., Reverse Morris Trust) of other recent transactions. Such a transactional approach should allow policymakers and other interested parties to gain additional comfort that the combination is relatively straightforward and that the financial benefits can be assessed more readily.

Q. What is the rationale for the merger?

A. CenturyLink and Qwest believe that there are numerous important benefits flowing from the proposed transaction, including:

- Enhanced service and product capabilities based on a national 180,000-mile fiber network, a strong product portfolio, and increased scale; expanded competitive offerings, including high-speed Internet, video, data hosting and managed services; as well as fiber-to-cell tower connectivity and other high-bandwidth services;
- Financial strength and flexibility, as the combined company's sound capital structure and free cash flows serve to position the merged company to respond to future opportunities, while permitting ongoing investment in the network, reductions of indebtedness, and appropriate compensation of capital providers; and

[14] *Id.*

- Improved operating and capital efficiency through reductions in corporate overhead and the elimination of duplicative functions and systems.

Q. Can you provide additional detail regarding the financial expectations for the merged company?

A. Yes. First, using pro forma 2009 financials, before any expected synergies, the merged CenturyLink and Qwest would have generated around $3.4 billion in free cash flow[15] after all cash operating expenses and an estimated $2.4 billion in capital investment. Based on this level of free cash flow, after meeting all operating, capital and financial costs, the company expects to have about $1.7 billion in remaining cash flow that could be used for further debt repayment and additional investment.

Second, CenturyLink and Qwest expect that the merged company will be able to create annual run-rate operating expense synergies of approximately $575 million, fully-recognized over a three-to-five-year period following closing. The companies also project annual run-rate capital expenditure synergies of $50 million, for a total expected increase of $625 million in annual cash flow due to operating and capital synergies.[16] Thus, if it were assumed that CenturyLink and Qwest had been combined in 2009 and full estimated run-rate synergies of $625 million were realized, the merged company would have generated approximately

[15] *Id.*, slide 8.
[16] Merger Conference Call, slide 6.

$3.8 billion of free cash flow after operating expenses and capital expenditures. Again, assuming the realization of synergies, the company estimates that, after all costs to run the business (operating, capital and financial), it will have approximately $2.1 billion in annual free cash flow that could be used to reduce debt and to further develop its business. Accordingly, the expected cash flows should provide increased flexibility for ongoing network investments, product development, and retirement of debt.

Q. Are these cost synergies realistic?

A. Yes. CenturyLink has a proven history, based on significant acquisition integration experience, of realizing announcement-day estimated synergies. In part, this is because CenturyLink focuses on improving costs in acquired companies.

I also note that the estimate of $575 million in operating expense savings is just over 7% of Qwest's 2009 cash operating expenses, while the $625 million of total estimated synergies is less than 8% of Qwest's cash operating expenses.[17] For comparison, the synergy estimates as a percentage of target company cash operating expenses are below 9%, which was the level of expected cost synergies announced when CenturyTel merged with Embarq. Consistent with its history of realizing its operational and financial goals, CenturyLink announced that it was

[17] Qwest's 2009 revenues of $12.311 billion less adjusted EBITDA of $4.415 billion approximates cash operating expenses of $7.896 billion; estimated operating synergies of $575 million divided by cash operating expenses is 7.3%, while total estimated synergies of $625 million divided by cash operating expenses is 7.9%.

ahead of schedule in achieving synergies in the Embarq transaction. The synergy savings for the proposed transaction also appear realistic when compared with other merger-related ILEC-transaction synergies that generally have been 20%+ of the target company's cash operating expenses in recent years.[18] As a result, CenturyLink believes that the announced synergy estimates for the proposed transaction are achievable.

Q. Is the proposed transaction motivated by a desire to get larger just for the sake of size?

A. No. The local telecommunications industry is evolving. CenturyLink believes that companies that best serve their customers will be successful because of sufficient scope and scale, efficient operations, and strong network investment realized in part through access to competitively-priced capital. By combining, CenturyLink and Qwest will create a stronger company that has the local and transport resources to compete more effectively with national competitors such as AT&T, Verizon and Comcast, and to deploy more broadly strategic products such as higher-speed data offerings and, in select markets, other services such as IPTV.

Q. Have the companies attempted to identify the specific benefits of new services that might be made available as a result of the Transaction?

[18] Simon Flannery, *CenturyTel: 1Q10 Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal,* Morgan Stanley Research, North America, April 29, 2010; attached hereto as Exhibit ____ GCB-3.

A. No. The process of integration is too early at this point to estimate the full extent of the opportunities to provide new products and services to customers and to increase broadband penetration rates in the combined service territory. However, CenturyLink and Qwest believe that, as a combined company, there will be greater potential to roll-out additional services over an advanced network infrastructure, including data products and even IPTV in select markets. In the previous acquisitions or mergers in which CenturyLink has been involved, the Company has been able to improve the range of services offered to customers and to slow the loss of access lines. Illustrating this operating benefit, CenturyLink reported in its 2010 first quarter earnings release that access-line losses had improved by 14% compared with the losses in the fourth quarter of 2009 and by 26% compared to pro forma first quarter 2009 (assuming the Embarq transaction had closed at the beginning of 2009).[19] The improvement has come as the Company integrated the Embarq properties, acquired July 1, 2009. The Company also reported more than 70,000 new high-speed customers were added in the first quarter of 2010. Specifically related to the improvement in Embarq regions, CenturyLink reported that access line loss and high-speed Internet customer growth in the five largest legacy Embarq markets (Nevada, North Carolina, North Florida, Central Florida, and South Florida) have improved since

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[19] CenturyLink Reports First Quarter 2010 Earnings, May 5, 2010; available at http://ir.centurylink.com/phoenix.zhtml?c=112635&p=irol-newsArticle_Print&ID=1422603&highlight= [hereafter "CenturyLink First Quarter Earnings"]; see, also, CenturyLink Reports Fourth Quarter 2009 Earnings, available at http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzcwNDQ2fENoaWxkSUQ9MzY3MTIyfFR5cGU9MQ==&t=1. The first quarter 2010 report indicates a loss of 126,000 access lines, which compares with the final quarter of 2009 when CenturyLink reported that it had lost 146,000 lines.

[19] Id.

the close of the transaction on July 1, 2009.[20] The Company believes the improvement is tangible evidence of the impact of the customer benefits of the Company's local operating model that moves accountability and decision-making closer to the customer. In addition, CenturyLink believes that the addition of the Qwest fiber network and its focused Business Markets Group may create opportunities to offer new enterprise and business services to customers in the current CenturyLink service territory. The merged companies' enterprise business is expected to compete more effectively against large communications operators such as AT&T, Verizon, Sprint, Comcast and Time Warner.

Q. Are there other financial benefits that will result from the proposed transaction?

A. Yes. The proposed transaction will diversify and therefore reduce the financial risk of the merged company. The effect of combining differing geographies and markets is to lower the potential impact of operating and financial risk for the consolidated merged company by reducing its exposure to any single risk.

Q. Is CenturyLink's management able to acquire and integrate Qwest's operations without harming customers as synergies are achieved?

A. CenturyLink's management team, as described in other testimonies, not only has remained stable over more than a decade, but has proven itself capable in executing multiple customer-focused acquisitions of communications operations.

[20] CenturyLink First Quarter Earnings.

The record is clear in terms of CenturyLink's acquisition history and the resulting customer benefits. Those transactions include (i) Pacific Telecom Inc. (1997), (ii) the Wisconsin properties acquired from Ameritech (1998), (iii) two sets of Verizon acquisitions (2000 and 2002) that added significant operations in Wisconsin, Missouri, Arkansas and Alabama, (iv) the Madison River acquisition (2007), and (v) the merger with Embarq (2009). In all of those transactions, CenturyLink achieved projected synergies and reduced overall debt levels, all while providing an excellent level of service to its customers. The result has been superior operations, strong financial performance and, most importantly, a higher level of customer benefits in terms of services and products.

Q. Can you comment on CenturyLink's history in terms of increased levels of debt in previous acquisitions, followed by consistent reductions in debt levels?

A. Yes. The pattern is that CenturyLink has added debt at the time of acquisitions and consistently has reduced those debt levels as increased cash generation permitted the Company to make significant debt repayments and strengthen its balance sheet. At the time of the Pacific Telecom Inc. acquisition in 1997, CenturyLink's debt-to-total capitalization ratio rose to 67%. By 1999, the Company had reduced that leverage ratio to 54%. The following year, in conjunction with CenturyLink's purchase of Verizon rural telephone operations in Wisconsin, Missouri and Arkansas, the debt-to-total capitalization ratio rose to 63%. However, in 2002, when CenturyLink purchased more Verizon properties in Missouri and Alabama, the Company's debt-to-total capitalization, even after that acquisition, had been reduced to 54% and then it declined further to 42% by 2005. The ratio rose again to 47% in 2007 when the Company completed the Madison River transaction and engaged in certain share repurchase programs. However, the trend is evident as from 1997 to 2007 the debt-to-total capitalization ratio declined by twenty percentage points (approximately 2,000 basis points from 67% to 47%). The current debt-to-total capitalization ratio is 45% in the wake of the Embarq transaction. The history demonstrates a clear commitment on the part of the Company to reduce leverage and maintain a strong balance sheet.

Viewed in terms of CenturyLink's net debt-to-operating cash flow (EBITDA) ratio, which is probably the better financial metric, the trends are also clear. In 2001, following the 2000 acquisition of Verizon lines, CenturyLink had a net debt-to-operating cash flow ratio of 3.6 times; as of yearend 2009, that ratio had been reduced to 2.0 times (on a pro forma basis assuming in the full-year EBITDA that the CenturyTel-Embarq combination occurred at the beginning of that year). So, while CenturyLink has committed to acquisitions that raised the Company's leverage, the Company has been prudent and successful at rapidly reducing proportionate debt levels following those transactions, even as the Company maintained investment grade ratings. In fact, Moody's Investors Service ("Moody's") affirmed CenturyLink's rating on the day of the Qwest merger announcement, noting that "CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns."[21] CenturyLink intends to apply this same discipline in strengthening the merged company's balance sheet following consummation of the proposed transaction.

Q. Does the merger with Qwest include incremental financial risks because the Embarq transaction was only consummated at the end of June, 2009?

A. CenturyLink believes that the integration-related risks are manageable for several reasons. First, the Embarq transition is progressing nicely as described in more detail in the testimony of Todd Schafer. Also, as noted earlier, the combination of CenturyTel and Embarq has resulted in strong performance metrics. Illustrating the successful integration in terms of operations, within four months after the Embarq closing, CenturyLink had converted 100% of the financial, accounting and human resources systems. As of today, the Company has completed the billing and customer care conversions for the Ohio and North Carolina Embarq operations, representing approximately 25% of the Embarq customer base. By yearend 2010, CenturyLink expects to have approximately 50% of the Embarq customer base converted to the CenturyLink billing and customer care platform, with a target for 100% conversion by the third quarter of 2011. As such, with the proposed Qwest transaction targeted to close in the first half of 2011, the Company expects that the beginning of the Qwest integration process will dovetail with the expected completion of the Embarq integration.

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[21] Moody's Investors Service, *Rating Action: Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade*, April 22, 2010 [hereafter "Moody's, April 2010]; attached hereto as Exhibit ____ GCB-4.

Second, while there is no quantification at this time, CenturyLink and Qwest managements believe that the integration of Qwest could further accelerate operating improvements as the transport businesses of the two companies are combined to increase data capabilities and better serve higher concentrations of customers, particularly in regions where service territories are adjacent.

III. Specific Financial Characteristics of the Merged Company.

Q. Why is the transaction structured as a stock-for-stock combination?

A. The two companies chose to avoid incurring any additional debt. Thus, the price[22] for the transaction will be paid in equity shares issued from CenturyLink to Qwest shareholders. With a stock-for-stock combination, CenturyLink and Qwest can avoid new acquisition-related debt or refinancing of existing debt.[23]

Q. Can you offer perspective on the pro forma balance sheet of the combined company?

A. Yes. The merged company will have among the strongest balance sheets in the industry. Pro forma 2009 net debt-to-EBITDA was 2.4 times before synergies and 2.2 times after synergies on a full run-rate basis, excluding integration costs.

[22] The transaction premium is estimated to be approximately 15% using the share prices of Qwest and CenturyLink at the New York Stock Exchange close of the day before the announcement; the imputed price for Qwest shares was $6.02, which was 0.1664 times CenturyLink's $36.20 close on Wednesday, April 21 was ; Qwest shares had closed at $5.24 that same day.

[23] As noted earlier, Qwest does have a credit facility, with no balance outstanding at the time of the merger announcement, that includes a change of control provision; however, given that there is no balance outstanding, no debt refinancing will be required.

These leverage ratios compare favorably with other major ILECs in the industry. Windstream's 2009 net leverage ratio was 3.3 times, Frontier's pro forma (assuming the completion of the pending combination with Verizon's operations) 2009 ratio was 2.6 times, while Qwest's standalone 2009 net leverage was 2.7 times.[24] CenturyLink has been clear that an investment grade rating is important even if it is necessary to incur relatively more debt temporarily (and to incur a lower rating for a period) in a strategic acquisition. The longer-term commitment is clear—that the Company seeks through this transaction to realize improved cash flows and a balance sheet that is stronger even than its capitalization today.

Q. Is the merged company expected to have the ability to reduce its leverage through debt repayments using free cash flow from operations as CenturyLink has done in the past?

A. As noted previously, the pro forma combined 2009 free cash flow before synergies and after operating expenses and capital expenditures is approximately $3.4 billion.[25] After pro forma dividends, it is estimated that there will be a remainder of approximately $1.7 billion of free cash flow that could be used to further reduce debt. If the merged company achieves its synergy goals, the Company expects to have approximately $2.1 billion in free cash flow after costs to run the business. Based on these cash flows, CenturyLink expects to reduce the

[24] Merger Conference Call, slide 12.
[25] Merger Conference Call, slide 8.

merged company's leverage after the transaction closes, as the Company has in past transactions.

Q. Is Qwest in the process of reducing debt in 2010?

A. Yes, Qwest has been taking steps to strengthen its capital position, and we believe the merger will support further deleveraging after the two companies are combined. In the first quarter 2010, Qwest reduced total long-term borrowings by $1.5 billion, making meaningful progress toward the company's announced $3.5 billion planned reduction through the first quarter of 2011.[26] The reduction is part of an ongoing deleveraging program that has lowered Qwest's net debt (total borrowings - net of unamortized debt discount, less cash, cash equivalents and short-term investments) by $1.1 billion from the first quarter of 2009 to the end of the first quarter of 2010.

Q. What will be the investment rating assigned the merged company at the time the transaction is completed?

A. The credit rating agencies have not yet indicated definitively the expected ratings and will not do so until the transaction is consummated. The rating agencies will evaluate various factors in addition to the merged company's financial condition, including their assessment of the overall industry conditions, other market factors, the ratios of the merged company, and their judgment about any regulatory conditions or risks that are added in the approval process. At this time,

[26] *Q1 2010 Qwest Communications Earnings Conference Call*, Transcript, May 5, 2010.

CenturyLink is rated as investment grade, while Qwest's ILEC is investment-grade rated and the Qwest holding company has a credit rating at the highest level of non-investment grade debt. On the day of the announcement of the merger, the credit-rating agency, Moody's, indicated that Qwest's ratings were under review for an upgrade in light of the combination, and it affirmed a Baa3 investment grade rating on CenturyTel while it altered its outlook to negative on the standalone CenturyTel.[27] Standard & Poor's Ratings Services ("S&P") also indicated on the day of the announcement that Qwest's BB rating was on CreditWatch with positive implications, indicating a possible upgrade, and that CenturyTel's BBB- rating (investment grade) was on CreditWatch with the potential for a downgrade.[28] CenturyLink believes that Qwest's rating may be improved and, even if CenturyLink's debt temporarily were downgraded by one or more of the rating agencies (meaning the Company may be "split-rated," with its credit rated investment grade by one or several rating agencies and non-investment grade by the other rating agencies), the Company's record of strengthening its balance sheet is clear. The Company repeatedly has affirmed its target of maintaining or achieving an investment grade rating. The goal is to make the Company stronger for the longer term, and the combination with Qwest makes the two companies better prepared financially to serve customers in the future.

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[27] Moody's, April 2010.
[28] Standard & Poor's, *CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive, April 22, 2010; p. 2;* attached hereto as Exhibit ____ GCB-5.

Q. In addition to reducing debt, how will the merged company use its free cash flow?

A. As I testified above, CenturyLink is confident that it will have the flexibility with increased cash flows to invest in the network and expects to continue to target broadband deployment. It is also becoming clear that other data-intensive services are an important part of the consumer bundle. Plans to deploy such services have not yet been finalized, but, illustrating an ongoing commitment to consumers, the Company did announce as part of its first quarter 2010 earnings conference call that it expects to deploy IPTV service in five new markets by early 2011 (in addition to its current deployments in Columbia and Jefferson City, Missouri, and LaCrosse, Wisconsin). To be more specific, both CenturyLink and Qwest have invested heavily in their respective fiber networks and electronics over the last few years. Based on the 2009 pro forma combined figures, merged company capital expenditures were approximately $2.4 billion.

Q. Does the level of dividend payments put the merged company at risk to fall short of its operating obligations?

A. No. In fact, an insufficient dividend might put the merged company at risk if CenturyLink were unable to attract competitively-priced debt or equity. The merged company’s pro forma dividend payout ratio (dividends paid divided by free cash flow after operating costs and capital expenditures are paid), based on 2009 figures and before any assumed synergies, is estimated to be a reasonable

50.4%.[29] Assuming that the estimated synergies are achieved, the payout ratio, based on pro forma 2009 cash flows, would have been 45.1%. The payout ratio is conservative in terms of the industry practice as is apparent when compared with other independent carriers such as pro forma Frontier (assuming the pending acquisition of Verizon assets in 14 states) at 60% and Windstream at 53% at the end of 2009.[30] Additionally, the combined company's estimated payout ratio compares favorably with AT&T's 2009 ratio of 57% and Verizon's ratio of 67%.[31] Therefore, the merged company's cash flows will be used to balance network investment, operating requirements and opportunities, as well as to preserve access to competitively-priced capital. And, based on the 2009 pro forma combined data, the merged company will be able to fund all of its required uses while still generating meaningful additional free cash flows for discretionary uses.

Q. Please summarize your testimony.

A. CenturyLink believes that the financial benefits of the proposed transaction, and indeed the other benefits outlined by other witnesses, are compelling. The proposed transaction creates a company with more capacity to introduce services that are beneficial to customers in urban and rural regions. The combined company is likely to have the highest-rated credit of any major ILEC except the

[29] Merger Conference Call, slide 7.
[30] Merger Conference Call, slide 12.
[31] AT&T's 2009 payout ratio is based on dividends of $9.67 billion and free cash flow of $17.11 billion; Verizon's 2009 dividends were $5.27 billion while the free cash flow was $7.669 billion (after adjusting to exclude Vodafone's minority ownership of 45% ($6.649 billion) of Verizon Wireless' free cash flow).

largest two carriers (which notably also own the nation's dominant wireless operations). The merged company is expected to be financially stronger in terms of increased cash flows generated through combined operations and enhanced by synergies. The improved cash flows may result in improved debt ratings for Qwest, and may result in an investment grade rating for the merged company—if not immediately, then not long thereafter, as the merged company uses its free cash flows to reduce debt. The financial strength will permit the merged company to take advantage of emerging opportunities and to respond to competitive and economic conditions.

Q. Does this conclude your testimony?

A. Yes.