

Rating Action: [Embarq Corporation](#)

Moody's places Embarq's ratings on review for upgrade; continues review of CenturyTel

Approximately \$10 billion of Debt Affected

New York, October 27, 2008 -- Moody's Investors Service has placed the debt ratings of Embarq Corporation ("Embarq") and all of its operating subsidiaries on review for possible upgrade, following the announcement of CenturyTel's (rated Baa2/P-2) plans to acquire the company in a stock-for-stock transaction. The ratings of CenturyTel remain on review for possible downgrade.

The complete list of rating actions follows at the end of this press release.

Under the terms of the agreement, Embarq shareholders will receive 1.37 CenturyTel shares for each share of Embarq common stock they own. The transaction reflects an enterprise value of approximately \$11.6 billion, including the planned assumption of \$5.8 billion of Embarq's debt. The companies anticipate closing this transaction in the second quarter of 2009.

The transaction is expected to generate significant synergies, initially estimated by the companies' at about \$400 million annually. In addition, the merger will produce a company with operations in 33 states, 8 million access lines and 2 million broadband customers. While the acquisition of Embarq increases CenturyTel's exposure to more competitive urban/suburban markets, the increase in scale is expected to bolster its overall competitive position and increase operational and capital efficiencies, especially those related to network modernization and new product development. Nevertheless, the challenge to CenturyTel of integrating a company twice its size is substantial and will be an additional and significant focus of our ongoing review of its ratings.

The combined company is expected to generate significant operating cash flow, especially after anticipated synergies. In addition, free cash flow levels are expected to also benefit from modest capital efficiencies. Pro forma leverage is projected to be less than 2.5 times Debt to EBITDA (both before and after synergies) and dividends are initially expected to be about 50% of pro forma free cash flow.

However, uncertainties exist with regard to the new company's leverage targets and future shareholder return strategies. These decisions, together with our assessment as to whether CenturyTel will achieve the anticipated synergies and CenturyTel's ultimate plans with regard to Embarq's debt (it has said that it currently plans to assume Embarq's debt) will have a critical impact on Embarq's ratings.

Before the transaction can close, numerous regulatory approvals, including those of several state Public Utility Commissions, are required. Conditions that may be imposed by some of these states' regulatory authorities could have a material impact on the combined entities' future operating performance and financial profile. In addition, the Federal Communication Commission is currently engaged in a comprehensive reform of intercarrier compensation and universal service. Changes to the current structure of these two regulatory frameworks could also have an impact on the combined company's future operating and financial performance and will also be a focus of our review.

Finally, we will assess management's commitment and ability to maintain an investment grade credit profile for the combined company in light of the intense competitive challenges confronting the sector and its stated appetite for additional M&A activity.

The following ratings have been placed on review for possible upgrade:

Embarq Corporation: Senior Unsecured Bank Credit Facilities, rated Baa3 and Senior Unsecured Regular Bonds/Debentures, rated Baa3

Embarq-Florida, Inc.: Senior Secured First Mortgage Bonds, rated Baa1

United Telephone Company of Pennsylvania: Senior Secured First Mortgage Bonds, rated Baa1

Carolina Telephone & Telegraph: Senior Unsecured Debentures, rated Baa1

Centel Capital Corp.: Senior Unsecured Debentures, Baa2

Ratings continuing on review for possible downgrade are:

CenturyTel, Inc.: Senior Unsecured, Baa2; Senior Unsecured Shelf, (P) Baa2; Preferred Shelf, (P) Ba1 and Commercial Paper, Prime-2.

Please refer to Moodys.com for additional research.

CenturyTel, Inc., headquartered in Monroe, Louisiana is a regional communications company engaged primarily in providing telephone and broadband services in various, predominately rural, regions of the United States. The company served approximately 2.0 million total access lines in 25 states as of September 30, 2008. LTM revenues were about \$2.6 billion. CenturyTel's ratings were placed on review for possible downgrade on June 24, 2008.

Based in Overland Park, Kansas, Embarq Corporation is the fourth largest local telecommunications company in the United States by access lines. As of the end of 3Q'2008, the company had about 5.9 million access lines and generated LTM revenues of \$6.2 billion. The ratings of Embarq and its subsidiaries were affirmed on January 9, 2008.

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