

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

NOTICE OF TRANSACTION AND APPLICATION FOR  
AN ORDER DECLINING TO ASSERT JURISDICTION  
OVER, OR, IN THE ALTERNATIVE, EXPEDITED  
APPROVAL OF THE INDIRECT TRANSFER OF  
CONTROL OF LEVEL 3 COMMUNICATIONS, LLC,  
BROADWING COMMUNICATIONS, LLC, WILTEL  
COMMUNICATIONS, LLC, GLOBAL CROSSING  
TELECOMMUNICATIONS, INC., GLOBAL CROSSING  
LOCAL SERVICES, INC., AND LEVEL 3 TELECOM OF  
WASHINGTON, LLC TO CENTURYLINK, INC.  
("NOTICE")

DOCKET NO. UT-170042

**DIRECT TESTIMONY OF MICHAEL J. BALHOFF**

**ON BEHALF OF**

**CENTURYLINK**

**February 10, 2017**

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**Exhibits**

**Exhibit MJB-2 – Summary of Experience**

**Exhibit MJB-3 – Investor Presentation**

**Exhibit MJB-4 – Investor Call Transcript**

**I. INTRODUCTION.**

**Q. Please state your name and position for the record.**

A. My name is Michael J. Balhoff. I am Managing Partner of Balhoff & Williams, LLC (“B&W”), and my business address is 5850 Waterloo Road, Suite 140, Columbia, Maryland 21045. I am also a Senior Partner of Charlesmead Advisors, LLC (“Charlesmead”), and the Charlesmead office where I work has the same business address as B&W.

**Q. What services do B&W and Charlesmead provide?**

A. B&W provides consulting services, focusing primarily on financial and regulatory issues. Our clients are various telecommunications, cable television, and energy companies. B&W previously was known as Balhoff & Rowe, LLC, and then Balhoff, Rowe & Williams, LLC. The firm changed its name to reflect the partners active in the business at a given point in time, but the services of the firm have remained consistent since the company was established in 2004. In addition, with two partners, I also co-founded Charlesmead in June 2010 to provide investment banking services to companies in the telecommunications industry. My services in this proceeding are provided through B&W.

1           **Q.     Please describe your relevant educational and professional**  
2           **background.**

3           A.     I have a doctorate and four masters' degrees, including a Master's in  
4                 Business Administration, with a concentration in finance, from the  
5                 University of Maryland. I am a Chartered Financial Analyst and am a  
6                 member of the Baltimore Security Analysts Society. During a period of  
7                 16 years, I was a senior analyst and Managing Director with responsibility  
8                 for leading the telecommunications and technology sell-side equity  
9                 research group at Legg Mason Wood Walker, Inc., which was the wholly-  
10                owned capital markets division of Legg Mason, Inc. ("Legg Mason"),  
11                headquartered in Baltimore, Maryland. The group I managed at Legg  
12                Mason provided investment advice to institutional investors and  
13                communications companies across North America and Europe. My more  
14                extensive resume, including publications, presentations, and testimonies,  
15                is included as Exhibit MJB-2.

16          **Q.     On whose behalf are you offering testimony in this proceeding?**

17          A.     I am offering testimony on behalf of CenturyLink, Inc. ("CenturyLink" or  
18                 the "Company"). CenturyLink is a joint applicant along with Level 3  
19                 Communications, Inc. ("Level 3") for approval of the indirect transfer of  
20                 control of all Level 3 affiliated operating companies in Washington. I  
21                 refer in my testimony to CenturyLink and Level 3 collectively as "Joint  
22                 Applicants."

1           **Q.     What is your relationship with the Joint Applicants?**

2           A.     During my last seven years at Legg Mason, I provided equity research on  
3                 incumbent local exchange carriers (“ILECs” or “LECs”), including  
4                 CenturyLink (at that time, CenturyTel). Since 2005, through B&W, I  
5                 have provided financial and regulatory consulting services to, and  
6                 independent testimony on behalf of, many telecommunications companies,  
7                 including CenturyLink. I have had no professional relationship with Level  
8                 3 prior to this time. Neither I nor our companies—B&W or  
9                 Charlesmead—offered any advisory or other services to CenturyLink or  
10                Level 3 in the transactional process that led to the October 31, 2016  
11                announcement of the merger between the two companies (“Merger”). To  
12                be clear, I am appearing in this regulatory review process as an  
13                independent third-party professional industry expert, engaged by  
14                CenturyLink, but with the understanding that all opinions in my testimony  
15                are entirely my own.

16           **Q.     Have you appeared before the Washington Utilities and**  
17                 **Transportation Commission (“Commission”) in any other**  
18                 **proceedings?**

19           A.     No, I have not. However, I have provided regulatory testimony  
20                 concerning telecommunications matters before the Pennsylvania Public  
21                 Utility Commission, the Colorado Public Utilities Commission, the  
22                 California Public Utilities Commission, the Regulatory Commission of

1 Alaska, the Iowa Utilities Board, the Public Utility Commission of Texas,  
2 the North Carolina Utilities Commission, the Vermont Public Service  
3 Board, the New Hampshire Public Utilities Commission, and the Maine  
4 Public Utilities Commission.

5 **II. PURPOSE AND SUMMARY OF TESTIMONY.**  
6

7 **Q. What is the purpose of your testimony in this proceeding?**

8 A. I am testifying before the Commission in support of the Merger  
9 announced by CenturyLink and Level 3 on October 31, 2016. My  
10 testimony provides an overview of the proposed Merger, detail about the  
11 financing of the transaction, and discussion of the post-Merger financial  
12 characteristics of the combined company as those characteristics might  
13 relate to the public interest.

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

15 A. Yes. I have reviewed the testimonies of Mark Reynolds, representing  
16 CenturyLink, and Kristie Ince, representing Level 3. Those testimonies  
17 provide detail about other relevant matters that support the proposed  
18 Merger of CenturyLink with Level 3. My testimony complements those  
19 testimonies with a focus on financial factors related to the proposed  
20 transaction. I have also reviewed relevant transaction-related  
21 documentation, including the Merger announcements from the companies,  
22 the filings with the Securities and Exchange Commission (“SEC”), the

1 Notice of Transaction and Application before the Commission,<sup>1</sup> and  
2 documentation from credit rating agencies and Wall Street sell-side equity  
3 research analysts.

4 **Q. Are you familiar with this Commission's standard of review?**

5 A. I am not an attorney and am testifying as a financial and  
6 telecommunications expert in this proceeding. However, I have been  
7 advised by counsel representing CenturyLink that when this Commission  
8 was examining the Qwest/CenturyLink merger, it set forth the standard for  
9 approval of a merger or acquisition under Chapter 80.12 RCW, focusing  
10 on whether the transaction is consistent with the public interest.<sup>2</sup> The  
11 Applicants are confident that CenturyLink's proposed acquisition of Level  
12 3 Communications, Inc. meets this standard, as the Merger provides  
13 affirmative benefits without any adverse impacts or harm.

14 **Q. From a financial perspective, is the proposed merger consistent with**  
15 **the public interest, in your professional opinion?**

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<sup>1</sup> Filed at the Commission on January 17, 2017.

<sup>2</sup> The Commission's authority and responsibility regarding transfers of ownership and control of public services companies are found in RCW 80.12 and WAC 480-143. These statutes and rules require Commission approval whenever a public service company proposes consolidation with another company. The standard governing our review is:

If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the commission finds the proposed transaction is not consistent with the public interest, it shall deny the application.

Order No. 14, Docket No. UT-100820, *In the Matter of the 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.*, ¶88 (March 14, 2011).

1           A.     Yes. It is my opinion as a financial expert that the Merger should benefit  
2                   the public interest. I explain in this testimony my conviction that the  
3                   financial position of the combined company is strengthened through this  
4                   Merger, as the transaction enhances operational scale, expands market  
5                   reach, and is accretive to revenues, margins and free cash flows. In  
6                   addition, the post-Merger Company will have the assets, network, and  
7                   product diversity to better address customer needs and reduce business  
8                   concentration risk, further enhancing its competitive positioning and value  
9                   proposition. These financial and competitive factors are “affirmative  
10                  benefits” that are in the public interest, as I explain in the following  
11                  testimony.

12          **Q.     Please summarize your testimony.**

13          A.     My testimony is focused on financial matters about which the Commission  
14                  may be concerned as it considers the Merger. Specifically, I address three  
15                  general subjects:

- 16               1.     A financial summary of the Merger, including the agreed-upon  
17                      transaction consideration, financing plans, synergies, and tax  
18                      benefits derived from the accelerated use of Level 3’s net operating  
19                      losses (“NOLs”);
- 20               2.     A description of acquisition-related financing, which shows that  
21                      CenturyLink should be able to resolve its financial obligations in a



1 variety of ways that have no negative effect on regulated assets or  
2 operations; and

- 3 3. The financial rationale for the merged company, including  
4 affirmative benefits that should flow through to customers,  
5 employees and the communities served by the company.

6 **III. FINANCIAL SUMMARY OF THE MERGER.**

7  
8 **Q. Please describe the Merger transaction.**

9 A. On October 31, 2016, CenturyLink and Level 3 announced that their  
10 Boards of Directors had unanimously approved a merger in which  
11 CenturyLink (NYSE: CTL) would acquire Level 3 (NASDAQ: LVLT) in  
12 a cash and stock transaction. The announced purchase price sets a value  
13 for Level 3 at \$66.50 per share, composed of stock consideration of \$40  
14 per share, using a fixed exchange ratio of 1.4286 CenturyLink shares for  
15 each Level 3 share based on a reference price of \$28.00 per CenturyLink  
16 share, and cash consideration of \$26.50 per share.<sup>3</sup> As a result, the total  
17 consideration is 60% stock and 40% cash. The acquisition implies that  
18 Level 3's total enterprise value (equity value plus net debt) is  
19 approximately \$34 billion, which includes aggregate equity consideration  
20 of approximately \$24.1 billion and the assumption of Level 3's net debt of

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<sup>3</sup> CenturyLink Press Release, *CenturyLink To Acquire Level 3 Communications*, October 31, 2016, available at <https://www.sec.gov/Archives/edgar/data/18926/000119312516753764/d272595dex991.htm> ("Merger Press Release"), p. 1.

1 approximately \$9.6 billion, based on Level 3's balance sheet at June 30,  
2 2016.<sup>4</sup> At the Merger's consummation, CenturyLink's shareholders are  
3 expected to own approximately 51 percent and Level 3 shareholders will  
4 own approximately 49 percent of the combined company.<sup>5</sup>

5 **Q. What is the strategic and operational rationale for the Merger?**

6 A. The Merger will create a leading facilities-based enterprise  
7 communications provider, with \$19 billion in pro forma business revenues  
8 representing approximately 76% of the combined company's total  
9 consolidated revenues.<sup>6</sup> Strategically, this focus on business and  
10 enterprise communications is expected to enhance CenturyLink's existing  
11 growth profile, allowing it to transition to a growth-focused company with  
12 improved revenue and operating cash flow trends. The Merger should  
13 provide multiple opportunities for growth, both from the companies'

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<sup>4</sup> CenturyLink, "CenturyLink to Acquire Level 3 Creates Second Largest Domestic Communications Provider Serving Global Enterprise Customers," Slide presentation to Investors, (Exhibit MJB-3"), available at <https://www.sec.gov/Archives/edgar/data/18926/000119312516753764/d272595dex992.htm>, October 31, 2016, slide 8; at June 30, 2016, Level 3 reported 360.9 million fully-diluted shares outstanding and long-term debt, including the current portion, of \$10.878 billion and had \$1.291 billion in cash and equivalents (see [https://www.sec.gov/Archives/edgar/data/794323/000079432316000037/lvlt-063016\\_10q.htm](https://www.sec.gov/Archives/edgar/data/794323/000079432316000037/lvlt-063016_10q.htm), pp. 3, 5); at September 30, 2016, Level 3 reported 361.9 million fully-diluted shares outstanding and long-term debt, including the current portion, of \$10.882 billion and had \$1.569 billion in cash and equivalents (see [https://www.sec.gov/Archives/edgar/data/794323/000079432316000039/lvlt-093016\\_10q.htm#sBF33EFD55D4DE73211C96AAE87449611](https://www.sec.gov/Archives/edgar/data/794323/000079432316000039/lvlt-093016_10q.htm#sBF33EFD55D4DE73211C96AAE87449611), pp. 3, 5); Exhibit MJB-3 at slide 14 details Level 3's total long-term debt as \$10.5 billion, composed of High Yield Notes of \$0.6 billion at Level 3 Communications, Inc. and, at Level 3 Financing, Inc., a Term Loan B of \$4.6 billion and High Yield Notes that total \$5.3 billion.

<sup>5</sup> Merger Press Release, p. 1.

<sup>6</sup> For purposes of comparison, CenturyLink currently obtains approximately 64% of its revenues from business customers.

1 combined product portfolio deployed across a larger customer base and  
2 from the increased scope and scale of the combined network.  
3 Operationally, CenturyLink is acquiring a global network of more than  
4 209,000 owned or controlled route-miles of fiber, including approximately  
5 129,000 route-miles of fiber in North America, 47,000 route-miles in the  
6 Latin American (“LATAM”) and European, Middle East and African  
7 (“EMEA”) regions, and 33,000 subsea route-miles.<sup>7</sup> Of the total North  
8 American route-miles of fiber owned or controlled today by Level 3,  
9 approximately 70,000 are long-haul fiber and 59,200 are metro fiber.<sup>8</sup> The  
10 Company is also adding owned or controlled fiber into 34,755 buildings  
11 (based on unique addresses) in the United States, including 6,225  
12 (approximately 18 percent) in CenturyLink’s ILEC region, and 28,530  
13 (approximately 82 percent) outside of the ILEC region.<sup>9</sup> In the rapidly  
14 evolving data-centric communications industry, the Level 3 transport  
15 assets and operations are complementary with CenturyLink’s business,  
16 which today is relatively more concentrated on denser local fiber networks

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<sup>7</sup> CenturyLink Application Supplement, December 17, 2016, filed at the FCC via ECFS, available at <https://ecfsapi.fcc.gov/file/1220018093230/CTL-L3%20FCC%20Application%20Supplement%2012-19-16.pdf>, p. 2.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

1 and connections, including residential, business and commercial  
2 customers.<sup>10</sup>

3 **Q. How will CenturyLink fund the Merger?**

4 A. CenturyLink plans to fund the cash portion of the transaction  
5 consideration, along with fees and expenses related to the Merger, with  
6 approximately \$7.1 billion in incremental funded debt and with cash on  
7 hand.<sup>11</sup> The Company reports that the financing commitment for this debt  
8 currently is in place.<sup>12</sup> The Company anticipates that its pro forma debt  
9 levels are expected to be reduced significantly and quickly over the next  
10 three to four years, a period when the Company expects meaningful cash  
11 flow accretion resulting from accelerated use of approximately \$9.6 billion  
12 in Level 3 NOLs and significant reductions in the cash operating costs of  
13 the combined company.<sup>13</sup> In addition to the incremental debt, the  
14 transaction financing is expected to include a \$2.0 billion revolver (which  
15 is expected to be undrawn at the close) and \$1.2 billion to address  
16 upcoming maturities of debt that will come due before or at the time the

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<sup>10</sup> In the quarter ending September 30, 2016, CenturyLink reported service to 11.2 million access lines, 5.95 million broadband subscribers and 318,000 PRISM TV customers; see CenturyLink September 30, 2016 SEC Form 10-Q, available at <https://www.sec.gov/Archives/edgar/data/18926/000001892616000070/ctl2016093010q.htm>, p. 25.

<sup>11</sup> Transcript of the CenturyLink-Level 3 Call with Investors, October 31, 2016, available at <https://www.sec.gov/Archives/edgar/data/18926/000119312516753764/d272595dex993.htm> (“Exhibit MJB-4”), p. 9.

<sup>12</sup> *Id.*, p. 4.

<sup>13</sup> *Id.*, pp. 3, 28-29.

1 Merger closes. Thus, while total transaction financing is projected to be  
2 \$10.2 billion, it is important to understand that the Merger purchase price  
3 and related costs are to be funded by approximately \$7.1 billion in  
4 incremental debt.<sup>14</sup>

5 **Q. Please describe in more detail the cash flow benefits of the Merger.**

6 A. As mentioned previously, the Merger is expected to enhance  
7 CenturyLink's existing growth profile. The combined company's  
8 opportunities for revenue growth and increased scale should improve  
9 operating leverage to drive growth in cash flows from operations.<sup>15</sup> In  
10 addition, CenturyLink announced that it expects to realize \$975 million in  
11 annual run-rate cash efficiencies. The estimated savings include \$850  
12 million in annual operating expense reductions and \$125 million in annual  
13 capital expenditure benefits.<sup>16</sup> CenturyLink anticipates that the combined  
14 company also will be able to accelerate the use of Level 3's existing  
15 NOLs, benefiting from slightly less than \$2 billion in NOLs annually over  
16 a five-year period.<sup>17</sup> CenturyLink has not provided any public comment  
17 on the specific annual allocations of NOLs between the two companies.  
18 However, it is reasonable to assume that CenturyLink will be able to take

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<sup>14</sup> *Id.*, pp. 8-9.

<sup>15</sup> *Id.*, p. 3.

<sup>16</sup> Exhibit MJB-3, slide 12.

<sup>17</sup> Exhibit MJB-4, p. 28.

1 advantage of several hundred million dollars of incremental cash tax  
2 benefits, assuming Level 3 achieves pre-tax operating income levels  
3 consistent with the trends in recent years.<sup>18</sup>

4 **Q. Will the expected cash flow benefits of the Merger offset**  
5 **CenturyLink's incremental debt costs?**

6 A. While the specific terms of the acquisition financing are not yet known,  
7 CenturyLink expects to realize cash flow benefits—from an improved  
8 revenue growth profile, operating cost savings and NOLs—that, by my  
9 estimate, might be greater than twice the interest on the incremental  
10 transaction-related debt obligations.<sup>19</sup> The resulting net increase in the  
11 combined company's free cash flows (after accounting for the cost of the  
12 incremental debt) are expected to provide the company with additional  
13 financial flexibility for new investment and for retirement of debt, among  
14 other uses.

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<sup>18</sup> Level 3 reported in 2015 income before taxes that was \$283 million (\$1.166 billion in depreciation and amortization or "D&A") and in 2014 \$238 million (\$808 million in D&A), (see SEC 2015 Level 3 Form 10-K, available at [https://www.sec.gov/Archives/edgar/data/794323/000079432316000025/lvlt-123115\\_10k.htm](https://www.sec.gov/Archives/edgar/data/794323/000079432316000025/lvlt-123115_10k.htm), p. 75); through the first three quarters of 2016, Level 3 reported \$625 million in pre-tax income and \$930 million in D&A, (see SEC September 30, 2016 Level 3 Form 10-Q, available at [https://www.sec.gov/Archives/edgar/data/794323/000079432316000039/lvlt-093016\\_10q.htm#sBF33EFD55D4DE73211C96AAE87449611](https://www.sec.gov/Archives/edgar/data/794323/000079432316000039/lvlt-093016_10q.htm#sBF33EFD55D4DE73211C96AAE87449611), p. 37.)

<sup>19</sup> For perspective, in its 2015 10-K, CenturyLink reported \$10.225 billion in current and non-current long-term debt and net interest paid of \$1.310 billion, which suggests a blended interest rate of 6.5%; that rate compares with the Company's issuance in September 2015 of long-term notes, maturing in 2055, with an annual interest rate of 6.625% (see CenturyLink 2015 SEC Form 10-K, pp. 74, 75, and 86, available at <https://www.sec.gov/Archives/edgar/data/18926/000001892616000047/ctl-2015123110k.htm>). If one were to assume the higher rate of 6.625% and apply it to \$7 billion in incremental debt, the initial annual interest payments might be assumed to be approximately \$465 million, which is well below the combination of estimated synergies and cash tax benefits derived from the accelerated use of the NOLs.

1           **Q.     Will CenturyLink maintain its dividend?**

2           A.     Yes. CenturyLink has announced that it expects to maintain its annual  
3                 dividend of \$2.16 per share, including the incremental dividend payments  
4                 for shares issued to Level 3 shareholders. On another positive note, the  
5                 cash-flow accretive nature of the Merger is expected to result in a  
6                 “significantly lowered dividend payout ratio.”<sup>20</sup> CenturyLink reported  
7                 that annual payout ratios could be improved by 1,000-2,000 basis points  
8                 because of the Merger.<sup>21</sup> Independent equity analysts such as those at  
9                 UBS Global Research estimate that “CTL's dividend payout would  
10                improve to 60-70% from 70-80% in 2018-2021,” and a Merrill Lynch  
11                equity analyst advised investors that he “estimate[d] the deal, using a  
12                blended average 5% pre-tax cost of debt, could be 50% accretive to CTL’s  
13                FCF [free cash flow]/share in Year 1 (2018E). The deal could shrink  
14                CTL’s [free cash flow] dividend payout percentage to 72% and falling.”<sup>22</sup>  
15                The analysts are affirming that, despite higher debt costs and dividends  
16                paid on the shares issued to Level 3 shareholders as part of the Merger, the  
17                free cash flow per share of the combined company is expected to increase

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<sup>20</sup> Exhibit MJB-3, slide 13.

<sup>21</sup> Exhibit MJB-4, p. 20: “Our payout ratio was going to bump up to the low to mid-80s [in 2018]. When you get about four years out, the dividend payout ratio moves down to about 60 percent so it helps our dividend payout ratio about 10 percentage points each year until you get . . . closer to 15 to 20 percentage points a year.”

<sup>22</sup> Batya Levi, UBS Global Research, “CenturyLink, Inc.: Deal makes strategic sense; Maintain Buy,” 31 October 2016, p. 1. David Barden, Bank of America Merrill Lynch, “CTL announces potential accretive LVLT merger deal,” 1 November 2016, p. 1.

1 significantly relative to CenturyLink's current free cash flow per share.  
2 Among other positive benefits, the effect of an improved—reduced—  
3 dividend payout ratio and improved cash flow, in my professional opinion,  
4 is to create greater confidence among equity investors and to better assure  
5 a stable equity price.

6 **Q. What is the anticipated effect on CenturyLink's balance sheet?**

7 A. CenturyLink has announced that its pro forma net leverage (net debt-to-  
8 earnings before interest, taxes, depreciation and amortization or  
9 "EBITDA") is estimated to be approximately 3.7 times at the Merger  
10 closing, after giving effect to anticipated run-rate synergies.<sup>23</sup>  
11 CenturyLink will retain its long-term leverage target of 3.0 times, and  
12 expects that its net leverage can be 3.0 times within four years of the  
13 Merger close, driven by improved cash flows resulting from the Merger.<sup>24</sup>  
14 The pro forma company's enhanced growth profile should enable it to

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<sup>23</sup> CenturyLink will not immediately, upon close, realize all its run-rate synergies and, accordingly, the actual leverage ratio is expected to be modestly higher than 3.7 times.

<sup>24</sup> Exhibit MJB-3, slides 7 and 13; Exhibit MJB-4, pp. 28-29; Glen Post: "it'll take about four years or so for us to get back down to an EBITDA ratio of three to one – three to four years which we anticipate we can do. But the good thing about that, it de-levers from the free cash flow that's generated as well as the increase in EBITDA that we expect to have as result of both growth and the customer base, as well as the synergies that we expect to receive and achieve. The good thing about this is because we de-lever so quickly, it'll give us the luxury of investing where we need to invest to be able to grow our business together faster than we can grow our business separately." See, also, Exhibit MJB-4, p. 3; Glen Post: "Additionally, we believe the combined company will be able to achieve more than 10 percent growth and free cash flow per share in the full year post-closing, including synergies as realized and again, including integration costs. We also expect this combination to drive significant improvement in free cash flow per share in subsequent years." Note, also, that Level 3's pre-Merger net leverage level was 3.5 times, apparently an appropriate level in light of Level 3's growth characteristics.



1 carry comfortably, in my opinion, the incremental acquisition-related debt  
2 in the years immediately following the transaction close.

3 **Q. Is it realistic to expect the Company to reduce its leverage ratio to 3.0**  
4 **times in the years immediately following the Merger?**

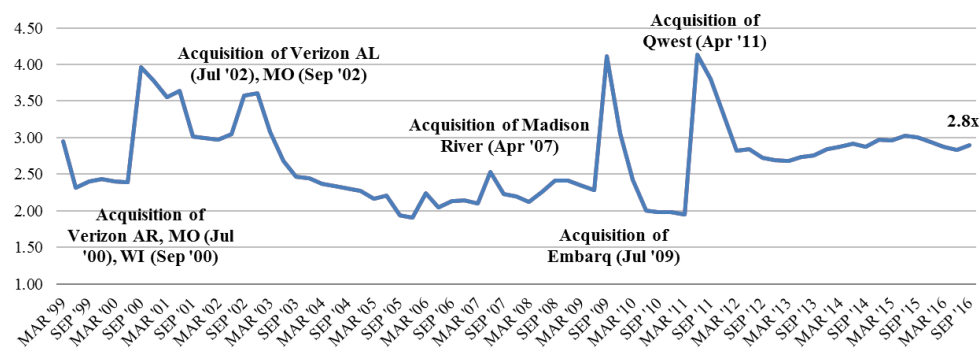
5 A. Yes. Historically, CenturyLink has added debt at the time of acquisitions  
6 and rapidly reduced its debt levels as increased cash generation following  
7 the acquisitions permitted the Company to make debt repayments. Figure  
8 1 below provides a graphic illustrating CenturyLink's quarterly net debt-  
9 to-operating cash flow ("EBITDA") ratio which has risen at the time of  
10 acquisitions, even as far back as fifteen years ago.<sup>25</sup> In 2001, following  
11 the 2000 announcement of the acquisition of Verizon's Arkansas lines,  
12 CenturyLink had a net debt-to-EBITDA ratio that peaked at 4.0 times  
13 before dropping to 3.0 times by September 2001. More recently,  
14 CenturyLink acquired Qwest Communications International Inc. in 2011,  
15 when the ratio peaked at 4.13 times before improving to 2.68 times by  
16 March 2013. Notably, for three of those recent transactions (acquisitions  
17 of select operations of Verizon as well as of the entirety of Embarq and  
18 Qwest operations) the ratio rose above 3.7 times, which is the pro forma  
19 estimate for the ratio when this Merger closes, again as depicted in Figure

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<sup>25</sup> The data for the analysis are drawn from FactSet Fundamentals, prepared by Raymond James and Associates.

1. <sup>26</sup> In the months after each of the previous acquisitions, the debt ratio improved quickly as growing cash flows allowed the Company to reduce debt and the leverage ratio. CenturyLink intends to apply this same discipline in strengthening the merged company's balance sheet following consummation of the proposed Merger. While the eventual target leverage ratio of 3.0 times may be marginally above CenturyLink's current leverage level, the Company expects to have revenue and EBITDA growth that are higher for the merged company than for CenturyLink at the present.<sup>27</sup> To be clear, this means that approximately the same leverage ratio as the one reported today is expected to be supported in three to four years by a stronger merged company, which should be beneficial for all stakeholders, including customers.<sup>28</sup>

**Figure 1: CenturyLink historical net debt to EBITDA**



Source: FactSet Fundamentals prepared by Raymond James & Associates; other data and graphic prepared by Balhoff & Williams, LLC.

<sup>26</sup> See footnote 23, *supra*.

<sup>27</sup> Exhibit MJB-4, p. 3.

<sup>28</sup> The target ratio of 3.0 times is close to the current leverage ratio of approximately 2.8 times.

1  
2 **Q. Does the Merger create positive cash flow benefits when taking into**  
3 **consideration the one-time integration costs?**

4 A. Yes. The recurring cash flow benefits of the Merger are expected to be  
5 positive even after accounting for the nonrecurring integration costs. The  
6 Company is estimating one-time integration expenses that total \$685  
7 million, spread over a five-year period but with the majority expected to  
8 be incurred within the first two to three years.<sup>29</sup> Even with the integration  
9 expenditures, CenturyLink expects that the Merger will be accretive to  
10 free cash flow in the first year following the close of the Merger and then,  
11 beginning in the second year, the combination is expected to be  
12 significantly accretive on an annual run-rate basis.<sup>30</sup>

13 **IV. DESCRIPTION OF ACQUISITION-RELATED FINANCING, INCLUDING**  
14 **NEW DEBT THAT DOES NOT RELY ON GUARANTEES OR PLEDGES**  
15 **ASSOCIATED WITH STATE-REGULATED ILEC ASSETS.**  
16

17 **Q. Will the incremental funded acquisition financing be guaranteed or**  
18 **secured by regulated ILEC assets?**

19 A. No. CenturyLink has stated affirmatively that it will *not* secure the  
20 acquisition financing with guarantees from regulated ILECs nor pledges of  
21 regulated ILEC operations or assets. No regulated ILEC will issue any

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<sup>29</sup> Exhibit MJB-4, p. 7.

<sup>30</sup> Exhibit MJB-3, slide 7.

1 debt to finance the Transaction. But, of course, cash flows from the  
2 various subsidiaries are expected to be used to pay transaction-related  
3 debt.

4 **Q. Does the structure of the acquisition-related financing include a**  
5 **pledge of the stock of a regulated ILEC entity?**

6 A. CenturyLink intends that the direct parent of two subsidiaries will pledge  
7 stock as part of the acquisition financing. The pledge of Level 3 stock by  
8 its new parent, Wildcat Holdco LLC ("Wildcat Holdco"), does not involve  
9 any ILEC-related assets or operations. The second pledge will be by  
10 Qwest Services Corporation ("QSC"), which will be a guarantor of the  
11 acquisition financing, and is the direct parent of one regulated ILEC  
12 company, Qwest Corporation ("QC"). As part of the financing, QSC will  
13 pledge the stock of QC. Importantly, however, QC will not be a guarantor  
14 of the acquisition financing nor will QC pledge its assets.

15 **Q. Please explain the rationale for the pledge by QSC of QC stock.**

16 A. The rationale for QSC to pledge its QC stock is to reduce interest costs, a  
17 reduction also supported by the pledges of stock and guarantees provided  
18 by other CenturyLink unregulated entities. Importantly, the current QC  
19 debtholders remain senior to the lenders of the new acquisition debt.  
20 Though not secured by the regulated ILEC operations or assets, the  
21 existing QC debt continues as "structurally senior" to the new acquisition  
22 debt because QC is not itself a guarantor of the acquisition financing. By

1 contrast, the acquisition financing will be “structurally senior” to the  
2 existing CenturyLink notes due to the guarantees and pledges of the  
3 various other subsidiaries and corporate entities. But in the case of QSC’s  
4 pledge of its QC stock, the QC debt retains its seniority and QC does not  
5 guarantee or pledge assets to secure the acquisition financing. The effect  
6 is to ensure that QC’s independent financial position is maintained and its  
7 capacity to meet its current obligations as a regulated ILEC is unchanged.

8 **Q. How will CenturyLink’s proposed pledge of the stock of Qwest**  
9 **Corporation and pledge of the Level 3 stock impact the acquisition**  
10 **financing?**

11 A These stock pledges are expected to improve the financing arrangements.  
12 While it is difficult to calculate with precision the benefits derived from  
13 individual pledges and securities, it is my view that the combination of the  
14 QSC pledge of the QC stock and the Wildcat Holdco pledge of the Level 3  
15 stock, together with the use of other guarantees, will result in interest rates  
16 that are lower than those that the Company might otherwise be required to  
17 pay. Specifically, it is my opinion that the pledges and guarantees could  
18 reasonably result in interest rates on the acquisition financing that are  
19 approximately 150 basis points lower than might be achieved without  
20 those pledges and guarantees.<sup>31</sup> This means that annual interest expense

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<sup>31</sup> There are no simple or certain ways to calculate debt costs with or without guarantees or pledges, as each case is different and there are no company-specific data tables to instruct the lender. Industry

1 might by reduced by approximately \$105 million (\$7 billion times 150  
2 basis points). Such pledges and guarantees represent, in my opinion,  
3 responsible financial management that mitigates financial risk and better  
4 assures lower borrowing costs, which I believe results in cost-competitive  
5 services benefiting the Company's customers and in a stronger Company  
6 supporting the CenturyLink employee base.

7 **Q. Does the pledge of QC stock constitute a purchase of QC, or a transfer**  
8 **of control of QC?**

9 A. No. The pledge by QSC of QC stock does not result in any change in  
10 ownership. The Washington requirement for approval prior to a change in  
11 control of QC would still apply in the very unlikely event (a) there was a  
12 default and (b) the Acquisition Debt creditors obtained a controlling  
13 interest in QC stock. In the event of a bankruptcy, the Acquisition  
14 debtholders would have no precedence over any QC debtholders, whether  
15 secured or unsecured, but would only have the rights to the residual value  
16 of the stock. And the Commission would retain the right to approve any  
17 transfer of control.

18

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risk, competition, leverage ratios, expected cash flows, and other factors come into play. The opinion expressed here is based on my experience as a financial professional and based on data from the Company's banker, but it is a judgment and is not a prediction. The Commission should understand that my opinion does not rely on specific financial data, but rather on my experience and understanding of the process as a whole.

1

2           **Q.     Can you provide additional detail regarding the acquisition**  
3           **financing?**

4           A.     CenturyLink expects to incur a total of \$8.225 billion of debt related to the  
5           Merger.<sup>32</sup> CenturyLink plans to use approximately \$1.150 billion of the  
6           proceeds to refinance certain existing debt of CenturyLink and Level 3,  
7           meaning that this portion of the acquisition financing will not result in an  
8           increase in the combined company's total debt. Accordingly, the  
9           incremental Merger-related debt that CenturyLink expects to incur is  
10          \$7.075 billion. CenturyLink will apply this amount, together with cash on  
11          hand, to finance the cash portion of the acquisition consideration and  
12          related fees and expenses. CenturyLink expects the acquisition financing  
13          to be comprised of \$2.150 billion of seven-year senior secured notes and  
14          \$6.025 billion of secured term loans in two tranches—a \$1.575 billion  
15          five-year tranche and a \$4.500 billion seven-year tranche.<sup>33</sup> In addition,  
16          CenturyLink expects to enter a new \$2.0 billion five-year revolving credit  
17          facility to replace its existing \$2.0 billion revolving credit facility that

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<sup>32</sup> This indebtedness, as well as subsequent future indebtedness in this testimony, are the Company's best estimates. The actual composition of debt may be different when CenturyLink evaluates the then-current market conditions and negotiates with lenders.

<sup>33</sup> As noted above in footnote 31, the specific allocation of the acquisition debt between the secured notes and tranches of term loans, as well as the maturity dates for the acquisition debt, will be subject to negotiation and will depend on credit market conditions at the time. The interest rate will be a market rate for such financings and will not be determined until the financing arrangements are finalized.

1 matures in 2019. The new revolving credit facility is expected to be  
2 undrawn at closing and, as it replaces an existing facility of the same  
3 amount, will result in no increase in CenturyLink's leverage. All existing  
4 indebtedness of CenturyLink and its subsidiaries and of Level 3 and its  
5 subsidiaries is expected to remain in place, except for the approximately  
6 \$1.150 billion of existing debt that will be refinanced by the acquisition  
7 financing (as discussed above).

8 **Q. Which legal entity will be the borrower of the acquisition financing?**

9 A. The borrower of the acquisition financing is expected to be CenturyLink,  
10 Inc. The Company anticipates that acquisition financing will be  
11 guaranteed by: (1) Wildcat Holdco (a newly-formed CenturyLink  
12 subsidiary that, following the Merger, will be the parent of the successor  
13 to Level 3 Communications, Inc.)<sup>34</sup> and (2) certain CenturyLink  
14 unregulated subsidiaries that guarantee the Company's existing revolving  
15 credit facility.<sup>35</sup> The Company will not provide any new ILEC-related  
16 guarantees, except the pledge of QC's stock. The existing Level 3 parent  
17 will not be a guarantor of the acquisition financing. CenturyLink, Inc.'s  
18 direct-subsidary assets (including the stock of its direct subsidiaries) will  
19 not be pledged as security for the acquisition financing.

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<sup>34</sup> See CenturyLink SEC Registration Statement, Form S-4, as amended, filed January 17, 2017, available at <https://www.sec.gov/Archives/edgar/data/18926/000119312517011326/d282157ds4a.htm>, pp. A-1 ff.

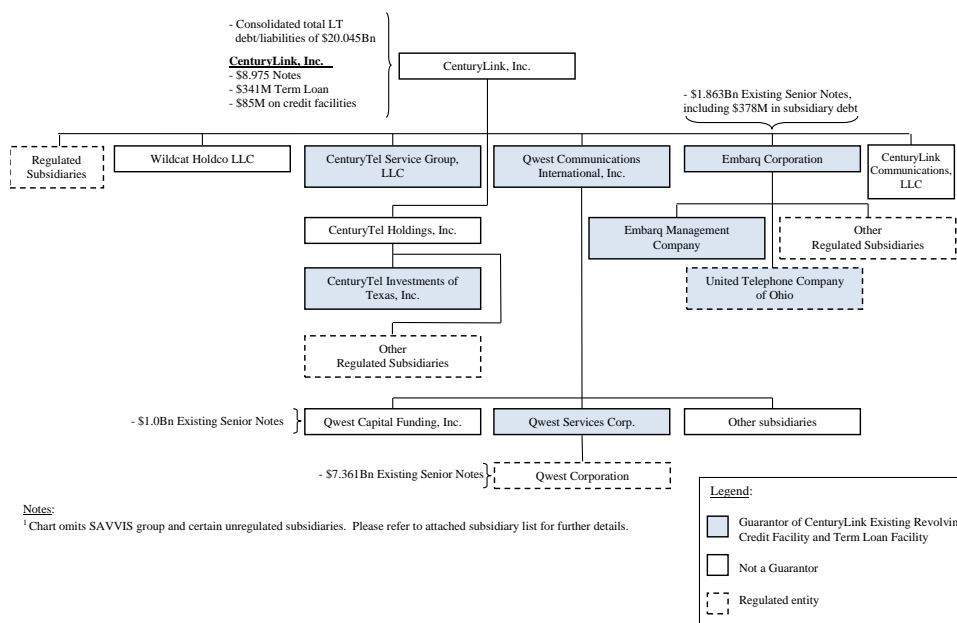
<sup>35</sup> "Unregulated" in this context refers to anything other than a "regulated ILEC."



**Q. Please describe CenturyLink’s legal structure and its guarantor subsidiaries (both pre- and post-Merger).**

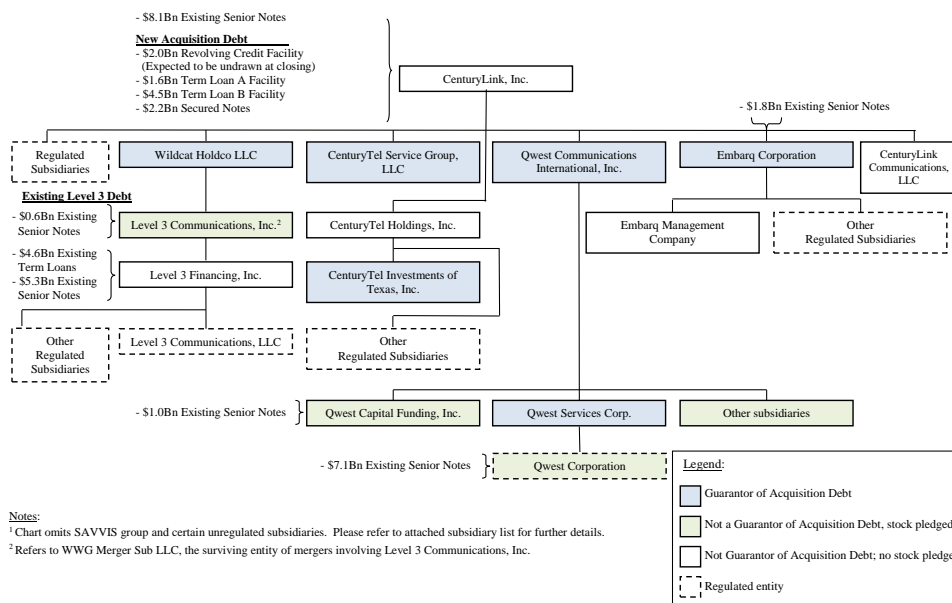
**A.** Figure 2 is a summary illustration of CenturyLink’s legal structure pre-Merger. Note that the light-blue-shaded entities are the guarantors of CenturyLink’s existing revolving credit and term loan facilities. All white-unshaded boxes represent entities that are not guarantors of the Company’s existing debt. In addition, regulated ILEC subsidiaries are indicated by dotted-line boxes. As is evident in the figure, all the guarantors of CenturyLink’s pre-Merger debt are unregulated entities (as stated previously), except for United Telephone Company of Ohio. In contrast, Figure 3 is a summary illustration of CenturyLink’s expected legal structure post-Merger.

**Figure 2: Pre-Merger CenturyLink summary legal structure**



Source: Wachtell, Lipton, Rosen & Katz; Balhoff & Williams, LLC.

Figure 3: Post-Merger CenturyLink summary expected legal structure



Source: Wachtell, Lipton, Rosen & Katz; Balhoff & Williams, LLC.

**Q. Please summarize the changes that occur pursuant to the Merger financing structure and the effect on CenturyLink's regulated ILEC subsidiaries.**

**A.** Beyond the addition of Level 3, there are two primary changes arising from the acquisition financing, as depicted in Figure 3, and these changes have no negative effect on the regulated ILEC subsidiaries. First, CenturyLink is expected to incur approximately \$7.1 billion in incremental total debt. However, as discussed elsewhere in my testimony, this incremental total debt is expected to be supported by the increased cash flows and the enhanced growth profile of the combined company. In

1 addition, the Company expects to reduce this incremental leverage rapidly  
2 over the next three to four years. As such, when these operating and cash  
3 flow benefits are considered, I am convinced that the incremental  
4 acquisition debt has no direct or indirect negative effect on CenturyLink's  
5 regulated ILEC subsidiaries.

6 The second change resulting from the acquisition financing relates to  
7 subsidiaries that will *not* guarantee the acquisition financing, but whose  
8 stock will be *pledged by their corporate parents as security* for the new  
9 debt (the light-green-shaded boxes in Figure 3. There are two such stock  
10 pledges that are new (relative to the pre-Merger structure depicted in  
11 Figure 2). The pledge of stock in Level 3 does not include any regulated  
12 ILEC entities. As explained earlier, Qwest Services Corporation will  
13 pledge its stock in QC (QSC owns 100% of the QC stock). Thus, the only  
14 change in CenturyLink's post-Merger corporate debt structure that *could*  
15 have implications for one of its regulated ILEC subsidiaries relates to  
16 QSC's pledge of its QC stock.<sup>36</sup> However, as I noted above, that pledge  
17 actually improves the financing for the Transaction, and in practice, the  
18 potential impact on those ILEC operations resulting from this stock pledge  
19 is not material and, in my professional opinion, it is very unlikely that the  
20 pledge would ever be enforced.

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<sup>36</sup> The specific guarantors may be different from the depiction in Figure 3, due to negotiation with lenders. But *no* entity with regulated ILEC assets will be added as a guarantor.

1           **Q.    Does the acquisition financing constitute all the funding for the**  
2           **Merger?**

3           A.    No. The purchase price will also be funded by cash on hand at the time of  
4           the closing.<sup>37</sup> Such cash on hand will reflect the funds that CenturyLink  
5           expects to receive in the sale of its data center operations, announced on  
6           November 4, 2016.<sup>38</sup>

7           **Q.    Given these changes, guarantees, and pledges, how will the financing**  
8           **of the Transaction affect the public interest?**

9           A.    My professional opinion is that CenturyLink's commitment to this Merger  
10          is an effort, on balance, to materially *reduce* the Company's principal  
11          strategic, operational, and financial risks. I believe that, through the  
12          Merger, CenturyLink is focused on managing the secular risks that are  
13          pervasive in an increasingly competitive telecommunications industry.  
14          While the Company's overall post-Merger debt leverage is expected to  
15          increase somewhat with the Merger, the Company's history reveals that on  
16          numerous occasions CenturyLink has been able acquire companies using

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<sup>37</sup> Exhibit MJB-4, p. 8.

<sup>38</sup> CenturyLink September 30, 2016 SEC Form 10-Q, available at <https://www.sec.gov/Archives/edgar/data/18926/000001892616000070/ct12016093010q.htm>, p. 23; "On November 3, 2016, we entered into a definitive stock purchase agreement with a consortium led by BC Partners, Inc. and Medina Capital ("Purchaser") under which we propose to sell our data centers and colocation business for cash and equity valued at \$2.3 billion, subject to offsets for the capital lease obligations described below and various working capital and other adjustments. The assets that will be sold and the liabilities to be assumed are currently included in our continuing operations. As part of the transaction, Purchaser will assume our capital lease obligations, which amounted to \$320 million as of September 30, 2016, related to the properties that we will sell. The parties anticipate closing the transaction in the first quarter of 2017."

1 debt that caused its leverage ratio to rise, and has subsequently reduced  
2 that ratio within several years (see Figure 1). And, the other compelling  
3 benefits of the Merger—diversification, restoration of revenue growth, a  
4 stronger competitive position in key markets, and increased cash flows—  
5 substantially mitigate any risks and lead to a conclusion that the Merger  
6 will result in a fundamental overall improvement in the Company's risk  
7 profile.

8 **Q. Describe how these factors lead you to conclude that the Merger will**  
9 **result in an improvement in the Company's risk profile.**

10 A. As stated above, the combined company is expected to generate more  
11 operating cash flow over the term of the loans compared with the level of  
12 cash flows that CenturyLink and Level 3 would generate independently  
13 over the same period. CenturyLink will add Level 3's future EBITDA  
14 that, for perspective, grew 11 percent in 2016 to \$2.865 billion, as  
15 adjusted to exclude certain non-cash expenses and non-recurring  
16 acquisition-related costs.<sup>39</sup> Additionally, the merged companies are  
17 expected to be able to utilize slightly less than \$2 billion in NOLs—  
18 approximately \$650 million in expected cash tax savings—annually over

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<sup>39</sup> Level 3 February 8, 2017 SEC Form 8-K, Exhibit 99.1, available at [https://www.sec.gov/Archives/edgar/data/794323/000110465917007444/a17-3949\\_1ex99d1.htm](https://www.sec.gov/Archives/edgar/data/794323/000110465917007444/a17-3949_1ex99d1.htm), pp. 1, 13, 16. Adjusted EBITDA is earnings before interest, taxes, depreciation and amortization, which is further adjusted to exclude non-cash compensation expense and \$15 million of CenturyLink acquisition-related expenses.

1 each of the first five years after the Merger close.<sup>40</sup> Finally, the projected  
2 cost savings from combining the operations are significant, resulting in an  
3 estimated \$975 million in increased cash flows annually, once the merged  
4 company achieves its full run rate. CenturyLink has stated that it believes  
5 that the Company will be able to achieve 80% of the \$850 million in  
6 annual run-rate operating synergies and all the \$125 million in annual  
7 capital-expenditure savings within the first thirty-six months after the  
8 Merger close.<sup>41</sup> As a result of these increased cash flows, which are  
9 expected to exceed the annual debt service obligations resulting from the  
10 acquisition financing, post-Merger CenturyLink should be financially  
11 healthier, not less healthy.

12 **V. FINANCIAL RATIONALE FOR THE MERGED COMPANY, INCLUDING**  
13 **AFFIRMATIVE PUBLIC INTEREST BENEFITS THAT SHOULD FLOW TO**  
14 **CUSTOMERS, EMPLOYEES AND THE COMMUNITIES SERVED BY THE**  
15 **COMPANY.**  
16

17 **Q. Why has CenturyLink engaged in significant acquisitions over the last**  
18 **two decades, including the proposed Merger?**

19 **A.** The communications industry is undergoing fundamental—competitive,  
20 technological and regulatory—changes that have financial impacts on the  
21 industry and the Company. The voice-centric business is contracting  
22 rapidly, as the number of LEC wired access lines is shrinking due to

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<sup>40</sup> Exhibit MJB-4, p. 20.

<sup>41</sup> Exhibit MJB-4, p. 7.

1 replacement of wired services with wireless products as well as  
2 competition from other carriers and cable companies. Data services are  
3 becoming the new core products for ILECs as well as for wireless  
4 companies, cable operators and competitive local exchange carriers  
5 (“CLECs”), all of which seek to serve residential, business and wholesale  
6 customers. And, from a regulatory perspective, rapid competitive change  
7 makes it increasingly difficult for policymakers and providers to  
8 efficiently manage a shifting set of operating and financial variables.

9 **Q. How, then, is the Merger likely to affect customers and the public**  
10 **interest?**

11 A. CenturyLink has stated that the customer benefits should be derived from  
12 the Company’s access to a far more expansive and global owned-network,  
13 increased bandwidth capacity and additional managed services, the ability  
14 to invest in and further improve the Company’s broadband network and  
15 deployment speeds for both business and consumer customers, and a  
16 broader range of services and solutions.<sup>42</sup> For employees, the Merger  
17 provides the opportunity to work for a Company that has an industry-  
18 leading global fiber platform, with growth and advancement  
19 opportunities.<sup>43</sup> I agree with those assessments and also believe that

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<sup>42</sup> Exhibit MJB-3, slide 16.

<sup>43</sup> *Id.*

1 CenturyLink is responsibly evolving its business to reduce concentrated  
2 risks and better assure that the combined Company will be a more cost-  
3 effective and viable competitor over the long term. CenturyLink is also  
4 aligning a larger part of its business with growth opportunities—data and  
5 enterprise—while CenturyLink’s ILEC continues to serve customers and  
6 the public interest, including those in low-density, high-cost markets that  
7 are often less-economic or even uneconomic.

8 **Q. How does the Merger change CenturyLink’s mix of business?**

9 A. CenturyLink expects the Merger to enlarge its business-centric revenue  
10 base from 64% of total revenues to 76%.<sup>44</sup> CenturyLink and Level 3 will  
11 combine their enterprise, small business and wholesale revenues that, in  
12 2015, were \$10.6 billion (third-largest domestically) and \$8.2 billion  
13 (fourth-largest domestically), respectively, to make the merged company  
14 the second-largest domestic communications carrier serving global  
15 enterprise customers.<sup>45</sup> Four points might be made. First, there should be  
16 no negative effect on the Company’s regulated ILEC businesses, as the  
17 Merger is simply additive to CenturyLink’s existing non-ILEC operations.  
18 Second, the merged company should be more capable of revenue and  
19 EBITDA growth, which means the Company is financially stronger over

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<sup>44</sup> Exhibit MJB-3, slide 10.

<sup>45</sup> *Id.*, slides 11, 16.



1 the long term for customers, employees and communities it serves. Third,  
2 CenturyLink's enterprise customers will have the potential to benefit from  
3 increased bandwidth capacity and additional managed services.<sup>46</sup> Finally,  
4 the overall enterprise and business communications markets might be  
5 expected to become more competitive as the merged company's business  
6 and enterprise operation is larger, more integrated and better able to  
7 compete with major competitors such as AT&T, Verizon and Comcast.  
8 However, the combined company will not be so large that competition is  
9 harmed, as the merged company's enterprise revenues will be a small  
10 percentage of the total enterprise communications market.<sup>47</sup>

11 **Q. Is CenturyLink's increased focus on the enterprise segment a negative**  
12 **development for smaller customers?**

13 A. No. In fact, it is my opinion that the network commitments associated  
14 with the enterprise business segment can be viewed as a leading  
15 indicator—an accelerator—to the evolution of the network in meeting the  
16 future needs of all customers of CenturyLink and Level 3. Enterprise  
17 customers typically require the most modern, highest-capacity products  
18 and services, as well as global connectivity. Smaller businesses and  
19 consumers are typically fast-followers and in need of similar connectivity,  
20 capacity, security, and reliability. Combining the two companies should

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<sup>46</sup> *Id.*

<sup>47</sup> *Id.*, slide 11.

1 improve the capabilities that are sought today and in the future by all  
2 network users.

3 **Q. How does the Merger change the financial, technical or managerial**  
4 **resources as CenturyLink focuses on providing reliable, quality**  
5 **telecommunications services?**

6 A. CenturyLink is expected to have *improved* financial, technical and  
7 managerial resources, and should have no negative changes, as explained  
8 in earlier sections of this testimony. That is, the Company will have  
9 increased network, market reach, products, and managerial expertise to  
10 supplement and augment its current operations. Because CenturyLink is  
11 already in the enterprise communications business and has an extensive  
12 network, the addition of Level 3 does not represent a new business, but is  
13 an expansion of CenturyLink's business-focused operations.

14 **Q. What about the Company's financial resources?**

15 A. While the leverage ratio is expected to rise from 2.8 times to a pro forma  
16 level of 3.7 times at the time of the Merger close, it is my professional  
17 opinion that this is the only indicator that could be pointed to as a  
18 potentially negative factor from a financial point of view.<sup>48</sup> However, as I  
19 explained, this is a short-term issue. Through a temporary increase in

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<sup>48</sup> See footnote 23, *supra*, which clarifies that CenturyLink is not expected to realize all its run-rate synergies at the Merger's close, and therefore the actual leverage ratio is expected to be modestly higher than the pro forma estimate of 3.7 times.

1 leverage, the Company expects to realize multiple strategic, long-term  
2 benefits, including significant growth potential offsetting currently  
3 contracting revenues,<sup>49</sup> improving margins at the Level 3 subsidiary and at  
4 the combined company as more services remain on-net,<sup>50</sup> accelerated use  
5 of the NOLs, and substantial cost savings, all of which will allow the  
6 combined company to cope better with an increasingly global and highly-  
7 competitive business. Scale, scope, and growth are improved, which, in  
8 my opinion, are substantive identifiable long-term benefits for customers,  
9 employees, investors and policymakers.

10 **Q. How is the Merger likely to affect competition in the local**  
11 **marketplace?**

12 A. Since Level 3 does not own or operate ILECs, there are expected to be no  
13 negative impacts on the provision of ILEC services in the Company's  
14 local markets nor any anti-competitive effects. In fact, in the local  
15 enterprise markets, CenturyLink should make the markets increasingly  
16 competitive based on the additional network and solutions provided by

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<sup>49</sup> Exhibit MJB-4, p. 3: "We believe the transaction or the strategic combination, rather will significantly improve CenturyLink's growth profile and better position to combine company, to improve its revenue growth, trend and drive meaningful operating cash flow growth in the first full year post-closing, including synergies as realized and including integration costs. Additionally, we believe the combined company will be able to achieve more than 10 percent growth and free cash flow per share in the full year post-closing, including synergies as realized and again, including integration costs. We also expect this combination to drive significant improvement in free cash flow per share in subsequent years. . . . Together, we expect to be able to leverage Level 3's and CenturyLink's strong product portfolios across our combined customer bases. In addition, the increased network scale will provide advantages for our customers in numerous ways."

<sup>50</sup> Exhibit MJB-4, p. 23.

1 combined company as an alternative to those offered by formidable  
2 carriers such as AT&T, Verizon, and Comcast.

3  
4 **VI. SUMMARY.**

5  
6 **Q. Please summarize your testimony.**

7 A. CenturyLink and Level 3 propose to merge their companies in a  
8 transaction that values Level 3 at approximately \$34 billion. The rationale  
9 is to create a financially stronger competitor from two companies with  
10 complementary networks, products, skill sets and customer bases. There  
11 is no negative change to the regulated ILEC businesses of CenturyLink,  
12 and the likely result is that the merged company will offer increasingly  
13 high-bandwidth services to the marketplace more efficiently over the next  
14 decades. I am convinced that the Company will be able to meet its new  
15 debt obligations and reduce its leverage over a relatively short period of  
16 four years. The Merger appears to me, as a financial professional, to be  
17 precisely the kind of combination that policymakers hoped for in the 1996  
18 Telecom Act, when they sought more competition and a wider set of  
19 customer-focused products.

20 **Q. Does this conclude your testimony?**

21 A. Yes.