

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**Joint Application of Embarq Corporation  
and CenturyTel, Inc. for Approval of  
Transfer of Control of United Telephone  
Company of the Northwest d/b/a Embarq  
and Embarq Communications, Inc.**

**DOCKET NO. UT - 082119**

**DIRECT TESTIMONY OF  
MARK A. GAST**

**ON BEHALF OF  
EMBARQ CORPORATION**

**January 2, 2009**

**INITIAL TESTIMONY OF  
MARK A. GAST**

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**Q. Please state your name, business address, employer and position.**

A. My name is Mark A. Gast. My business address is 5454 West 110<sup>th</sup> Street, Overland Park, Kansas 66211. I am Director – Regulatory Analysis and Reporting for Embarq (“Embarq”). I have been in my current position since January 1998.

**Q. Please describe your educational background and business experience.**

A. After graduating with a Bachelor of Science in Business Administration with a major in Accounting in 1976, I earned a Masters in Business Administration from the University of Kansas in 1977. In 1987, I graduated from the University of Missouri – Kansas City with a Masters of Science in Accounting. From 1978 to 1981, I worked in the audit and tax departments of KPMG, a large international public accounting firm. From 1981 to 1987, I worked as Tax Manager for Duke Energy. I began my career with Embarq in 1987 and have held various managerial tax, budget, and finance positions in Embarq’s Finance department. During 1992 – 1993, I chaired the Texas Telephone Association Accounting and Finance committee working on telecommunications issues between industry and the Commission. I assumed my present position as Director – Regulatory Analysis and Reporting in January 1998. I have been a Certified Public Accountant since 1977 and a Certified Management Accountant since 1991. I am a member of the American Institute of CPAs, Kansas Society of CPAs, and Institute of Management Accountants.

1 **Q. What are the duties and responsibilities of your present position?**

2 A. I am responsible for managing and directing financial analyses involving state and  
3 federal regulatory matters, managing and directing the financial portion of regulatory  
4 filing information, and reviewing and approving regulatory reporting to the FCC and  
5 State Commissions. In addition, I am responsible for managing federal and state  
6 Universal Service Fund receipts and contributions for Embarq's operations, and  
7 Embarq's compliance with Part 36 rules on jurisdictional separations matters.

8

9 **Q. What is the purpose of your testimony?**

10 A. I am presenting testimony on behalf of Embarq Corporation ("Embarq") and its  
11 subsidiary, United Telephone Company of the Northwest Inc. d/b/a Embarq ("United")  
12 and CenturyTel, Inc. ("CenturyTel") that demonstrates the strong financial capabilities of  
13 the combined CenturyTel/Embarq company as referenced in the Joint Petition. The  
14 purpose of my testimony will be to describe the financial benefits of the merger and how  
15 the combined CenturyTel/Embarq enterprise will be a stronger financial entity than if  
16 each company were to continue to exist independently. Specifically, the combined  
17 CenturyTel/Embarq company will have greater financial resources to raise capital,  
18 invest in networks, employees, and systems, and generate sufficient cash to pay all  
19 expenses, service debt and pay a dividend to shareholders. The combined  
20 CenturyTel/Embarq company will have financial characteristics similar to those  
21 companies that have been rated "investment grade" by the major rating agencies.  
22 These attributes will help ensure that the combined CenturyTel/Embarq company will  
23 have solid financial capabilities and the fiscal stability and flexibility necessary to

1 position itself competitively and pursue strategies necessary to succeed. A stronger  
2 financial CenturyTel/Embarq company will, in turn, enhance United's financial stability  
3 and access to capital to continue to provide reliable services and compete in the  
4 telecommunications marketplace.

5

6 **Q. What financial information are you relying upon as the basis of your**  
7 **testimony?**

8 A. My analysis and conclusions are based upon my knowledge and review of Embarq's  
9 external financial statements in its SEC filings, and its regulatory financial statements  
10 and statistical information included in its FCC and state Commission filings. I have also  
11 examined CenturyTel's SEC Forms 10-K and 10-Q and its financial statements for the  
12 last several years.

13

14 **Q. Describe the financial benefits of the merger transaction and how the**  
15 **combined CenturyTel/Embarq enterprise will be a stronger financial entity.**

16 A. The combined CenturyTel/Embarq enterprise will be a stronger and more financially  
17 capable company than if either CenturyTel or Embarq were to continue to exist  
18 independently. The merger will result in the largest mid-sized communications  
19 company, with approximately 8 million access lines, and on a pro forma basis, revenue  
20 of \$8.8 billion, EBITDA of \$4.2 billion, leverage of 2.1 times EBITDA and free cash flow  
21 of approximately \$1.8 billion based on anticipated full run-rate synergies and operating  
22 results for the twelve months ended September 30, 2008. The combined company will  
23 have greater economies of scale and financial resources to capitalize on marketplace

1 opportunities, diversify revenues, expand networks, and build long-term value for  
2 customers and shareholders in the markets in which it operates, including Washington.  
3 It is also anticipated that debt of the combined CenturyTel/Embarq operations will be  
4 rated “investment grade.”

5  
6 **Q. What is the significance for a company’s debt to be rated “investment grade?”**

7 A. Currently, both CenturyTel’s and Embarq’s debt are rated as “investment grade” by  
8 the major rating agencies. These ratings are evidence of the positive financial  
9 characteristics and financial viability of each company and their continued ability to  
10 attract investor capital in the capital markets. Both companies are the only two mid-  
11 sized local wireline providers whose debt is currently rated “investment grade.” An  
12 “investment grade” rating for the combined CenturyTel/Embarq company debt will allow  
13 it to access capital at more favorable interest rates, leading to lower borrowing costs. In  
14 addition, the combined company will have the flexibility to access capital for strategic  
15 investment opportunities.

16  
17 **Q. What will be the impact of the merger on United?**

18 A. Because the merger transaction is occurring at the parent level and not at the  
19 operating subsidiary level, United’s day-to-day operations of continuing to provide  
20 reliable service will remain essentially unaffected by the merger. However, as  
21 described above, the merger of CenturyTel and Embarq will create a stronger and more  
22 financially capable enterprise. This combined company will, in turn, enhance United’s

1 financial strength and capability because United will have greater financial stability and  
2 access to capital necessary to invest in its network, employees, and systems.

3

4 **Q. Taking all of the above into consideration, can you please summarize your**  
5 **testimony?**

6 A. The combined CenturyTel/Embarq enterprise will be a stronger financial entity than if  
7 each company were to continue to exist independently. Specifically, the combined  
8 CenturyTel/Embarq company will have greater financial resources to raise capital,  
9 invest in networks, employees, and systems, and generate sufficient cash to pay all  
10 expenses, service debt and pay a dividend to shareholders. The combined  
11 Century/Embarq company will have increased capability to raise capital, service its  
12 debt, and make strategic investments. A financially stronger combined company will  
13 benefit United by enhancing United's continuing ability to provide quality customer  
14 service, while investing in its network, employees, and systems.

15

16 **Q. Does this conclude your initial testimony?**

17 A. Yes.