

**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 G. CLAY BAILEY
ON BEHALF OF CENTURYTEL, INC.**

JANUARY 2, 2009

1 **Q. Please state your name and business address.**

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

4

5 **Q. Please identify your employer and the position that you hold.**

6 A. I am employed by CenturyTel Service Group, LLC, a wholly owned subsidiary
7 of CenturyTel, Inc. and currently hold the position of Vice President and
8 Treasurer.

9

10 **Q. Please briefly describe your educational background and work experience.**

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

19

20 **Q. Please describe the duties and responsibilities of your current position.**

21 A. I am currently responsible for the Treasury, Tax and Risk Management areas of
22 the Company. In this capacity, among other responsibilities, I represent
23 CenturyTel before the debt rating agencies.

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

2 A. I am testifying in support of the Joint Application (“Application”) submitted by
3 CenturyTel, Inc. (“CenturyTel”) and Embarq Corporation (“Embarq”) seeking
4 approval of the Washington Utilities and Transportation Commission
5 (“Commission”) relating to the Agreement and Plan of Merger (the “Agreement”)
6 executed by CenturyTel and Embarq, the parent company of United Telephone
7 Company of the Northwest d/b/a Embarq (“UTNW”). The transaction arising
8 from the Agreement is described in some detail in the Application. However,
9 simply stated, the transaction involves Embarq merging with a subsidiary of
10 CenturyTel and thereby becoming a wholly owned subsidiary of CenturyTel. As
11 a result, all Embarq subsidiaries, including Embarq will effectively be owned and
12 controlled by CenturyTel. Please refer to Exhibit BY-1 attached to the direct
13 testimony of Embarq witness Barbara Young. For purposes of this testimony I
14 will refer to these events resulting in the combination of the two companies as the
15 “Transaction.” I will refer to the resulting combined operation as “post-
16 Transaction CenturyTel.”

17 **Q. Are there other witnesses submitting pre-filed testimony in support of the**
18 **Application?**

19 A. Yes, Barbara Young, Embarq’s State Executive for Washington and Oregon, and
20 Mark Gast, Embarq’s Director – Regulatory Analysis and Reporting are also
21 submitting pre-filed testimony in support of the Application. Both Ms. Young
22 and Mr. Gast present compelling arguments as to why the Commission should
23 approve the Transaction. I will not repeat all of their positions and points but will

1 instead amplify some of them and provide comments and observations from a
2 CenturyTel perspective.

3

4 **Q. Please summarize the areas or issues that you will provide comment on in**
5 **this testimony.**

6 A. My testimony will address the following points concerning the Transaction:

- 7 • A brief history and overview of CenturyTel’s operations.
- 8 • A stronger combined company.
- 9 • CenturyTel and Embarq are a “good fit” for each other.
- 10 • CenturyTel’s qualifications to acquire the Embarq operations
 - 11 • Financial
 - 12 • Technical
 - 13 • Managerial
 - 14 • CenturyTel’s track record in integrating acquisitions.
- 15 • Access to best practices.
- 16 • Positive impacts on competition.
- 17 • No impact on fundamental operations of Washington subsidiaries.
- 18 • No impact on Washington regulated rates or services.
- 19 • No impact on regulation applied to Washington subsidiaries.
- 20 • No impact on interconnected carriers.

21

22 **Q. Does CenturyTel currently have any local exchange carrier operations in**
23 **Washington?**

24 A. Yes. CenturyTel of Washington, Inc., CenturyTel of Inter Island, Inc., and
25 CenturyTel of Cowiche, Inc., (Collectively “CenturyTel ILECs”) are indirect
26 subsidiaries of CenturyTel operating as incumbent local exchange carriers in

1 Washington. CenturyTel provides service to approximately 149,225 access lines
2 throughout the state of Washington.

3 **Q. Are any of these CenturyTel entities experiencing a change of control as a**
4 **result of the transaction?**

5 A. None of the CenturyTel entities operating in Washington (or any entity that holds
6 a controlling interest in them) is experiencing a change in control as a result of
7 this Transaction because the control of these companies will remain with
8 CenturyTel as it is today.

9
10 **Q. Please give a brief history and overview of CenturyTel's operations.**

11 A. Much like Embarq, CenturyTel is a multi-state provider of a wide range of
12 communications services. CenturyTel is a publicly traded holding company listed
13 on the New York Stock Exchange (Symbol: CTL) and included in the S&P 500
14 index. It is headquartered in Monroe, Louisiana and conducts its business
15 principally through operating subsidiaries that have a footprint in 25 states.
16 Although not incorporated until 1968, CenturyTel started as a single-exchange
17 family-run local telephone company in Oak Ridge, Louisiana in 1930. Through a
18 steady series of acquisitions and internal growth and expansion, the company has
19 developed to a point where it is currently serving approximately 2.1 million
20 access lines and 600,000 broadband connections. CenturyTel has a high quality
21 network infrastructure consisting of more than 37,000 miles of fiber and can
22 provide high speed internet to over 87% of its access lines. CenturyTel has
23 approximately 6500 employees and annual sales of approximately \$2.6 billion.

1 **Q. You mentioned that CenturyTel provides a wide array of communications**
2 **services. Could you expand on that?**

3 A. Yes, those services include local exchange, long distance, high-speed internet and
4 other broadband services. The company provides satellite television services
5 through a resale arrangement. In certain local and regional markets CenturyTel
6 also provides competitive local exchange carrier and security monitoring services.
7 In addition, CenturyTel owns and operates a state-of-the-art fiber system that
8 provides wholesale and retail fiber transport services to customers in the central
9 United States.

10

11 **Q. Do you have any other comments concerning CenturyTel's background?**

12 A. As I mentioned, CenturyTel has a long history of expanding its operations into
13 new markets by successfully integrating acquired properties and companies.
14 CenturyTel is very excited that the Transaction and the resulting combination
15 with Embarq will result in more robust and efficient communications operations
16 for the benefit of customers in Washington.

17

18 **Q. In your view is the Transaction and the resulting combination of CenturyTel**
19 **and Embarq in the public interest?**

20 A. Very much so. The Transaction will create a post-Transaction CenturyTel with
21 greater financial resources and access to capital to invest in networks, systems and
22 employees. The pooled resources will allow the combined entity to more
23 effectively finance, develop and deploy the networks and services that are

1 essential to survival in today's increasingly competitive communications
2 landscape. As technologies and customer expectations change at an increasingly
3 frenetic pace, economies of scope and scale become more important in
4 positioning a company to effectively respond to those changes. Customers benefit
5 from sustainable networks and a company's ongoing ability to offer innovative
6 services that are responsive to their needs. Therefore the public interest will be
7 advanced as customers in Washington benefit from the enhanced economies of
8 scope and scale that arise from the Transaction.

9

10 **Q. Are you in effect concluding that bigger is always better?**

11 A. Not at all. In the world of mergers and acquisitions, bigger is not always better.
12 There are many other factors that come into play beyond just the size of the
13 resulting entity. For example, a fundamental question that needs to be answered
14 is whether the two combining companies have operations and cultures that can be
15 effectively combined to generate a stronger resulting company?

16

17 **Q. Is the combination of CenturyTel and Embarq a good fit?**

18 A. Yes it is. CenturyTel and Embarq are very similar companies with
19 complementary cultures. They are both holding companies whose primary focus
20 has been the ownership and operation of subsidiary incumbent local exchange
21 carriers ("ILECs") on a multi-state basis. Both CenturyTel, in its 2002 wireless
22 divestiture, and Embarq, in the 2006 spin-off from Sprint-Nextel, separated
23 themselves from their narrowband wireless operations in order to focus their

1 efforts on positioning their wireline networks to accommodate the increasing
2 demand for broadband services. Both companies have deep roots in serving and
3 meeting the communication needs of its customers by investing heavily in quality,
4 reliable networks. Both companies are very strong and stable financially as
5 evidenced by the fact that they are the only mid-size ILECs that possess
6 investment-grade ratings from the major credit rating agencies. Both companies
7 have strong management teams that share the common view that successfully
8 providing high quality communication services in these dynamic times in the
9 communications industry is contingent upon the ability to respond quickly to
10 rapid changes in market forces, technology, and customer demands.

11

12 **Q. What is the significance of these common traits shared by the companies?**

13 A. CenturyTel and Embarq clearly have similar and significant resources that can be
14 combined and shared in a manner that results in a stronger combined company for
15 the benefit of our customers. Importantly, those resources are also already
16 pointed in substantially the same direction in terms of achieving long term
17 objectives. This is one of the primary reasons the Transaction is such a good fit.

18

19 **Q. Is CenturyTel qualified to acquire the Embarq operations?**

20 A. Yes, CenturyTel is qualified in all respects. This includes financial qualification
21 as well as technical and managerial expertise. As stated in the Application and
22 direct testimony of Embarq witness, Mark Gast, CenturyTel is very sound and
23 stable financially with a strong balance sheet. As I noted earlier CenturyTel's

1 credit worthiness is rated investment grade by the major rating agencies. It is also
2 worth noting that the Transaction will be accomplished through a stock-for-stock
3 swap resulting in no incremental debt.

4

5 **Q. Can you give more specifics as to CenturyTel's financial strength?**

6 A. CenturyTel has annual sales of approximately \$2.6B and operating cash flow of
7 approximately \$1.2B based on last twelve months ended September 30, 2008. As
8 evidenced by our investment grade ratings, our leverage is a very reasonable 2.4x
9 operating cash flow and our fixed charge coverage is approximately 6.4:1.

10

11 **Q. Have you reviewed the testimony of Embarq witness Mark Gast?**

12 A. Yes I have, and I totally support his conclusions. CenturyTel's financial data
13 supports Mr. Gast's conclusions as to the financial strength of the post-
14 Transaction CenturyTel. As Mr. Gast notes post-Transaction CenturyTel is
15 expected to receive an investment-grade rating from the major rating agencies.
16 This favorable rating concerning credit worthiness is indicative of the financial
17 strength of the post-Transaction company.

18

19 **Q. Would you comment upon CenturyTel's technical expertise?**

20 A. CenturyTel has a highly skilled workforce including engineers and technicians
21 that have long been operating networks and systems that are very similar to those
22 operated by Embarq. Also, because the Transaction occurs at the holding
23 company level, the Embarq operating subsidiaries, including UTNW at closing

1 will be in-tact, as will their support resources. Going forward, the post-
2 Transaction CenturyTel including UTNW and the CenturyTel ILECs will have a
3 combined pool of technical expertise from which to draw support.
4

5 **Q. Would you comment upon CenturyTel's managerial resources?**

6 A. CenturyTel has a very experienced, qualified and stable group of executive
7 managers. CenturyTel's six member senior management team has not seen any
8 personnel changes in over five years. This kind of stability at the executive level
9 is very rare in larger corporations and reflects a strong dedication on the part of
10 these individuals. Continuity of management also means that the company has
11 had a steady hand to guide it through what have been very dynamic times with
12 regard to the rapidly changing competitive, technological and regulatory
13 landscapes. The entire CenturyTel senior management team has been in place
14 long enough to appreciate and understand these challenges. Post-Transaction
15 CenturyTel will benefit from that continued steady hand as it faces these same
16 challenges. It has been determined that CenturyTel's current CEO, COO, and
17 CFO (Glen Post, Karen Puckett, and Stewart Ewing respectively) will hold those
18 same positions with post-Transaction CenturyTel. The combined entity will also
19 benefit from the fact that Embarq's current CEO, Tom Gerke, will assume the
20 role of executive Vice-Chairman of the Board of Directors and Embarq's current
21 non-executive Chairman of the Board, Bill Owens, will assume that same role for
22 the combined entity. Effective mid-level management is always critical to the
23 success of multi-state operations such as CenturyTel and Embarq and this will be

1 true for the combined entity as well. Both CenturyTel and Embarq will contribute
2 talented middle management groups to the combined entity.

3

4 **Q. What are your conclusions with regard to financial, technical and**
5 **managerial resources?**

6 A. Bottom line – Embarq, after the Transaction, will have the enhanced financial,
7 technical and managerial resources necessary to better enable it to continue
8 providing high quality telecommunications services to the customers it serves.

9

10 **Q. Do you have any other comments with regard to CenturyTel’s qualifications**
11 **to acquire the Embarq operations?**

12 A. I would just like to reiterate that CenturyTel has a long history of successfully
13 integrating numerous acquired properties and companies in expanding from an
14 operation with a single local exchange, to one that provides service to more than 2
15 million access lines spread across 25 states. Although, obviously, the proposed
16 transaction is the largest transaction that CenturyTel has undertaken, it is not the
17 first time that CenturyTel has acquired a large number of access lines or expanded
18 into a number of new state jurisdictions. In the past, all of CenturyTel’s sizeable
19 acquisitions and subsequent integrations have been successfully executed,
20 generating benefits for both the company and its customers. CenturyTel is very
21 familiar and comfortable with the challenges and opportunities that an acquisition
22 and integration of this magnitude presents.

23

1 **Q. Does it make any difference that this is a stock transaction and not an asset**
2 **purchase?**

3 A. Yes it does. CenturyTel is well experienced with, and has been very successful in
4 integrating both types of acquisitions. However, in a transaction of this size, the
5 fact that it is a stock transaction makes integration much more manageable. This
6 is because CenturyTel will be acquiring the entirety of Embarq, including all its
7 systems and employees. This is in direct contrast to the integration challenges
8 associated with a large asset transfer where the acquiring company gets service
9 territory and network assets but not the associated support systems or
10 management.

11

12 **Q. Returning to the matter of public interest, could you provide additional**
13 **discussion as to why you feel the Transaction is in the public interest?**

14 A. Many public interest factors are discussed in the testimony of Barbara Young. In
15 addition to those comments, I would offer the following observations. The
16 Application and Ms. Young's testimony speak to the customer benefits inherent in
17 a stronger combined company that is able to respond more quickly to customer
18 needs with economically attractive and innovative services. These enhanced
19 service offerings will in large part be due to the improved economies of scope and
20 scale that arise from the combination of the two companies. In addition, the
21 combined company's operating effectiveness and efficiency will be further aided
22 by its ability to utilize the assets and adopt the best practices of both companies.
23 For example, CenturyTel has acquired 700 MHz radio spectrum licenses and has

1 developed an extensive fiber backbone network that would be available to the
2 combined company for offering enhanced wireless broadband and fiber transport
3 services. Experience gained in deploying these innovative platforms and the
4 services they enable will work to the benefit of customers of the combined
5 company whether they be formerly served by CenturyTel or Embarq. By the
6 same token, Embarq has made advancements in bringing to market IP (internet
7 protocol) products for business customers. These advancements would likewise
8 now be available to the combined company. These are examples of how
9 customers of both companies will benefit when the Transaction is approved.

10

11 **Q. Are there other areas where you think that the Transaction will have positive**
12 **public benefits?**

13 A. Yes, the Transaction will also help maintain the robust state of competition in the state
14 of Washington. First of all, it is important to note that the two companies do not
15 serve any of the same markets in Washington. Therefore, the Transaction will not
16 result in the elimination of a competitor in Washington. Secondly, healthy
17 competition these days is in large part driven by the existence of a variety of
18 viable network platforms in a given market. Competition is most robust in
19 markets where there is intermodal competition. That is, where services are being
20 delivered over wireless, wireline, and cable platforms. If any of those platforms is
21 rendered unsustainable it would negatively impact competition and consumers.
22 The sustainability of wireline networks is becoming increasingly challenging for a
23 number of reasons which is exacerbated by the general economic downturn.

1 Wireline carriers must become stronger and more effective competitors to weather
2 these tumultuous times. The Transaction will help Embarq and CenturyTel to
3 become stronger financially and operationally and therefore will help assure the
4 existence of a viable wireline platform in the markets served by the combined
5 company. This in turn will help assure that there is true intermodal competition
6 going forward.

7

8 **Q. Do you have any other comments regarding competition?**

9 A. The Transaction and its attendant increases to economies of scope and scale will
10 also allow the combined company to have a stronger wholesale division.
11 Enhancing wholesale operations will impact competition positively in at least two
12 respects. Combining wholesale operations will promote the continued and more
13 effective development and sale of network services to wireless providers,
14 interexchange carriers, cable companies and CLECs. It will also assure that the
15 combined company can continue to fulfill its obligations to competitors under the
16 1996 Telecommunications Act and Washington laws.

17

18 **Q Are there other public interest factors that you would like to comment upon?**

19 A. Yes. In addition to examining those areas where the Transaction will have a
20 positive impact, it is also important to note those areas where the Transaction will
21 have no detrimental impact. As mentioned previously the Transaction will occur
22 at the holding company level and therefore will not itself have any impact on the
23 fundamental operations of UTNW or the CenturyTel ILECs. In effect, UTNW

1 will simply be gaining a grandparent corporation. The important point is that the
2 Washington entities will continue to exist in their present form and will continue
3 to operate much as they do today. This continuity of operations means that there
4 will be no detrimental impact on the most fundamental aspects of the public
5 interest particularly the combined company's ability to continue to provide high-
6 quality service to its customers at reasonable rates.

7
8 **Q. Why do you believe the public interest will not be negatively impacted?**

9 A. First and foremost would be that the services provided by Embarq and
10 CenturyTel, and the rates and terms under which they are offered, will not change
11 as a result of the Transaction. The Transaction will basically be transparent to
12 consumers, which means that customers will not notice any disruptive changes to
13 rates or services. Going forward, all changes in regulated rates or services will
14 be subject to applicable Washington law and the requirements of this
15 Commission, just as they were prior to the Transaction.

16
17 **Q. What other "non-impact" areas would you like to address?**

18 A. The Transaction will not have any impact on compliance with the regulatory
19 requirements of this Commission. Let me reiterate as a representative of
20 CenturyTel that the Transaction will not in any way affect this Commission's
21 jurisdiction over UTNW, the type of regulation that UTNW is subject to, or any
22 binding regulatory commitments that have been placed by the Commission,
23 including, but not limited to, UTNW's obligations as a provider of last resort.

1 UTNW will continue to be regulated by this Commission in the same manner as
2 before the Transaction.

3 **Q. Will there be any impact upon interconnected carriers?**

4 A. No, there will not. UTNW and the CenturyTel ILECs will retain their corporate
5 identity. They will remain subject to the same provisions of the 1996 Telecom
6 Act and Washington statutes and regulations as they were before the Transaction.
7 Also, all interconnection agreements they have executed will remain enforceable.

8
9 **Q Please summarize what is it that CenturyTel is asking the Commission to do
10 in this matter?**

11 A. As discussed in the application, Ms. Young's, Mr. Gast's and my testimony, the
12 Transaction will result in a financially stronger, operationally more efficient
13 combined company capable of serving rapidly evolving customer needs and
14 expectations. As a whole, the Transaction is not only consistent with, but also
15 positively benefits the public interest. Therefore CenturyTel requests that the
16 Commission grant the expedited approval as requested in the Application.

17
18 **Q. Does that conclude your testimony?**

19 A. Yes, it does.