BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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 Corporation	Docket No. 10-049-16

DIRECT TESTIMONY

OF

JEFF GLOVER

ON BEHALF OF

CENTURYLINK, INC.

MAY 27, 2010

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I INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jeff Glover and my business address is 100 CenturyLink Drive, Monroe, Louisiana 71203.

Q. WHO IS YOUR EMPLOYER AND WHAT IS YOUR POSITION?

A. I am employed as Vice President - Regulatory Operations & Policy for CenturyLink ("CenturyLink" or the "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE, AND PRESENT RESPONSIBILITIES.

A. I hold a Bachelor of Science degree in Management from Louisiana College and a Masters of Business Administration degree in Finance from Louisiana Tech University. From 1996 to 2001, I served as Vice President of Investor Relations for CenturyLink, where I was involved actively in managing the Company's interactions and communications with the capital markets, as well as participating in the capital raising process. Prior to joining the Company, I worked for more than six years in the electric utility industry for Central Louisiana Electric Company, Inc. ("CLECO"). While at CLECO, I worked initially in Generation Planning, calculating the revenue requirements needed to fund the construction of electric generation facilities. Subsequently, for five years I served as CLECO's Cash Manager in the Corporate Finance and Treasury Management group. In this capacity I managed the daily financing needs of the company as well as working on capital raising activities such as long-term debt placement, negotiating revolving credit facilities, and managing the company's ESOP. My background also includes an appointment to the faculty of Northwestern Louisiana State University, where I taught courses in economics and finance. I have obtained the Certified Cash Manager Certification from the Association of Financial Professionals. I also have represented the Company before the Federal Communications Commission ("FCC") and various state regulatory commissions.

II PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying in support of the Joint Application ("Application") filed by CenturyLink and Qwest Communications International Inc. ("Qwest") with the Public Service Commission of Utah ("Commission") on May 19, 2010. My testimony will provide a detailed overview of the financial characteristics of the combined company arising from the proposed transaction. Further, my testimony will support and demonstrate that the combination is in the public interest and affirmatively creates benefits for customers and the State of Utah.

Q. ARE OTHER WITNESSES FILING DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I have reviewed the testimonies of Jeremy Ferkin, representing CenturyLink, and Jerry Fenn, representing Qwest, both of which provide details about other factors that support the proposed merger of CenturyLink with Qwest. My testimony complements those testimonies by providing additional information regarding important financial factors about the two companies and the proposed combination.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. CenturyLink and Qwest announced on April 22, 2010 the two companies' agreement to merge. From a financial perspective the all-stock transaction is compelling for a number of reasons: (1) no new debt or debt refinancing is required based on the borrowings at the time of the announcement[1]; (2) the transaction is a straightforward stock-for-stock combination that does not involve any financial or tax-structure complexities (e.g., Reverse Morris Trust) similar to those employed in certain recent transactions; (3) the combined company will have increased financial resources to reduce debt with the flexibility to dedicate capital in response to business opportunities and to support ongoing capital investment; and (4) the combined company will have what we believe will be investment-grade credit characteristics based on solid debt coverage ratios, sufficient liquidity, and a manageable debt maturity schedule. The decision to merge is based on a compelling financial rationale and the public interest benefits that flow from the proposed merger. My testimony, therefore, will highlight factors that should give the Commission confidence that this combination is in the public interest, consistent with the State's standard of review, and that the merger should be approved. Specifically, I will testify regarding three general subjects:

1. The financial profile of the two individual companies, as well as the merged company, at the corporate parent level;

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

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

Q. PLEASE PROVIDE A FINANCIAL OVERVIEW OF THE TRANSACTION.

A. As of December 31, 2009, CenturyLink and Qwest served local telecommunications markets as incumbent carriers in 37 states. The combined companies served approximately 17 million access lines, approximately 5 million broadband subscribers,[2] and more than one million enterprise customers. At yearend 2009, the combined company had pro forma revenues of $19.8 billion, earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately $8.2 billion, and free cash flow (cash flow available after all cash operating expenses and capital expenditures),[3] excluding any estimated synergies, of $3.4 billion.[4] With 2009 pro forma combined net leverage of 2.4 times before synergies and 2.2 times after run-rate estimated synergies (both ratios calculated excluding one-time integration costs),[5] the merged company is

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[2] *See* CenturyLink and Qwest Merger Conference Call, April 22, 2010, [hereafter "Merger Conference Call"]; Slide 8; available at http://www.centurylinkqwestmerger.com/downloads/presentations/Investor%20Presentation-4-22-10.pdf. Select Slides from the Merger Conference Call are referred to throughout this testimony. They have been reproduced and attached collectively hereto as Exhibit JSG-1. References to individual Slides will refer to them by their original slide number.

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

[4] Merger Conference Call, Slide 8.

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

expected to have one of the strongest balance sheets in the U.S. telecommunications industry. The transaction is expected to be accretive to CenturyLink's free cash flow at closing, excluding one-time integration costs. The merged company is projected in three-to-five years to have an estimated $625 million in annual run-rate operating and capital synergies.[6] Using 2009 pro forma financials, the merged company would have had a reasonable 45% 2009 pro forma dividend payout ratio.[7] The combined company will be committed to network investment and balance sheet improvement (debt reduction), and is expected to produce sufficient operating cash flows to fund a stronger and more competitive business, as competitive threats increase from national companies such as AT&T, Verizon, Comcast, Time Warner Cable and Cox Communications. The testimony will emphasize that CenturyLink is a proven acquirer of telecommunications operations and is capable of creating a strong combined company to serve its customers. In short, the proposed transaction will create a carrier with major scope and scale, and the financial resources and flexibility to provide high-quality, competitive communications services to customers and communities across the country.

Q. CAN YOU DESCRIBE HOW YOUR TESTIMONY RELATES TO THE COMMISSION'S REVIEW OF THE TRANSACTION?

A. My understanding is that the State of Utah grants the Commission authority to approve the transfer requested in the application filed by CenturyLink and Qwest. In approving this Transaction, the Commission must consider whether the Transaction is consistent

[6] Merger Conference Call, Slide 6.

[7] Merger Conference Call, Slide 7.

with the public interest. This testimony focuses on the proposed Transaction's financial characteristics, which demonstrate that the merged company will have more financial resources to serve customers and the public interest and provide a net benefit.

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

III FINANCIAL PROFILE OF THE TWO INDIVIDUAL COMPANIES

Q. CAN YOU PROVIDE A SUMMARY OF THE FINANCIAL CHARACTERISTICS OF CENTURYLINK?

A. CenturyLink, an S&P 500 company, is headquartered in Monroe, Louisiana. The Company's shares are publicly traded on the New York Stock Exchange under the ticker symbol "CTL." The newly-named Company was formed through the CenturyTel and Embarq merger. CenturyLink, through its wholly-owned operating subsidiaries, is a leading provider of communications services to consumers, businesses, and other carriers. Using its robust communications networks, the Company offers local and long-distance voice, wholesale local network access, high-speed internet, and information and video services in 33 states. As of December 31, 2009, CenturyLink provided incumbent local exchange carrier ("ILEC") services to approximately 7.04 million telephone access lines and 2.24 million broadband subscribers. CenturyLink also operates a fiber transport network that provides wholesale and retail fiber-based transport services in support of other carriers and retail customers. On a pro forma basis—assuming that CenturyTel and Embarq were combined for the full year ending December 31, 2009—the Company generated $7.53 billion in revenues and $3.80 billion in EBITDA, excluding non-recurring items. CenturyLink's net debt (total debt less cash and equivalents) at the end of 2009 was $7.59 billion, and its net debt-to-trailing (previous twelve months) EBITDA was 2.0 times. The Company had an equity market capitalization of $10.83 billion at the end of 2009,[8] resulting in an $18.42 billion total enterprise value (equity market capitalization plus net debt).

Q. CAN YOU PROVIDE A SUMMARY OF THE FINANCIAL CHARACTERISTICS OF QWEST?

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

[8] Market capitalization is based on 299.189 million shares outstanding and a closing price of $36.21 on the New York Stock Exchange on December 31, 2009.

[9] In Qwest's quarterly earnings releases, the company reports adjusted EBITDA that excludes items not representative of our core ongoing telecommunications operations.

capitalization of $7.28 billion at the end of 2009,[10] resulting in and $19.07 billion total enterprise value.

IV **<u>FINANCIALLY-BASED AFFIRMATIVE BENEFITS OF THE TRANSACTION</u>**

Q. PLEASE DESCRIBE THE TRANSACTION.

A. On April 22, 2010, CenturyLink and Qwest announced a definitive agreement by which a wholly-owned subsidiary of CenturyLink will merge with Qwest, with Qwest becoming an entity wholly-owned by CenturyLink once the transaction closes. In this stock-for-stock combination, Qwest shareholders will receive 0.1664 shares of CenturyLink stock for each of their Qwest shares, and CenturyLink will own 100% of the outstanding stock of Qwest.[11] No new debt financing will be required and, importantly, none of the debt outstanding at the time of the transaction announcement will require refinancing under change of control provisions.[12] At the consummation of the transaction, CenturyLink's pre-merger shareholders will own approximately 50.5% of the post-merger company and Qwest's pre-merger shareholders will own approximately 49.5% of post-merger CenturyLink.[13] The value of the transaction was estimated on the day of the announcement to be approximately $22.4 billion, reflecting a value of approximately $10.6 billion for Qwest's equity and including Qwest's net debt (total borrowings – net of unamortized debt discount, less cash, cash equivalents and short-term investments) of approximately $11.8 billion, as of

[10] Market capitalization is based on 1.729 billion shares outstanding and a closing price of $4.21 on the New York Stock Exchange on December 31, 2009.

[11] Merger Conference Call, Slide 6.

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

[13] *Id.*, Slide 6.

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

Q. WHAT ARE THE BENEFITS OF THE MERGER?

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

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

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[14] *Id.*

Q. CAN YOU PROVIDE ADDITIONAL DETAIL REGARDING THE FINANCIAL EXPECTATIONS FOR THE MERGED COMPANY?

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

Second, CenturyLink and Qwest expect that the merged company will be able to create annual run-rate operating expense synergies of approximately $575 million, fully-recognized over a three-to-five-year period following closing. The companies also project annual run-rate capital expenditure synergies of $50 million, for a total expected increase of $625 million in pre-tax annual cash flow due to synergies.[16] Thus, if it were assumed that CenturyLink and Qwest had been combined in 2009 and full estimated run-rate synergies of $625 million were realized, the merged company would have generated approximately $3.8 billion of free cash flow after operating expenses and capital expenditures. Again, assuming the realization of synergies, the company estimates that, after all costs to run the business (operating, capital and financial), it will have approximately $2.1 billion in annual free cash flow that could be used to reduce debt and to further develop its business. Accordingly, the expected cash flows should provide

[15] *Id.*, Slide 8.

[16] *Id.*, Slide 6.

increased flexibility for ongoing network investments, product development, and retirement of debt.

Q. WHY ARE SYNERGIES NEEDED AND HOW DO THE SYNERGY ESTIMATES COMPARE WITH OTHER TRANSACTIONS?

A. As competition increases, stand-alone ILECs such as CenturyLink and Qwest must become more efficient and gain additional scale to serve customers and, in fact, to survive in the marketplace. This Transaction provides both companies the opportunity to gain important efficiencies, including scope and scale. CenturyLink has a proven history, based on significant acquisition integration experience, of realizing announcement-day synergy estimates while at the same time improving the focus on serving customers at the local market level.

The synergies are important and are judged to be realistic targets. The $625 million of estimated synergies is less than 8% of Qwest's cash operating expenses.[17] For comparison, the synergy estimates as a percentage of target company cash operating expenses are below 9%, which was the level of expected cost synergies announced when CenturyTel merged with Embarq. The synergy savings for the proposed transaction also appear realistic when compared with other merger-related ILEC-transaction synergies that generally have been 20%+ of the target company's cash operating expenses in recent

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

years.[18] As a result, CenturyLink believes that the announced synergy estimates for the proposed transaction are achievable.

Q. IS CENTURYLINK'S MANAGEMENT ABLE TO ACQUIRE AND INTEGRATE QWEST'S OPERATIONS WITHOUT HARMING CUSTOMERS AS SYNERGIES ARE ACHIEVED?

A. Yes, CenturyLink's operational model is focused on equipping and empowering employees at the local level to meet the needs of customers in their respective markets. CenturyLink's management team, as described in the testimony of Jeremy Ferkin, not only has remained stable over more than a decade, but has proven itself capable of acquiring, integrating, and improving levels of customer service following a transaction. The record is clear in terms of CenturyLink's acquisition history and the resulting customer benefits. Those transactions include (i) Pacific Telecom Inc. (1997), (ii) the Wisconsin properties acquired from Ameritech (1998), (iii) two sets of Verizon acquisitions (2000 and 2002) that added significant operations in Wisconsin, Missouri, Arkansas and Alabama, (iv) the Madison River acquisition (2007), and (v) the merger with Embarq (2009).

In the previous acquisitions or mergers in which CenturyLink has been involved, the Company has been able to improve the range of services offered to customers and to slow the loss of access lines. Illustrating this operating benefit, CenturyLink reported in its 2010 first quarter earnings release that access-line losses had improved by 14% compared

[18] Simon Flannery, *CenturyTel: 1Q10 Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal*, Morgan Stanley Research, North America, April 29, 2010; attached hereto as Exhibit JSG-2.

with the losses in the fourth quarter of 2009 and by 26% compared to pro forma first quarter 2009 (assuming the Embarq transaction had closed at the beginning of 2009).[19] The improvement has come as the Company integrated the Embarq properties, acquired July 1, 2009. The company also reported more than 70,000 new high-speed customers were added in the first quarter of 2010. In short, CenturyLink has a proven track record of achieving projected synergies and reduced overall debt levels, all while providing an excellent level of service to its customers.

Q. CAN YOU COMMENT ON CENTURYLINK'S HISTORY IN TERMS OF INCREASED LEVELS OF DEBT IN PREVIOUS ACQUISITIONS, FOLLOWED BY CONSISTENT REDUCTIONS IN DEBT LEVELS?

A. Yes. In several former transactions, CenturyLink has added debt at the time of acquisition and consistently has reduced debt levels as increased cash generation permitted the Company to make significant debt repayments and strengthen its balance sheet. At the time of the Pacific Telecom Inc. acquisition in 1997, CenturyLink's debt-to-total capitalization ratio rose to 67%. By 1999, the Company had reduced that leverage ratio to 54%. The following year, in conjunction with CenturyLink's purchase of Verizon rural telephone operations in Wisconsin, Missouri and Arkansas, the debt-to-total capitalization ratio rose to 63%. However, in 2002, when CenturyLink purchased

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

more Verizon properties in Missouri and Alabama, the Company's debt-to-total capitalization, even after that acquisition, had been reduced to 54% and then it declined further to 42% by 2005. The ratio rose again to 47% in 2007 when the Company completed the Madison River transaction and engaged in certain share repurchase programs. However, the trend is evident as from 1997 to 2007 the debt-to-total capitalization ratio declined by twenty percentage points (approximately 2,000 basis points from 67% to 47%). The current debt-to-total capitalization ratio is 45% in the wake of the Embarq transaction. The history demonstrates a clear commitment on the part of the Company to reduce leverage and maintain a strong balance sheet. Viewed in terms of CenturyLink's net debt-to-operating cash flow (EBITDA) ratio, which is probably the better financial metric, the trends are also clear. In 2001, following the 2000 acquisition of Verizon lines, CenturyLink had a net debt-to-operating cash flow ratio of 3.6 times; as of yearend 2009, that ratio had been reduced to 2.0 times (on a pro forma basis assuming in the full-year EBITDA that the CenturyTel-Embarq combination occurred at the beginning of that year). So, while CenturyLink has committed to acquisitions that raised the Company's leverage, the Company has been prudent and successful at rapidly reducing proportionate debt levels following those transactions, even as the Company maintained investment grade ratings. In fact, Moody's Investors Service ("Moody's") affirmed CenturyLink's rating on the day of the Qwest merger announcement, noting that "CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns."[20] CenturyLink intends to apply this same discipline in

[20] Moody's Investors Service, *Rating Action: Moody's changes CenturyTel's outlook to negative; reviews*

strengthening the merged company's balance sheet following consummation of the proposed transaction.

V. SPECIFIC FINANCIAL CHARACTERISTICS OF THE MERGED COMPANY

Q. WHY IS THE TRANSACTION STRUCTURED AS A STOCK-FOR-STOCK COMBINATION?

A. The two companies chose to avoid incurring any additional debt. Thus, the price[21] for the transaction will be paid in equity shares issued from CenturyLink to Qwest shareholders. With a stock-for-stock combination, CenturyLink and Qwest can avoid new acquisition-related debt or refinancing of existing debt.[22]

Q. CAN YOU OFFER PERSPECTIVE ON THE PRO FORMA BALANCE SHEET OF THE COMBINED COMPANY?

A. Yes. The merged company will have among the strongest balance sheets in the industry. Pro forma 2009 net debt-to-EBITDA was 2.4 times before synergies and 2.2 times after synergies on a full run-rate basis, excluding integration costs. These leverage ratios compare favorably with other major ILECs in the industry. Windstream's 2009 net leverage ratio was 3.3 times, Frontier's pro forma (assuming the completion of the pending combination with Verizon's operations) 2009 ratio was 2.6 times, while Qwest's

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Qwest's ratings for upgrade, April 22, 2010 [hereafter "Moody's, April 2010];attached hereto as Exhibit JSG-3.

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

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

standalone 2009 net leverage was 2.7 times.[23] The combined company's balance sheet will be stronger than Qwest's balance sheet on a standalone basis. While the rating agencies will not determine the combined company's final ratings until after the Transaction closes, the combined company should have financial ratios and metrics consistent with those exhibited by investment-grade rated telecommunications companies. Consistent with past CenturyLink practice, the Company is committed to utilizing free cash flow to reduce debt and to improve the combined company's balance sheet over time.

Q. IS THE MERGED COMPANY EXPECTED TO HAVE THE ABILITY TO REDUCE ITS LEVERAGE THROUGH DEBT REPAYMENTS USING FREE CASH FLOW FROM OPERATIONS AS CENTURYLINK HAS DONE IN THE PAST?

A. As noted previously, the pro forma combined 2009 free cash flow before synergies and after operating expenses and capital expenditures is approximately $3.4 billion.[24] After pro forma dividends, it is estimated that there will be a remainder of approximately $1.7 billion of free cash flow that could be used to further reduce debt. If the merged company achieves its synergy goals, the Company expects to have approximately $2.1 billion in free cash flow after costs to run the business. Based on these cash flows, CenturyLink expects to reduce the merged company's leverage after the transaction closes, as the Company has in past transactions.

[23] Merger Conference Call, Slide 12.

[24] Merger Conference Call, Slide 8.

Q. IS QWEST IN THE PROCESS OF REDUCING DEBT?

A. Yes. Qwest has been taking steps to strengthen its capital position, and we believe the merger will support further deleveraging after the two companies are combined. In the first quarter 2010, Qwest reduced total long-term borrowings by $1.5 billion, making meaningful progress toward the company's announced $3.5 billion planned reduction through the first quarter of 2011.[25] The reduction is part of an ongoing deleveraging program that has lowered Qwest's net debt (total borrowings net of unamortized debt discount less cash, cash equivalents and short-term investments) by $1.1 billion from the first quarter of 2009 to the end of the first quarter of 2010.

Q. WHAT WILL BE THE INVESTMENT RATING ASSIGNED THE MERGED COMPANY AT THE TIME THE TRANSACTION IS COMPLETED?

A. The credit rating agencies will not assign ratings until the transaction closes. Preliminary indications point to a likely ratings upgrade for Qwest and a potential downgrade for CenturyLink. In the time period before the consummation of the merger, both companies are reducing debt and improving their respective balance sheets. At close, the rating agencies will examine the combined company's balance sheet and financial metrics in the context of the overall industry conditions, other market factors, and the agencies' judgment about any regulatory conditions or risks that are added in the approval process.

At this time, CenturyLink is rated as investment grade, while Qwest's ILEC is investment-grade rated and the Qwest holding company has a credit rating at the highest level of non-investment grade debt. On the day of the announcement of the merger, the

[25] *Q1 2010 Qwest Communications Earnings Conference Call*, Transcript, May 5, 2010;

credit-rating agency, Moody's, indicated that Qwest's ratings were under review for an upgrade in light of the combination, and it affirmed a Baa3 investment grade rating on CenturyTel while it altered its outlook to negative on the standalone CenturyTel.[26] Standard & Poor's Ratings Services ("S&P") also indicated on the day of the announcement that Qwest's BB rating was on CreditWatch with positive implications, indicating a possible upgrade, and that CenturyTel's BBB- rating (investment grade) was on CreditWatch with the potential for a downgrade.[27] CenturyLink believes that Qwest's rating may be improved. Even if CenturyLink's debt temporarily were downgraded by one or more of the rating agencies (meaning the Company may be "split-rated," with its credit rated investment grade by one or several rating agencies and non-investment grade by the other rating agencies), the Company's record of strengthening its balance sheet is clear. The Company repeatedly has affirmed its target of maintaining or achieving an investment grade rating. The goal is to make the Company stronger for the longer term, and the combination with Qwest makes the two companies better prepared financially to serve customers in the future.

Q. IN ADDITION TO REDUCING DEBT, HOW WILL THE MERGED COMPANY USE ITS FREE CASH FLOW?

A. As I testified above, CenturyLink is confident that it will have the flexibility with increased cash flows to invest in the network and expects to continue to target broadband deployment. It is also becoming clear that other data-intensive services are an important

[26] Moody's, April 2010.

[27] Standard & Poor's, *CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive, April 22, 2010; p. 2;* attached hereto as Exhibit JSG-4.

part of the consumer bundle. Plans to deploy such services have not yet been finalized, but, illustrating an ongoing commitment to consumers, the Company did announce as part of its first quarter 2010 earnings conference call that it expects to deploy IPTV service in five new markets by early 2011 (in addition to its current deployments in Columbia and Jefferson City, Missouri, and LaCrosse, Wisconsin). To be more specific, both CenturyLink and Qwest have invested heavily in their respective fiber networks and electronics over the last few years. Based on the 2009 pro forma combined figures, merged company capital expenditures were approximately $2.4 billion.

Q. PLEASE COMMENT ON THE MERGED COMPANY'S DIVIDEND PAYOUT RATIO AND WHETHER IT IS APPROPRIATE.

A. I believe the dividend policy of CenturyLink is appropriate in attracting capital necessary for investment in operations and network. Furthermore, the merged company's pro forma dividend payout ratio compares favorably with industry peers. The merged company's pro forma dividend payout ratio (dividends paid divided by free cash flow after operating costs and capital expenditures are paid), based on 2009 figures and before any assumed synergies, is estimated to be a reasonable 50.4%. Assuming that the estimated synergies are achieved, the payout ratio, based on pro forma 2009 cash flows, would have been 45.1%. The payout ratio is conservative in terms of the industry practice as is apparent when compared with other independent carriers such as pro forma Frontier (assuming the pending acquisition of Verizon assets in 14 states) at 60% and Windstream at 53% at the end of 2009. Additionally, the combined company's estimated payout ratio compares favorably with AT&T's 2009 ratio of 57% and Verizon's ratio of

67%. Therefore, the merged company's cash flows will be used to balance network investment, operating requirements and opportunities, as well as to preserve access to competitively-priced capital. And, based on the 2009 pro forma combined data, the merged company will be able to fund all of its required uses while still generating meaningful additional free cash flows for discretionary uses.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. CenturyLink believes that the financial benefits of the proposed transaction, and indeed the other benefits outlined by other witnesses, are compelling. The proposed transaction creates a company with more capacity to introduce services that are beneficial to customers in urban and rural regions. The combined company is likely to have the highest-rated credit of any major ILEC except the largest two carriers (which notably also own the nation's largest wireless operations). The merged company is expected to be financially stronger in terms of increased cash flows generated through combined operations and enhanced by synergies. The improved cash flows may result in improved debt ratings for Qwest, and may result in an investment grade rating for the merged company—if not immediately, then not long thereafter, as the merged company uses its free cash flows to reduce debt. The financial strength will permit the merged company to take advantage of emerging opportunities and to respond to competitive and economic conditions.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

State of Louisiana)
) ss.
Parish of Ouachita)

I, Jeff Glover, being first duly sworn on oath, state that the answers in the foregoing written testimony are true and correct to the best of my knowledge, information and belief.

Jeff Glover

Jeff Glover

SUBSCRIBED AND SWORN TO this 24 day of May 2010.

Sherry A Bower

Notary Public #61194

My Commission expires: at death

Exhibit JSG-1

Merger Conference Call – April 22, 2010
http://www.centurylinkqwestmerger.com/downloads/presentations/Investor%20Presentation-4-22-10.pdf

Slides 6,7,8,12,13

Transaction Summary

Transaction Structure:	**All stock combination**
Fixed Exchange Ratio:	**0.1664 shares of CenturyLink stock per share of Qwest stock**
Pro Forma Ownership:	**50.5% CenturyLink shareholders / 49.5% Qwest shareholders**
Transaction Value:	**$22.4 billion, including net debt of $11.8 billion as of 12/31/2009**
Estimated Synergies:	**Approximately $625 million of annual run-rate synergies (a)**
Estimated Transaction Multiples (b):	**5.1x / 4.5x 2009 EBITDA (before / after run-rate synergies); 5.9x / 4.8x 2009 Free Cash Flow (c) (before / after run-rate synergies)**

(a) $575 million of run-rate operating expense synergies and $50 million of run-rate capital expenditure synergies
(b) Based on the latest public filings; Equity value based on fully diluted shares using treasury stock method
(c) Qwest free cash flow calculated as net income + D&A + deferred income tax – capex; Multiple after run-rate synergies includes after-tax opex and capex synergies

Transaction Summary (cont'd)

Financing:	**No new financing or refinancing required**
Pro Forma 2009 Net Leverage:	**2.4x (before synergies) / 2.2x (after run-rate synergies)**
Dividend Policy:	**Maintain CenturyLink annual dividend of $2.90 per share** • **2009 pro forma payout ratio ~50.4% (before synergies) / ~45.1% (after run-rate synergies)**
Closing Conditions:	**HSR, FCC, certain state regulatory approvals; CenturyLink and Qwest shareholder approvals; and other customary closing conditions**
Anticipated Closing:	**First half 2011**

Compelling for Shareholders

Transformational transaction will create a nationwide, industry-leading communications company

- Pro forma 2009: revenue - $19.8 billion; EBITDA - $8.2 billion; free cash flow [a] - $3.4 billion
- Extensive broadband capabilities with 173,000-mile fiber network
- Premier enterprise services to 95% of the Fortune 500 companies
- Strong local and national operator serving 5 million broadband customers and 17 million access lines across 37 states
- Enhanced ability to competitively roll out strategic products such as IPTV and other high-bandwidth services

Note: Pro forma metrics reflect sum of actual 2009 figures and do not include synergies

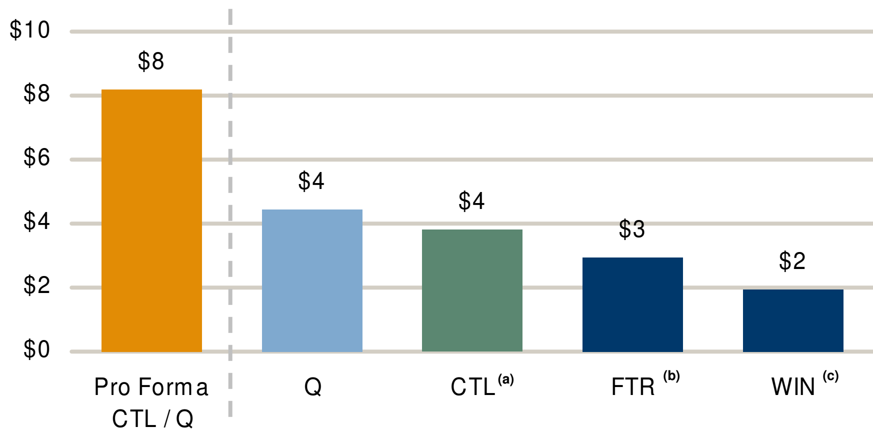
(a) CenturyLink free cash flow calculated as net income + D&A – capex. Qwest free cash flow calculated as net income + D&A + deferred income tax – capex

Exhibit JSG-1

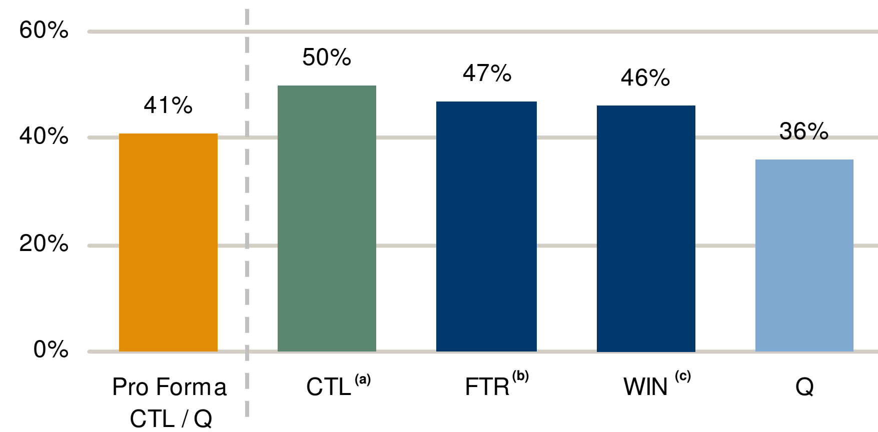
Attractive Financial Profile

2009 EBITDA

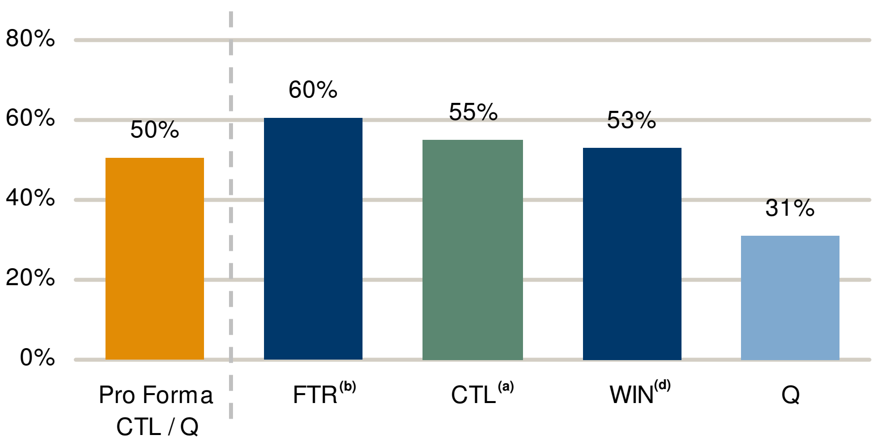
($ in billions)



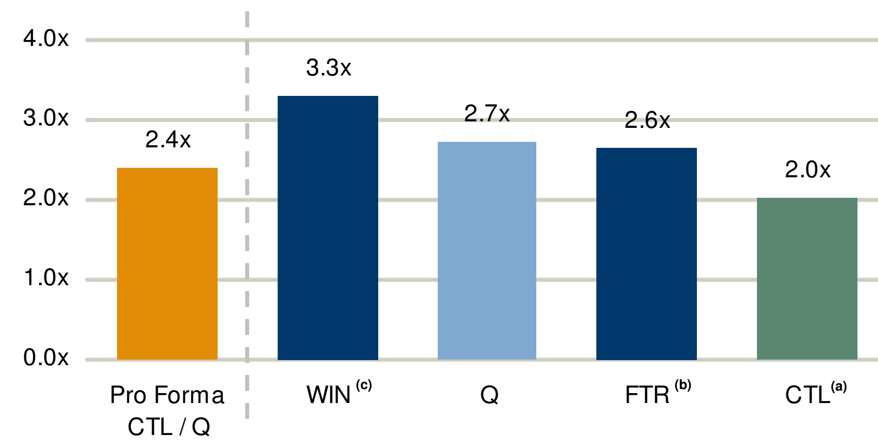
2009 EBITDA % Margin



2009 Dividend Payout Ratio



2009 Net Leverage



Source: Company filings

(a) Pro forma for CenturyTel's acquisition of Embarq

(b) Pro forma for Frontier's acquisition of Verizon assets

(c) Pro forma for Windstream's acquisition of Nuvox; Not pro forma for acquisition of Iowa Telecom

(d) Windstream payout ratio as reported and not pro forma for acquisition of Nuvox or Iowa Telecom

CenturyLink™

Qwest

Estimated Synergies & Integration Costs

Operating Cost Synergies	• Corporate Overhead • Network and Operational Efficiencies • IT Support • Increased Purchasing Power • Advertising / Marketing	~$575 million annually
Capex Synergies		~$50 million annually
Integration Costs	• One-time operating costs to achieve synergies • One-time capital costs to achieve synergies	$650 - $800 million $150 - $200 million

Exhibit to the Direct Testimony of Jeff Glover
Docket No. 10-049-16
May 27, 2010

Exhibit JSG-2

Morgan Stanley Research, North America, April 29, 2010

Morgan Stanley

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April 29, 2010

Stock Rating
++

Industry View
Attractive

CenturyTel

1Q10 Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal

Investment conclusion: CenturyLink (formerly CenturyTel) has a track record of beating and raising annual guidance when it releases quarterly results; only in two out of the last 16 quarters (2Q09 and 3Q09, before and after closing the Embarq deal) it did not do so (see side table). As such, we expect management to increase its 2010 EPS guidance ($3.10 to $3.20) when it reports 1Q results next Wednesday. Last's week announcement of CenturyLink's deal with Qwest implies that the integration of the Embarq properties is tracking ahead of schedule, and thus, management has more visibility into 2010 earnings.

On the Qwest transaction itself, we expect to get some additional granularity during the call around synergy targets and timeframes as well as details on the state approval process, including what states will need to grant formal approval to the deal and likely timelines. (For more on our views on the deal please see "*CenturyLink/Qwest Merger Creates a New Scale Player in Telecom"* published on April 23, 2010.)

What's new: 1Q results are due on Wednesday, May 5 (call: 11:30AM ET, dial-in: 866-219-5631). Our 1Q EPS estimate of $0.89 is three cents above FactSet consensus and one cent above the top end of the $0.84-$0.88 guidance.

Where we differ: We remain concerned about secular pressures facing the wireline sector, but believe that CenturyLink is well positioned, given its merger driven strategy. We are already seeing signs of a recovery in legacy Embarq's consumer segment and we believe that a recovering economy could help demand recover in the enterprise sector.

What's next: Qwest and Windstream will also release 1Q results on Wednesday. We'll get a full picture of the RLEC space once Frontier reports on Thursday.

Key Ratios and Statistics

Reuters: CTL.N Bloomberg: CTL US
Telecom Services / United States of America

Price target	++
Shr price, close (Apr 29, 2010)	$34.10
Mkt cap, curr (mm)	$10,198
52-Week Range	$37.15-26.72

Fiscal Year ending	12/08	12/09	12/10e	12/11e
ModelWare EPS ($)	3.35	3.78	3.35	3.21
Prior ModelWare EPS ($)	-	-	-	-
P/E	8.2	9.6	10.2	10.6
Consensus EPS ($)§	3.37	3.60	3.25	3.20
Div yld (%)	10.2	7.7	8.5	8.7

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
§ = Consensus data is provided by FactSet Estimates.
e = Morgan Stanley Research estimates
++ = Stock Rating, Price Target or Estimates are not available or have been removed due to applicable law and/or Morgan Stanley policy.

Guidance – A History of Beat and Raise, Partly Helped by Buyback Activity

ANNUAL GUIDANCE					DIFFERENCE vs 1Q GUIDANCE	
DATE	YEAR	RANGE LOW	RANGE HIGH	ACTUAL	LOW-END	HIGH-END
2-Feb-06	2006	2.20	2.35			
27-Apr-06		2.30	2.40			
27-Jul-06		2.35	2.45			
2-Nov-06		2.45	2.50	2.53	0.33	0.18
15-Feb-07	2007	2.60	2.70			
3-May-07		2.75	2.85			
2-Aug-07		2.90	3.00			
1-Nov-07		3.00	3.05	3.17	0.57	0.47
14-Feb-08	2008	2.90	3.00			
1-May-08		3.05	3.20			
31-Jul-08		3.20	3.30			
27-Oct-08		3.28	3.33	3.37	0.47	0.37
19-Feb-09	2009	3.20	3.30			
30-Apr-09		NA	NA			
6-Aug-09		3.20	3.30			
5-Nov-09		3.45	3.50	3.50	0.30	0.20
25-Feb-10	2010	3.10	3.20			

Source: Company data, Morgan Stanley Research

1Q Preview: Awaiting Embarq Synergy/Integration Update and Additional Color on Qwest Deal

Investment Debates

1. Are the Embarq and Qwest synergy targets realistic?

***Market view:* Yes.** Investors are comfortable with the synergy realization at Embarq, while the Qwest synergy target looks conservative.

***Our view:* They seem conservative.** Management's commentary points to an earlier than expected realization of Embarq synergies. We would not rule out if the target/timing ($375M within the first 3 years) is updated in the next months. The Qwest cost synergies also look conservative when compared to other deals (7.3% of Qwest's 2009 cash opex compared to 10.3% in the Embarq deal and +20% in other recent telecom deals).

Where we could be wrong: (1) The Embarq and Qwest deals are much larger and involve more urban properties than prior deals. (2) Deterioration of macro trends forces synergy realignment. (3) Qwest management has already taken a large portion of costs out of the business.

2. Can Revenue Generating Unit (RGU) erosion be stemmed?

***Market view:* Not really.** Footprint is now more urban/suburban with Embarq and will be more so with Qwest.

***Our view:* Difficult; but data points are increasingly encouraging.** Generally agree with consensus. RGU erosion could ultimately impact revenues, profitability and FCF. Yet, we have seen encouraging line loss trends at AT&T and Verizon, suggesting a trough in urban markets is a possibility. CenturyLink has had very good results in Embarq's footprint with only 6 months after closing the deal. In 4Q, the annual RGU rate of decline was 5.0%, a marked improvement from the 5.5% seen in 3Q and the lowest since 4Q08.

Where we could be wrong: Unemployment is not under control yet; in March, the unemployment rate in Nevada and Florida stood at 13.4% and 12.3%, up from 13.2% and 12.2% respectively in February

3. Is the dividend sustainable?

***Market view:* Mixed.** Secular pressures are ultimately a risk to FCF generation. Video/wireless strategies are uncertain and also a risk.

***Our view:* It is sustainable.** The Embarq deal is expected to be FCF accretive in the first full year after closing. The Qwest deal is expected to be FCF accretive immediately after closing. Moreover, management decided to leave the dividend unchanged, but more importantly, the payout ratio is expected to be relatively unchanged too. The proforma 2009 FCF, including synergies, was $3.4B, implying a 45.1% dividend payout. With respect to the video and wireless strategy, management has a track record of being prudent in launching new products, and it may very well choose, in the case of wireless, to expand the existing 'agency' relationship that exists between Qwest and Verizon Wireless.

Where we could be wrong: Management pursues a facilities based wireless strategy and either purchases more spectrum that the FCC is looking to redeploy, or to acquires a national wireless operator.

Morgan Stanley is acting as financial advisor to Qwest Communications International Inc. ("Qwest") in connection with its merger with CenturyTel Inc. ("CenturyTel"), as announced on April 22, 2010. The proposed merger is subject to the approval of CenturyTel and Qwest shareholders, as well as regulatory approvals and other customary closing conditions.

This report and the information provided herein is not intended to (i) provide voting advice, (ii) serve as an endorsement of the proposed transaction, or (iii) result in the procurement, withholding or revocation of a proxy or any other action by a security holder.

Qwest has agreed to pay fees to Morgan Stanley for its financial services, including transaction fees that are subject to the consummation of the proposed transaction.

Please refer to the notes at the end of the report.

Exhibit 1

Morgan Stanley 1Q10 Estimates

CenturyLink	1Q09	4Q09	1Q10E
EPS	**$0.95**	**$0.96**	**$0.89**
Revenue ($M)	**1,910**	**1,839**	**1,810**
% growth	na	-6.9%	-5.2%
EBITDA ($M)	**960**	**944**	**912**
% margin	50.3%	51.3%	50.4%
Capex ($M)	**96**	**337**	**217**
% of Rev	5.0%	18.3%	12.0%
Access lines (000)	**7,543**	**7,039**	**6,901**
% growth	na	-8.8%	-8.5%
Incremental losses (000)	(172)	(146)	(138)
% growth	16.7%	-24.2%	-19.8%
DSL subs (000)	**2,117**	**2,236**	**2,284**
Net adds (000)	64	47	48
% growth	-31.9%	27.0%	-25.0%
FCF (OCF - capex)	**809**	**334**	**420**
Dividend Payout %	21%	63%	52%
FCF (calc by company)	**558**	**306**	**402**
Dividend Payout %	31%	68%	54%

Source: Company data, Morgan Stanley Research

Questions for Management

<u>Qwest deal:</u> Can you provide us with a more granular detail on synergy targets and expected realization timelines? What states require an approval and what are the likely timelines? When do you expect to file the proxy?

<u>Embarq integration/synergies:</u> Management expected to realize additional incremental operating cost synergies of approx. $10M in 1Q10 and approx. $200M for the full year. Any updates on this?

Once the North Carolina conversion is completed, which states will follow? Is management still expecting to have 80% of the integration done by the end of 2010? When is it expected to be completed?

Economy: How did the economic environment play out in 1Q10? Management mentioned that it had seen some stabilization in Las Vegas and Florida markets. Is this still the case?

Guidance: Any updates/changes to the 2010 outlook (refer to Exhibit 2)? When providing 2010 guidance, management said it expected $0.08 to $0.10 in pressure related to reduced interstate USF revenue and $0.06 to $0.08 in pressure from the "expected migration of network traffic from a wireless carrier customer". Any updates?

Broadband stimulus/Regulatory: What are the company's thoughts on the FCC's National Broadband Plan released in March?

Spectrum: The Company mentioned that it plans to do a trial with LTE, "sometime toward the end of the year". Any updates on this?

Cable/wireless competition: What percentage of access lines were lost to cable versus wireless substitution? Did cable competition increase/decrease in the quarter?

Leverage: What is the company's target leverage?

Uses of cash: Management believed that the company should pay off approx. $500M of debt maturities this year and address the best use of FCF next year, when there are no significant debt maturities. Is this still the case?

Broadband/Access Lines: The Company added 47,000 high-speed customers in 4Q09. Any updates for 1Q10? How did net adds trend in the Embarq markets? Any updates on the rate of line loss in the most urban markets?

Pension: CenturyLink expected to make a voluntary pre-tax contribution of $300M to one of its pension plans in 1Q10. Any updates?

Video/IPTV: How did video adds trend in 1Q10? Management mentioned that CenturyLink plans to launch IPTV in five additional markets in 2010. Does the Qwest deal change these plans?

Wireless strategy: Any updates to management's wireless strategy, and in particular to the intended use of the 700MHz spectrum?

Regulatory/Other: What are management's expectations on dividend taxation, bonus depreciation, and the national broadband plan implementation?

Exhibit 2

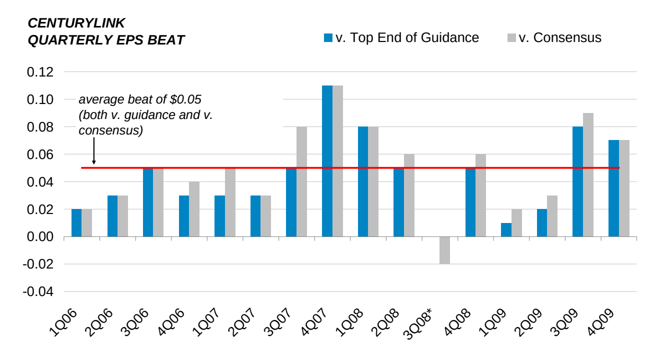
Guidance vs. Morgan Stanley Estimates

2010	Guidance	MS
Operating revenues	5.5% to 6.5% lower than 2009 pro forma	-5.7%
EPS	$3.10 to 3.20	$3.35
FCF	$1.475B to $1.525B	$1.556B
Capex	$825M to $875M	$852M
Implied Y/Y change	-12.8% to -17.7%	-15.0%
Div Payout	57% to 59%	56%
Line loss	7.5% to 8.5%	-7.9%
1Q10	**Guidance**	**MS**
Revenues	$1.77B to $1.80B	$1.81B
EPS	$0.84 to $0.88	$0.89

Source: Company data, Morgan Stanley Research

Exhibit 3

Average Quarterly EPS Beat of 5 Cents Since 1Q06



Source: Company data, Morgan Stanley Research
* In 3Q08 management noted that earnings from its interest in an unconsolidated wireless partnership were ~$4M lower for than it had anticipated, due to 2007 audit adjustments recorded by the partnership's general partner late in 3Q. Excluding the adjustments, diluted EPS in 3Q08 would have been $0.025 higher and would have likely beat consensus and the top end of the guidance range.

Morgan Stanley is currently acting as financial advisor to Verizon Wireless with respect to the proposed acquisition of certain of its wireless assets by AT&T, Inc. and Atlantic Tele-Network, as required by the conditions of the regulatory approvals granted for Verizon Wireless' purchase of Alltel Corporation earlier this year. The proposed acquisitions are subject to customary regulatory approvals, as well as other customary closing conditions. Verizon Wireless has agreed to pay fees to Morgan Stanley for its financial services. Please refer to the notes at the end of the report.

Exhibit 4

CenturyLink Pro-forma Income Statement

	Pro-Forma for EQ						Pro-Forma for EQ							
	2008 (1)	2009	2010E	2011E	2012E	2013E	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Total revenues	**8,236**	**7,530**	**7,098**	**6,910**	**6,709**	**6,517**	**1,910**	**1,906**	**1,874**	**1,839**	**1,810**	**1,785**	**1,760**	**1,743**
% growth	-3.2%	na	-5.7%	-2.6%	-2.9%	-2.9%	na	na	na	-6.9%	-5.2%	-6.3%	-6.1%	-5.2%
% growth q/q							-3.4%	-0.2%	-1.7%	-1.9%	-1.6%	-1.4%	-1.4%	-1.0%
Operating Expenses														
Cost of services and products	2,669	2,552	2,417	2,363	2,308	2,255	636	629	683	604	608	611	602	596
% growth	0.5%	na	-5.3%	-2.2%	-2.3%	-2.3%	na	na	na	na	-4.4%	-3.0%	-11.8%	-1.3%
% of revenues	32.4%	33.9%	34.0%	**34.2%**	**34.4%**	**34.6%**	33.3%	33.0%	36.4%	32.8%	**33.6%**	**34.2%**	**34.2%**	**34.2%**
Selling, general and administrative	1,722	1,177	1,146	1,119	1,100	1,082	313	310	262	292	290	287	285	284
% growth	-13.8%	na	-2.6%	-2.3%	-1.7%	-1.7%	na	na	na	na	-7.6%	-7.3%	8.9%	-2.7%
% of revenues	20.9%	15.6%	16.1%	**16.2%**	**16.4%**	**16.6%**	16.4%	16.3%	14.0%	15.9%	**16.0%**	**16.1%**	**16.2%**	**16.3%**
Depreciation and amortization	1,647	1,463	1,408	1,401	1,394	1,387	372	372	362	356	355	353	351	349
% growth	-6.2%	-11.2%	-3.8%	-0.5%	-0.5%	-0.5%	na	na	na	na	-4.6%	-5.3%	-3.1%	-2.0%
Total expenses	**6,037**	**5,192**	**4,971**	**4,884**	**4,802**	**4,724**	**1,322**	**1,312**	**1,307**	**1,252**	**1,252**	**1,251**	**1,238**	**1,229**
% growth	-5.8%	-14.0%	-4.3%	-1.8%	-1.7%	-1.6%	na	na	na	-8.6%	-5.2%	-4.7%	-5.2%	-1.8%
% revenues	73.3%	69.0%	70.0%	70.7%	71.6%	72.5%	69.2%	68.8%	69.7%	68.1%	69.2%	70.1%	70.3%	70.5%
Total operating income	**2,198**	**2,338**	**2,128**	**2,027**	**1,907**	**1,794**	**589**	**594**	**568**	**587**	**558**	**535**	**522**	**513**
% growth	4.9%	6.3%	-9.0%	-4.7%	-5.9%	-6.0%	na	na	na	-3.3%	-5.3%	-10.1%	-8.1%	-12.6%
% margin	26.7%	31.0%	30.0%	29.3%	28.4%	27.5%	30.8%	31.2%	30.3%	31.9%	30.8%	29.9%	29.7%	29.5%
EBITDA	**3,845**	**3,801**	**3,535**	**3,428**	**3,301**	**3,180**	**960**	**967**	**930**	**944**	**912**	**887**	**873**	**863**
% growth	-0.2%	-1.2%	-7.0%	-3.0%	-3.7%	-3.7%	-3.0%	0.0%	3.3%	-4.6%	-5.0%	-8.2%	-6.1%	-8.6%
% margin	46.7%	50.5%	49.8%	49.6%	49.2%	48.8%	50.3%	50.7%	49.6%	51.3%	50.4%	49.7%	49.6%	49.5%
Other income (expense)														
Interest expense	(605)	(572)	(549)	(522)	(507)	(470)	(144)	(140)	(143)	(144)	(141)	(137)	(136)	(135)
Other income and expense	35	30	17	17	17	17	6	6	9	9	5	4	4	4
Income before taxes	**1,629**	**1,796**	**1,595**	**1,522**	**1,417**	**1,341**	**450**	**460**	**434**	**452**	**421**	**401**	**390**	**383**
Income tax expense	(607)	(670)	(594)	(566)	(527)	(499)	(168)	(173)	(164)	(165)	(157)	(149)	(145)	(142)
% PBT (implied tax rate)	37.3%	37.3%	37.2%	37.2%	37.2%	37.2%	37.3%	37.5%	37.9%	36.4%	37.2%	37.2%	37.2%	37.2%
% Statutory Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net income (total)	**1,022**	**1,126**	**1,002**	**956**	**890**	**842**	**282**	**288**	**269**	**287**	**265**	**252**	**245**	**240**
% growth	14.9%	na	-11.0%	-4.6%	-6.9%	-5.4%	na	na	na	1.3%	-6.2%	-12.4%	-9.0%	-16.3%
% margin	12.4%	15.0%	14.1%	13.8%	13.3%	12.9%	14.8%	15.1%	14.4%	15.6%	14.6%	14.1%	13.9%	13.8%
Noncontrolling interests		(1)	(1.8)	(2)	(2)	(2)	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
NI (loss) to common shareholders	1,022	1,125	1,000	954	888	840	282	287	269	287	264	251	245	240
% growth	14.4%	na	-11.1%	-4.6%	-6.9%	-5.4%	na	na	na	1.2%	-6.3%	-12.5%	-9.1%	-16.4%
% margin	12.4%	14.9%	14.1%	13.8%	13.2%	12.9%	14.8%	15.1%	14.4%	15.6%	14.6%	14.1%	13.9%	13.8%
EPS - Basic	**$3.37**	**$3.79**	**$3.35**	**$3.21**	**$3.00**	**$2.86**	**$0.95**	**$0.97**	**$0.90**	**$0.96**	**$0.89**	**$0.84**	**$0.82**	**$0.80**
% growth	19.8%	na	-11.5%	-4.2%	-6.5%	-4.9%	12.5%	14.6%	26.3%	-0.1%	-7.3%	-13.0%	-9.1%	-16.2%
EPS - Diluted	**3.35**	**3.78**	**3.35**	**3.21**	**3.00**	**2.86**	**0.95**	**0.97**	**0.90**	**0.96**	**0.89**	**0.84**	**0.82**	**0.80**
% growth	21.6%	na	-11.3%	-4.2%	-6.5%	-4.9%	na	na	na	-0.3%	-7.2%	-12.9%	-9.1%	-16.0%
Diluted shares outstanding	305	298	298	297	296	294	295.7	297.3	298.4	299.3	298.6	298.6	298.4	298.0
% growth y/y	-5.9%	-2.3%	0.2%	-0.4%	-0.5%	-0.5%	-7.0%	-3.6%	0.1%	1.5%	1.0%	0.4%	0.0%	-0.4%
% growth q/q							0.3%	0.5%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%

Source: Company data, Morgan Stanley Research. (1) 2008 proforma by us; 1Q09 and 2Q09 are proforma calculated by us. 2009 is proforma provided by the company
E= Morgan Stanley Research estimates

Exhibit 5

CenturyLink Pro-forma Balance Sheet

	Pro-Forma for EQ						Pf Company	Pf MS						
	2008	2009	2010E	2011E	2012E	2013E	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Assets														
Cash and cash equivalents	350	162	384	1,048	1,081	673	156	41	531	162	117	155	259	384
Accounts receivable	750	686	650	632	614	596	638	740	671	686	675	665	656	650
Other current assets	345	276	262	255	247	240	258	290	256	276	272	268	264	262
Total current assets	**$1,445**	**$1,124**	**$1,295**	**$1,935**	**$1,942**	**$1,510**	**1,052**	**1,070**	**1,458**	**1,124**	**1,063**	**1,089**	**1,179**	**1,295**
Gross PP&E	30,125	15,557	16,409	17,335	18,274	19,199	30,103	30,323	15,609	15,557	15,774	15,988	16,199	16,409
Accumulated depreciation	(19,818)	(6,460)	(7,867)	(9,268)	(10,662)	(12,049)	(20,030)	(20,381)	(6,245)	(6,460)	(6,814)	(7,167)	(7,518)	(7,867)
Net PPE	10,307	9,097	8,541	8,066	7,612	7,151	10,073	9,942	9,363	9,097	8,960	8,821	8,681	8,541
Goodwill	7,880	10,252	10,252	10,252	10,252	10,252	9,615	9,615	10,034	10,252	10,252	10,252	10,252	10,252
Investments and other assets	2,044	2,090	2,090	2,090	2,090	2,090	2,219	2,219	2,102	2,090	2,090	2,090	2,090	2,090
Total assets	**21,676**	**22,563**	**22,178**	**22,344**	**21,896**	**21,003**	**22,959**	**22,846**	**22,957**	**22,563**	**22,365**	**22,252**	**22,202**	**22,178**
Liabilities														
STDebt and current maturities of LTD	22	500	25	25	25	25	22	22	769	500	250	100	50	25
Accounts payable	443	395	390	381	372	364	370	436	332	395	398	399	394	390
Accrued expenses and other liabilities	889	812	798	780	764	748	918	824	1048	812	814	814	804	798
Total current liabilities	**$1,354**	**$1,707**	**$1,213**	**$1,186**	**$1,161**	**$1,136**	**1,310**	**1,281**	**2,149**	**1,707**	**1,462**	**1,314**	**1,248**	**1,213**
Long-term debt	9,037	7,254	7,254	7,420	7,053	6,299	8,120	7,956	7,455	7254	7,254	7,254	7,254	7,254
Deferred credits and other liabilities	3,809	4,135	4,135	4,135	4,135	4,135	4,334	4,334	3,989	4135	4,135	4,135	4,135	4,135
Total liabilities	**14,201**	**13,096**	**12,602**	**12,742**	**12,349**	**11,570**	**13,764**	**13,571**	**13,593**	**13,096**	**12,850**	**12,702**	**12,637**	**12,602**
Shareholders' equity														
Common stock	295	299	299	299	299	299	297	297	297	299	299	299	299	299
Paid-in capital	4,839	6,014	6,014	6,014	6,014	6,014	5,867	5,867	5959	6014	6014	6014	6014	6014
Treasury Stock	0	0	(25)	(75)	(125)	(175)	0	0	0	0	0	0	-12.5	-25
Accumulated OCI (net of tax)	(897)	(85)	(85)	(85)	(85)	(85)	(117)	(117)	(112)	(85)	(85)	(85)	(85)	(85)
Retained earnings	3,238	3,233	3,368	3,443	3,439	3,373	3,143	3,223	3212	**3,233**	3,281	3,316	3,344	3,368
Non-controlling interest	0	6	6	6	6	6	5	5	7	6	6	6	6	6
Total shareholders' equity	**7,475**	**9,467**	**9,577**	**9,602**	**9,548**	**9,432**	**9,195**	**9,275**	**9,364**	**9,467**	**9,515**	**9,550**	**9,565**	**9,577**
Total liabilities and SE	**21,676**	**22,563**	**22,178**	**22,344**	**21,896**	**$21,003**	**22,959**	**22,846**	**22,957**	**22,563**	**22,365**	**22,252**	**22,202**	**22,178**

Source: Company data, Morgan Stanley Research. E= Morgan Stanley Research estimates

Exhibit 6

CenturyLink Pro-forma Cash Flow Statement

	Pro-Forma for EQ						Pro-Forma for EQ							
	2008	2009	2010E	2011E	2012E	2013E	1Q09	2Q09	3Q09	4Q09	1Q10E	2Q10E	3Q10E	4Q10E
Operating activities from continuing operations														
Net income	1,135	1,125	1,000	954	888	840	282	287	269	287	264	251	245	240
Adjustments to reconcile net income to net cash provided	0	0												
	0	0												
Income from discontinued operations, net of tax	0	26					26	0						
Depreciation and amortization	1,527	1,463	1,408	1,401	1,394	1,387	372	372	362	356	355	353	351	349
Income from unconsolidated cellular entities	(12)	(0)					(1)	0						
Minority interest	0	0												
Deferred income taxes	166	233					96	9	12	116				
Nonrecurring gains and losses	76	40					40	0						
Changes in current assets and current liabilities:	0	0												
Accounts receivable	(13)	(89)	36	17	18	18	64	(5)	25	(173)	11	9	9	6
Accounts payable	(169)	65	(5)	(9)	(9)	(9)	50	15			3	2	(6)	(4)
Other accrued taxes	(65)	31	(14)	(18)	(17)	(16)	19	12			2	0	(10)	(6)
Other current assets and other current liabilities, net	(15)	(6)	14	7	7	7	(15)	9			4	4	4	3
Increase (decrease) in other noncurrent assets	(147)	25					(17)	1	(11)	52				
Other, net	119	(21)					(11)	14	(57)	33				
Net cash (used in) - operating activities cont. ops	**2,601**	**2,891**	**2,439**	**2,352**	**2,282**	**2,227**	**905**	**714**	**601**	**671**	**639**	**619**	**593**	**588**
Investing activities from continuing operations	0	0												
Acquisitions, net of cash acquired	(149)	637	0				0	0	419	218	0	0	0	0
Payments for property, plant and equipment (Capex)	(962)	(1,003)	(852)	(926)	(939)	(925)	(96)	(283)	(286)	(337)	(217)	(214)	(211)	(209)
Proceeds from sale of assets	44	12					12	0						
Investment in unconsolidated cellular entities	0	0					0	0						
Other, net	14	7					7	0						
Net cash(used in) - investing activities cont. ops	**(1,053)**	**(347)**	**(852)**	**(926)**	**(939)**	**(925)**	**(76)**	**(283)**	**133**	**(120)**	**(217)**	**(214)**	**(211)**	**(209)**
Financing activities from continuing operations	0	0												
Proceeds from issuance (payments) of debt	144	(1,306)	(475)	167	(368)	(754)	(747)	(335)	246	(470)	(250)	(150)	(50)	(25)
Proceeds from issuance (repurchases) of common stock	(829)	153	(25)	(50)	(50)	(50)	(0)	4	93	57	0	0	(13)	(13)
Cash dividends	(624)	(758)	(865)	(879)	(892)	(906)	(170)	(170)	(209)	(209)	(216)	(216)	(216)	(216)
Other, net	8	(821)					(106)	**(45)**	**(373)**	**(298)**				
Net cash (used in) - financing activites cont. ops	**(1,301)**	**(2,733)**	**(1,365)**	**(762)**	**(1,310)**	**(1,709)**	**(1,023)**	**(546)**	**(243)**	**(921)**	**(467)**	**(366)**	**(279)**	**(254)**
Net increase (decrease) in cash and cash equivalents	**247**	**(189)**	**222**	**664**	**33**	**(408)**	**(194)**	**(115)**	**491**	**(369)**	**(45)**	**38**	**103**	**125**
Cash at the beginning of period	103	350	162	384	1,048	1,081	350	156	41	531	162	117	155	259
Cash at the end of period	**$350**	**$162**	**$384**	**$1,048**	**$1,081**	**$673**	**$156**	**$41**	**$531**	**$162**	**$117**	**$155**	**$259**	**$384**
One time items related to EQ acq/integrations									121					
Adj Div Payout as % of FCF (OCF - capex)	**38.1%**	**40.2%**	**54.5%**	**61.6%**	**66.4%**	**69.6%**	**21%**	**40%**	**28%**	**63%**	**51%**	**53%**	**57%**	**57%**
Dividend Payout (as defined by CTL)	**39.3%**	**47.8%**	**55.6%**	**61.5%**	**66.5%**	**69.6%**	**31%**	**45%**	**61%**	**68%**	**54%**	**56%**	**56%**	**57%**

Source: Company data, Morgan Stanley Research. E= Morgan Stanley Research estimates

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Asia/Pacific
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Industry Coverage:Telecom Services

Company (Ticker)	Rating (as of)	Price* (04/29/2010)
Simon Flannery		
AT&T, Inc. (T.N)	O (03/08/2006)	$26.14
American Tower Corp. (AMT.N)	E (03/12/2009)	$41.05
BCE Inc. (BCE.TO)	O (11/21/2008)	C$30.88
CenturyTel (CTL.N)	++	$34.1
Cincinnati Bell Inc. (CBB.N)	E (11/03/2006)	$3.46
Clearwire Corporation (CLWR.O)	U (12/08/2008)	$7.7
Crown Castle Corp. (CCI.N)	O (11/11/2009)	$38.34
Equinix Inc. (EQIX.O)	E (05/13/2009)	$101.35
FairPoint Communications (FRCMQ.PK)	NA (10/29/2007)	$.08
Frontier Communications Corp (FTR.N)	E (05/07/2007)	$8.07
Iowa Telecom (IWA.N)	E (11/25/2009)	$16.95
Leap Wireless (LEAP.O)	E (08/07/2009)	$18.5
Level 3 Communications, Inc. (LVLT.O)	U (02/14/2008)	$1.53
MetroPCS Communications (PCS.N)	E (08/07/2009)	$7.79
Neutral Tandem, Inc. (TNDM.O)	E (01/22/2010)	$17.45
PAETEC Holding Corp. (PAET.O)	E (06/26/2008)	$5.28
Qwest Communications Int'l (Q.N)	++	$5.28
Rackspace Hosting, Inc. (RAX.N)	O (09/23/2009)	$18.39
Rogers Communications, Inc. (RCIb.TO)	O (04/27/2005)	C$35.84
SAVVIS Inc. (SVVS.O)	E (04/28/2010)	$18.98
SBA Communications (SBAC.O)	E (03/12/2009)	$35.5
Sprint Nextel Corporation (S.N)	U (10/19/2009)	$4.39
TELUS Corp. (T.TO)	E (12/19/2008)	C$37.94
Telephone & Data Systems (TDS.N)	U (02/19/2009)	$35.33
US Cellular Corporation (USM.N)	E (03/10/2009)	$42.78
Verizon Communications (VZ.N)	E (01/22/2009)	$29.22
Windstream Corp. (WIN.O)	O (04/17/2006)	$11.14
tw telecom inc (TWTC.O)	E (06/26/2008)	$17.88

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Exhibit JSG-3

Moody’s Investors Service, Rating Action, April 22, 2010

MOODY'S INVESTORS SERVICE

Rating Action: **Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade**

Global Credit Research - 22 Apr 2010

Approximately $23 billion of Debt Affected

New York, April 22, 2010 -- Moody's Investors Service has affirmed the Baa3 long-term and Prime-3 short-term debt ratings of CenturyTel, Inc. ("CenturyTel" or the "Company") and changed the rating outlook to negative following the announcement that CenturyTel plans to acquire Qwest in a stock-for-stock transaction. In connection with the announcement, Moody's also placed the ratings of Qwest Communications International Inc. ("QCII") and its subsidiaries under review for upgrade.

Under the terms of the agreement, Qwest shareholders will receive 0.1664 CenturyTel shares for each share of Qwest common stock they own. The transaction reflects an enterprise value of approximately $25 billion, including the planned assumption of about $14 billion of Qwest's debt. The companies anticipate closing this transaction in the first half of 2011. CenturyTel expects that after a few years it will be able to generate significant expense savings from the merger, initially estimated at about $575 million annually. Non-recurring integration costs will likely be in the $1.0 billion range, spread over several years. While broadband deployment is likely to remain a strategic priority of the new company, approximately $50 mm of capital spending synergies are also possible, bringing total annual synergies to $625mm. The merger will produce a company with operations in 37 states, 17 million access lines and 5 million broadband customers.

The affirmation of CenturyTel's ratings reflects Moody's expectations that the combined company's pro forma leverage will remain between 2.8 and 3.0 times Debt to EBITDA (Moody's adjusted, before synergies) over the next two to three years and that its dividend payout ratio will decline modestly, although the absolute level of dividends will increase. Moody's Senior Vice President Dennis Saputo said "While the acquisition of Qwest significantly increases CenturyTel's exposure to more competitive urban/suburban markets (about 80% of Qwest's access lines are in five metropolitan markets), the enhanced scale of the Company, combined with the addition of Qwest's national state-of-the-art fiber optic network, is expected to generate meaningful expense and capital efficiencies, especially those related to transport costs, network expansion and new product development." He added, "The new company should be able to capitalize on growth in enterprise services revenues, especially as the economy rebounds and given Qwest's selection as one of three carriers competing for the U.S. Government's Networx contract." The combined company is expected to generate significant free cash flow, especially after anticipated synergies. The rating affirmation also reflects CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns.

The negative rating outlook for CenturyTel reflects the considerable execution risks in integrating a sizeable company so soon after another large acquisition (Embarq in July 2009) while confronting the challenges of a secular decline in the wireline industry. The negative outlook also considers the possibility that the Company may not realize planned synergies in a timely manner, especially if competitive intensity increases.

The affirmation of CenturyTel's Prime-3 short-term debt rating reflects its sizeable cash balance, ample committed back-up facilities, manageable near-term debt maturities and our expectation that it will generate significant free cash flow over the next 12 to 18 months.

The review of Qwest's ratings will evaluate the ability of the company to improve its operating performance and continue to reduce its leverage in light of the secular challenges confronting the sector and the potential distraction caused by working toward closing the merger. Positive rating pressure could develop prior to the merger based on improved fundamentals, specifically, if the company can sustain stable EBITDA over the foreseeable future. Qwest's rating might also be upgraded further if the company is acquired by CenturyTel.

Before the transaction can close, several regulatory approvals, including those of numerous state Public Utility Commissions, are required and conditions may be imposed by some of these states' regulatory authorities, or the FCC. Moody's affirmation of CenturyTel's ratings assumes that any condititions that may be imposed will not have a material impact on the Company's financial profile.

The Obama administration and Federal Communication Commission have proposed comprehensive reforms of inter-carrier compensation and universal service rules as part of an effort to expand broadband deployment, especially to un-served and under-served markets. "While the details of the final regulatory overhaul are far from clear and could change significantly over time, Moody's believes that the proposed merger of these two companies is likely to reduce the combined company's exposure to an adverse decision since the merger lowers the percentage of universal service and access revenues in the new company", added Saputo.

Moody's has taken the following rating actions:

On Review for Possible Upgrade:

..Issuer: Qwest Communications International Inc.

....Probability of Default Rating, Placed on Review for Possible Upgrade, currently Ba2

....Corporate Family Rating, Placed on Review for Possible Upgrade, currently Ba2

....Multiple Seniority Shelf, Placed on Review for Possible Upgrade, currently (P)Ba3

....Senior Unsecured Conv./Exch. Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of B2 to Ba3

..Issuer: Qwest Corporation

....Senior Unsecured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba1

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently a range of Ba1 to Baa1

..Issuer: Qwest Services Corp.

....Senior Secured Bank Credit Facility, Placed on Review for Possible Upgrade, currently Ba3

..Issuer: Mountain States Telephone and Telegraph Co.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Northwestern Bell Telephone Company

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently Ba1

..Issuer: Qwest Capital Funding, Inc.

....Senior Unsecured Regular Bond/Debenture, Placed on Review for Possible Upgrade, currently B1

Outlook Actions:

..Issuer: CenturyTel, Inc

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Corporation

....Outlook, Changed To Negative From Stable

..Issuer: Embarq Florida, Inc.

....Outlook, Changed To Negative From Stable

..Issuer: Carolina Telephone & Telegraph Company

....Outlook, Changed To Negative From Stable

..Issuer: Centel Capital Corp.

....Outlook, Changed To Negative From Stable

..Issuer: United Telephone Co. of Pennsylvania

....Outlook, Changed To Negative From Stable

..Issuer: Qwest Communications International Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Services Corp.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Qwest Capital Funding, Inc.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Mountain States Telephone and Telegraph Co.

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Northwestern Bell Telephone Company

....Outlook, Changed To Rating Under Review From Stable

Please refer to Moodys.com for additional research.

Moody's most recent rating action for CenturyTel was on September 14, 2009, at which time Moody's assigned a Baa3 rating to the company's Series P and Series Q note offerings.

Moody's most recent rating action for Qwest Communications International was on January 7, 2010, at which time Moody's assigned a Ba3 rating to the company's new note issuance.

The principal methodology used in rating CenturyTel and Qwest was Moody's Global Telecommunications Industry rating methodology, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research and Ratings tab(December 2007, document #106465). Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Rating Methodologies sub-directory on Moody's website.

CenturyTel, Inc., headquartered in Monroe, Louisiana is a regional communications company that served approximately 7.0 million total access lines in 33 states as of December 31, 2009.

Qwest , headquartered in Denver, CO. is a RBOC and nationwide inter-exchange carrier (IXC). It served about 10.3 million access lines in 14 western states as of December 31, 2009.

New York
Dennis Saputo
Senior Vice President
Corporate Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
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Alexandra S. Parker
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Exhibit to the Direct Testimony of Jeff Glover
Docket No. 10-049-16
May 27, 2010

Exhibit JSG-4

Standard & Poor's, Global Credit Portal, April 22, 2010

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

April 22, 2010

Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Primary Credit Analyst:
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Research Update:

CenturyTel 'BBB-' Rating On Watch Negative On Deal To Acquire Qwest Communications; Qwest 'BB' Rating On Watch Positive

Overview

- U.S. ILECs CenturyTel and Qwest Communications International Inc. have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction.
- We are placing our ratings on CenturyTel, including the 'BBB-' corporate credit rating, on CreditWatch with negative implications.
- We are also placing our 'BB' corporate credit rating on Qwest on CreditWatch with positive implications.
- We currently expect that if the transaction is completed as planned, the corporate credit rating of the combined entity is likely to be 'BB+' or 'BB'.

Rating Action

On April 22, 2010, Standard & Poor's Ratings services placed its ratings on Monroe, La.-based incumbent local exchange carrier (ILEC) CenturyTel Inc. on CreditWatch with negative implications, including the 'BBB-' corporate credit, 'A-3' commercial paper, and all other issue ratings. At the same time, we placed the 'BB' corporate credit rating on Denver-based ILEC Qwest Communications International Inc. on CreditWatch with positive implications.

The CreditWatch placements follow the announcement that CenturyTel and Qwest have signed a definitive agreement under which CenturyTel will acquire Qwest in a tax-free, stock-for-stock transaction. CenturyTel shareholders will own approximately 50.5% and Qwest shareholders will own 49.5% of the combined company.

We also placed the senior secured and unsecured debt at Qwest Communications International Inc. and Qwest Capital Funding Inc. on CreditWatch with positive implications. Additionally, we placed the senior unsecured debt at Qwest subsidiary Qwest Corp. on CreditWatch with developing implications, meaning that we could raise or lower the ratings. Issue-level ratings at the Qwest entities will depend on the outcome of the overall corporate credit rating review, the ultimate capital structure of the combined entity, and our recovery analysis.

The CreditWatch listings are based on our preliminary view that if the merger is consummated under the proposed terms, we anticipate the corporate credit rating of the merged entity to likely be either 'BB+' or 'BB'. The transaction is subject to shareholder and regulatory approvals and we expect it to close in the first half of 2011.

Rationale

Based on preliminary information, we expect that CenturyTel's combined pro forma 2009 leverage will be about 3.2x (including unfunded pension and other postretirement obligations [OPEBs] and the present value of operating lease payments), or about 3.0x including potential operating synergies. Total debt to EBITDA would be significantly higher than CenturyTel's current leverage of 2.3x on a stand-alone basis, but lower than Qwest's 4.0x stand-alone leverage. Still, the pro forma leverage is probably not supportive of an investment-grade credit profile, despite prospects for potential deleveraging, given the integration challenges and continuing access-line losses across the industry.

While the transaction improves CenturyTel's scale, making it the third-largest wireline operator in the U.S., with about 17 million access lines and 5 million broadband customers, it also increases the company's exposure to higher density markets, which have significant competition from the cable providers. Access-line losses at legacy CenturyTel were about 8.8% in the fourth quarter of 2009 compared to 11.2% at Qwest. While estimated operating cost synergies of about $575 million, which represent about 3% of total revenue, appear achievable, integration efforts will be difficult given the size of the combined company and CenturyTel's integration of previously acquired Embarq will likely not be complete until the end of 2011. Additionally, one-time integration costs of $800 million to $1 billion will constrain the combined company's initial net free cash flow generation.

CreditWatch

In resolving the CreditWatch, we will meet with management to review its business and financial strategies, including evaluating the prospective financial policy of the combined entity. We currently expect that if the transaction is completed as planned, the corporate credit rating on the combined entity is likely to be 'BB+' or 'BB'.

Related Criteria And Research

"Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009, on RatingsDirect.

Ratings List

Ratings Placed On CreditWatch Negative

	To	From
CenturyTel Inc.		

Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB-/Stable/A-3

Ratings Placed On CreditWatch Positive

Qwest Communications International Inc.		
Corporate Credit Rating	BB/Watch Pos/--	BB/Negative/--

Ratings Placed On CreditWatch Developing

Qwest Corp.		
Corporate Credit Rating	BB/Watch Dev/--	BB/Negative/--
Qwest Corp.		
Senior Unsecured	BBB-/Watch Dev	BBB-
Recovery Rating	1	1

Ratings Placed On CreditWatch Negative

CenturyTel Inc.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Commercial Paper	A-3/Watch Neg	A-3
Carolina Telephone & Telegraph Co.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Centel Capital Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Embarq Corp.		
Senior Unsecured	BBB-/Watch Neg	BBB-
Sprint - Florida, Inc.		
Senior Secured	BBB+/Watch Neg	BBB+

Ratings Placed On CreditWatch Positive

	To	From
Qwest Communications International Inc.		
Senior Secured	BB/Watch Pos	BB
Recovery Rating	3	3
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Capital Funding Inc.		
Senior Unsecured	B+/Watch Pos	B+
Recovery Rating	6	6
Qwest Services Corp.		
Senior Secured	B+/Watch Pos	B+

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.