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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
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Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

JOINT NOTICE AND APPLICATION OF QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP., EMBARQ COMMUNICATIONS, INC. D/B/A CENTURY LINK COMMUNICATIONS, EMBARQ PAYPHONE SERVICES, INC. D/B/A CENTURYLINK, AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	DOCKET NOS. **T-01051B-10-0194 T-03902A-10-0194 T-02811B-10-0194 T-20443A-10-0194 T-04190A-10-0194 T-03555A-10-0194**

NOTICE OF JOINT FILING

Qwest Corporation, Qwest Communications Company, LLC, Qwest LD Corp., Embarq Communications, Inc. d/b/a Century Link Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC jointly give notice of the filing of the Direct Testimony of the following persons:

Kristin McMillan on behalf of the CenturyLink companies

James P. Campbell on behalf of the Qwest companies

Todd Schafer on behalf of the CenturyLink companies

Jeff Glover on behalf of the CenturyLink companies

Arizona Corporation Commission
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MAY 24 2010
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Respectfully submitted this 24th day of May, 2010.

SNELL & WILMER, L.L.P.

By ______________________
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Original and 13 copies of the foregoing were filed this 24th day of May, 2010 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

COPY of the foregoing emailed this 24th day of May, 2010 to:

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Phoenix, AZ 85007

Janice Alward, Chief Counsel
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Arizona Corporation Commission
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Diane Kypar
____

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN MAYES
Chairman
GARY PIERCE
Commissioner
SANDRA KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
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JOINT NOTICE AND APPLICATION OF QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP., EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURY LINK COMMUNICATIONS, EMBARQ PAYPHONE SERVICES, INC. D/B/A/ CENTURYLINK, AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	)	**DOCKET NO. T-01051B-10-0194** **DOCKET NO. T-02811B-10-0194** **DOCKET NO. T-04190A-10-0194** **DOCKET NO. T-20443A-10-0194** **DOCKET NO. T-03555A-10-0194** **DOCKET NO. T-03902A-10-0194**

DIRECT TESTIMONY

OF

KRISTEN MCMILLAN

ON BEHALF OF

EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURYLINK COMMUNICATIONS

EMBARQ PAYPHONE SERVICES, INC. D/B/A/ CENTURYLINK, AND

CENTURYTEL SOLUTIONS, LLC

MAY 24, 2010

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DIRECT TESTIMONY OF KRISTEN MCMILLAN

I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kristin McMillan and my business address is 330 South Valley View Boulevard, Las Vegas, Nevada 89107.

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

A. I am employed by CenturyLink as Vice President, State External Relations – Western Region.

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

A. After graduating with a Bachelor of Science degree from the University of Minnesota, I earned law and MBA degrees from Santa Clara University. I am admitted to practice law in the states of Nevada and California (inactive status in California). After working briefly in private practice in California, I moved to Nevada and was employed with the Public Service Commission of Nevada (now the Public Utilities Commission) in a legal capacity. I worked in private practice for almost 20 years thereafter, with an emphasis in administrative law, including utilities and telecommunications. I was active in executive level law firm management during my last seven years in private practice, including six years as the president and managing shareholder of a prominent Nevada law firm with offices in Las Vegas, Reno and Carson City.

In March 2006, I began my position with Sprint as Nevada's State Executive, and then Embarq upon its separation from Sprint in May 2006. In that role, I was responsible for leading the strategic development of legislative, regulatory, government and public affairs and advocacy efforts for Embarq in Nevada. As Senior State Executive from 2008-2009, I gained responsibilities as a supervising director in other states as well, including Washington, Oregon, Minnesota, Nebraska and Wyoming. Since July 2009, in my current role with CenturyLink, I lead external initiatives involving governmental, regulatory and legislative endeavors in the Western Region states of CenturyLink - Nevada, Washington, Oregon, Montana, Wyoming, Idaho, Colorado, California, New Mexico and Nebraska.

I am very active in community leadership. I currently serve as the 2010 Chairman of the Board of Trustees of the Las Vegas Chamber of Commerce, and am on the Boards of the Foundation for Independent Tomorrow, United Way of Southern Nevada, Desert Research Institute Foundation and Nevada Development Authority.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying in support of the Joint Notice and Application for Approval ("Application") filed by subsidiaries[1] of CenturyTel, Inc. d/b/a CenturyLink

[1] The CenturyLink, Inc. subsidiaries filing the Application are: Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC.

("CenturyLink")[2] and subsidiaries[3] of Qwest Communications International Inc. ("Qwest") with the Arizona Corporation Commission ("Commission") on May 13, 2010. My testimony will describe the proposed transaction as set forth in the Application, and further demonstrate why the Application should be approved under the Commission's Affiliated Interest Rules. My testimony will also describe the various benefits of the proposed transaction which are consistent with the overall public interest.

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

A. Yes. James P. Campbell, the State President of Qwest in Arizona will describe the Qwest operations in Arizona and the benefits to customers and competition from achieving a stronger combined company as a result of this transaction. In addition, Jeff Glover, CenturyLink's Vice President – Regulatory Operations & Policy, will discuss the financial benefits of the proposed transaction. His testimony discusses why the proposed transaction will create a financially stronger service provider – one with a solid balance sheet and greater flexibility to continue investing in local networks, broadband deployment and customer service enhancements. Finally, CenturyLink's President of the Mid-Atlantic Region, Todd Schafer, will provide an overview of CenturyLink's operations and history, including its extensive experience in successfully integrating prior acquisitions and will describe the company's highly localized business model that provides for

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[2] CenturyTel, Inc. changed its name to CenturyLink, Inc. with shareholder approval on May 20, 2010.

[3] The Qwest subsidiaries filing the Application are: Qwest Corporation ("QC"), Qwest Communications Company LLC ("QCC"), and Qwest LD Corp., ("QLDC").

a sharp focus on its local markets and customers. The combined testimony of all the witnesses will demonstrate why this transaction is not only good for Arizona consumers and businesses, but also for the State of Arizona as a whole in terms of meeting and advancing telecommunication service needs in a challenging economic environment.

III. DESCRIPTION OF THE TRANSACTION

Q. PLEASE GENERALLY DESCRIBE THE TRANSACTION SUBJECT TO THIS PROCEEDING.

A. The proposed transaction ("Transaction") is a simple stock-for-stock exchange by which CenturyLink will acquire Qwest. It does not involve complex financial or tax structures. Nor does it require additional debt or any refinancing. As further discussed by Mr. Glover, the Transaction is designed to create a strong and stable company in both the short and long run, with greater financial resources and access to capital to invest in networks, systems and employees. From a financial standpoint, CenturyLink will have the scale and stability to make necessary ongoing infrastructure investments needed to serve the next generation of consumers whose preferences are likely to dictate that communication companies become more innovative, diverse, and faster to market in their product offerings than they are today.

The Application and "Agreement and Plan of Merger" ("Merger Agreement") describe the Transaction. Simply stated, the Merger Agreement calls for a business combination at the parent level whereby a subsidiary of CenturyLink will merge with and into Qwest. The separate existence of the subsidiary will then cease and Qwest will continue as a direct, wholly owned subsidiary of CenturyLink. Upon closing of the Transaction, Qwest shareholders will receive 0.1664 CenturyLink shares for each share of Qwest common stock they own at closing. At that time, CenturyLink shareholders are expected to own approximately 50.5 percent of the combined company, and Qwest shareholders approximately 49.5 percent. As a result of the Transaction, CenturyLink will have local exchange footprints in 37 states, including in Arizona, Utah, North Dakota and South Dakota where CenturyLink currently does not have incumbent local exchange carrier ("ILEC") operations.

Following completion of the Transaction, four directors from the Qwest Board will be added to the CenturyLink Board of Directors, including Edward A. Mueller, Qwest's Chairman and Chief Executive Officer. This addition will increase the number of CenturyLink directors from 13 pre-Transaction to 17 post-Transaction.

Q. HOW WILL THE MERGED ENTITY BE STRUCTURED?

A. The corporate structure will essentially remain as it is today except that Qwest will be under CenturyLink. Exhibit A to the Application accurately illustrates the organizational structure of the relevant companies before and after closing. As mentioned, the Transaction contemplates a parent-level transfer of control of Qwest so there is no direct effect on any of the regulated operating subsidiaries in Arizona for either company. At closing, Qwest will become a direct, wholly-owned subsidiary of CenturyLink and all Qwest subsidiaries, including QC, will be indirectly owned and controlled by CenturyLink but otherwise will experience no change in their existing corporate status or structure. In addition, the Transaction changes nothing with respect to the corporate structure of CenturyLink's regulated operating subsidiaries as all remain in place under the same status, structure, ownership and control as exists today.

Q. PLEASE IDENTIFY THE CENTURYLINK ENTITIES IN THE STATE OF ARIZONA THAT ARE REGULATED BY THE COMMISSION.

A. There are three CenturyLink subsidiaries currently certificated by the Commission, with relatively minimal operations within the state. None of these subsidiaries provides local exchange service to residential or business customers. Embarq Communications, Inc. d/b/a CenturyLink Communications is certificated to provide resold long distance services (Decision No. 68828). As of April 27, 2010, the company had less than 200 long distance customers in the state of Arizona. Embarq Payphone Services, Inc. d/b/a CenturyLink is certificated as a coin-operated pay telephone provider (Decision No. 61049) and, as of April 27, 2010, was serving less than 25 payphones in Arizona. CenturyTel Solutions is authorized to provide resold long distance services and competitive local exchange services (Decision No. 63638). However, it does not currently serve any customers in Arizona. I will refer to these companies collectively as the "CTL Regulated Entities." None of the CTL Regulated Entities is experiencing a change in control as a result of this Transaction. The control of these companies will remain with CenturyLink where it resides today.

Q. WILL THE TRANSACTION RESULT IN ANY CHANGES IN THE MANNER IN WHICH THE CTL REGULATED ENTITIES ARE REGULATED OR CERTIFICATED BY THE COMMISSION TODAY?

A. No, these entities will retain the same individual corporate identities and continue to exist as they do today under the ownership and control of CenturyLink. As a result, each of these companies will maintain its current operating authority and will continue to abide by all applicable statutes, rules, regulations, Commission orders, commitments, and tariffs or pricelists, as applicable, under which they are currently regulated.

In addition, the Transaction will be seamless to customers. Immediately after the Transaction, customers will continue to receive the same full range of high quality products and services at the same rates, terms and under the same conditions as they did immediately before the close of the Transaction. Any subsequent service, term or price changes will be made, just as they are now, in accordance with applicable rules and laws. CenturyLink has been successful in past acquisitions in minimizing customer confusion and helping to make the integration of acquired companies as seamless and customer-friendly as possible.

Q. WHAT AUTHORITY ARE THE JOINT APPLICANTS SEEKING FROM THE COMMISSION IN THIS PROCEEDING?

A. The Joint Applicants seek a finding by the Commission that the Transaction meets the Commission's standards applied to proposed mergers of public utility holding companies, contained in A.A.C. R 14-2-801 et seq. Specifically, the Applicants ask the Commission to recognize that the Transaction will not impair the financial status of any of the operating subsidiaries, prevent them from attracting capital at fair and reasonable terms, or impair the ability of any of those entities to provide safe, reasonable and adequate service.

The Joint Applicants hold the opinion that should the Commission determine that other rules or statutes apply, the standard for Commission approval is whether the Transaction is in the "public interest." As demonstrated in my testimony, in combination with the other witnesses on behalf of CenturyLink and Qwest, the Transaction is in the public interest.

Q: WOULD YOU COMMENT ON THE CHANGING NATURE OF THE COMMUNICATIONS BUSINESS AND THE CHALLENGES FACED BY PROVIDERS?

A. The communications industry has changed dramatically in the last several years. It continues to experience change at a frenetic pace. Consumers are constantly seeking innovative technologies and alternative modes of communication as they experience the benefits of more convenient and ubiquitous ways to communicate and obtain data and video. Competition for voice, Internet, data and video is widespread with increasing competition from wireless companies, cable operators and VoIP providers. Mr. Campbell's testimony provides further insight into the nature and extent of competition in Qwest's Arizona markets. The pressure on all of these companies to relentlessly invest and innovate is intense.

The evolving market and technology dynamics have significantly altered the fundamentals of operating a wireline business. Carriers such as Qwest and CenturyLink have no choice but to adapt and grow if they are to compete more effectively and survive. Our business will require greater and greater strategic flexibility to bring new products on line, and will need to do so more quickly. We will need to be stronger and have greater product and revenue diversity as we develop expanded broadband services and higher speeds. We need to have the national breadth and local depth to provide more new and innovative IP products such as IPTV and other video choices, VoIP services, enhanced fiber-to-the-cell tower connectivity and other high bandwidth services. As a combined company, with complementary strengths and operating footprints, we will have greater potential to effectively reach more types of customers with a broader range of competitive products and connectivity solutions than either company could standing alone.

Q. HOW DOES THE TRANSACTION HELP TO PROVIDE THAT OPPORTUNITY TO THE BENEFIT OF CUSTOMERS?

A. First, the Transaction brings together two leading communications companies with complementary network and operating footprints, which will result in a balanced urban and rural footprint.[4] The combined enterprise will have over 17 million telephone access lines and serve over five million high-speed internet customers across 37 states. It creates a truly nationwide platform for high-speed internet deployment by merging Qwest's long-haul fiber network with CenturyLink's complementary long-haul fiber network and its core metropolitan rings. Combined, it gives CenturyLink approximately 180,000 route miles of

[4] CenturyLink's local-service network operates in 33 states while Qwest's local network operates in 14 mostly Western states. The merger will enable the companies to have complementary local exchange footprints in 10 of the combined 37 states. Additionally, CenturyLink will be able to provide voice and advanced telecom services in four additional states: Arizona, Utah, North Dakota and South Dakota.

fiber[5] which will enable a more diverse mix of product offerings and an enhanced ability to reach customers with those products. The combined network will be a key differentiator in our industry and it will heighten the ability to compete for broadband Internet services as well as for the customer-desired "triple play" of broadband, voice and video.

A key benefit will come from leveraging each company's operational and network strengths, resulting in a company with an impressive national presence and local depth. CenturyLink has proven the effectiveness of its region-based local market focus, as further described by CenturyLink operations witness Schafer. Qwest has industry-leading enterprise, government and wholesale customer capabilities, as explained in more detail by Qwest witness James Campbell. These witnesses also attest to the extensive investments that each company has made in advanced networks and the expansion of their individual fiber core networks. The merger of these complementary and additive strengths will increase the likelihood of bringing to market more advanced services and compelling choices for customers, at an accelerated pace.

The increased capabilities of the combined company will also diversify the company's revenue structure and thereby create a stronger competitor. The company will be better situated, both financially and operationally, with more flexibility to meet the challenges of a rapidly changing and intensely competitive communications environment.

[5] An illustrative map is attached as Exhibit KM-1.

The bottom line is that the combined company will be better-positioned to lead the deployment of advanced services as well as successfully manage its transition to a new era in a challenging and rapidly changing telecommunications environment. The result is a win not only for the company, but also for its customers and the communities it serves.

Q. CAN YOU PROVIDE A MORE CONCRETE EXAMPLE OF THE POTENTIAL BENEFITS THAT CAN BE DERIVED FROM LEVERAGING THE COMPLEMENTARY STRENGTHS OF THESE TWO COMPANIES?

A. As I mentioned, Qwest is a national provider of services to the enterprise market, and has particular strength in serving large business and government customers. Thus, the Transaction gives the combined company an increased prominence in the enterprise and government broadband markets. CenturyLink, by contrast, focuses on businesses with regional and local needs. The transaction will enable post-merger CenturyLink to build on Qwest's strength in providing complex communications services to large businesses and government entities on a national and global scale to provide a broader array of services to enterprise customers in CenturyLink territories. For much of the country, the combination of Qwest's long-haul network with CenturyLink's fiber rings in metropolitan areas, the combination will create a service partner that can offer strategic products to a broader array of businesses, including those seeking access to a nationwide long-distance network. Where the networks are geographically coincident, it will also allow for more diverse routing options, provide redundant routing for backup purposes, and offer other communications and information services that are attractive to businesses in the financial sector, government entities, and other customers who require solutions for highly sensitive data operations.

Q. WHAT QUALIFICATIONS AND ABILITY DOES CENTURYLINK HAVE TO OPERATE THE COMBINED COMPANY AND TO CONTINUE TO PROVIDE HIGH QUALITY SERVICES TO CUSTOMERS?

A. CenturyLink's senior officers are proven leaders in the telecommunications industry and have established a solid, consistent reputation for running a high-performing enterprise that serves customers well. To that end, Glen F. Post, III, the current CEO and President of CenturyLink, will continue to be the CEO and President of the post-merger CenturyLink. R. Stewart Ewing, Jr. the current Chief Financial Officer (CFO) of CenturyLink, will continue to be the CFO of the post-merger CenturyLink. Karen A. Puckett, the current Chief Operating Officer (COO) of CenturyLink, will continue to be COO of post-merger CenturyLink. It is noteworthy that Mr. Post, Mr. Ewing and Ms. Puckett have a combined total of approximately 88-years experience in the communications industry, and have worked together at CenturyLink for the past decade—nearly unheard of in an industry such as ours. Also, Christopher K. Ancell, currently the Executive Vice President of Business Markets Group for Qwest, will be the President of the Business Markets Group for post-merger CenturyLink and will continue to lead Qwest's successful and growing enterprise business segment.[6] These leaders are industry veterans with a stable base of knowledge, experience and leadership. All

[6] Additional senior leaders will be announced in the coming months.

of these leaders possess the depth of knowledge, experience and leadership to move this company forward through the next era of change and challenge.

The company's extensive merger and acquisition track record also provides a clear indication of its ability to successfully execute on its business plans and provide high quality service. As Mr. Schafer explains in his testimony, CenturyLink has a long history of successfully integrating acquired properties and assets, and expanding into new state jurisdictions. These successful acquisitions and subsequent integrations have generated benefits for both the company and its customers. The senior management team of CenturyLink is very familiar with and well-equipped to face the challenges and opportunities that an acquisition and integration of this magnitude presents. CenturyLink will benefit from that continued steady hand as it faces the challenges and opportunities ahead.

Furthermore, ensuring that CenturyLink continues to provide high quality service and customer experience pre- and post-merger is vitally important. CenturyLink understands that continuing to meet customer needs is its top priority. The Transaction will not change that focus. To the contrary, the customer service, network and operations functions that are critical to each company's success today will continue to be key areas of focus when the Transaction is complete, and the post-Transaction company will be staffed to ensure that continuity. QC will continue to be managed by employees with extensive knowledge of the local communications business and with a commitment to the needs of the local community.

Q. WOULD YOU COMMENT ON CENTURYLINK'S TECHNICAL EXPERTISE?

A. CenturyLink's technical expertise is reflected in the multitude of services it provides today in 33 states and also in its highly skilled workforce, which includes engineers, IT personnel and technicians that have long been operating networks and systems for the benefit of millions of customers. Going forward, the post-Transaction CenturyLink will have a combined pool of technical expertise from both companies from which to draw support, training and the deployment of new and innovative products like IPTV.

Q. HOW WOULD YOU DESCRIBE "THE FIT" BETWEEN THE TWO COMPANIES, PARTICULARLY AS IT RELATES TO A COMMITMENT TO CUSTOMER SERVICE?

A. CenturyLink and Qwest are both holding companies with complementary cultures. Their primary focus has been the ownership and operation of subsidiary ILECs on a multi-state basis. Both companies have deep roots in serving and meeting the communication needs of customers by investing heavily in quality, reliable voice and data networks. Both companies and their employees are dedicated to local community involvement and employee volunteerism. Both companies have strong management teams and a base of experienced employees who share the common view that successfully providing high quality communication services in these dynamic times is contingent upon the ability to respond quickly to rapid changes in markets, technology and customer demands.

CenturyLink's region-based, local operating model will reinforce this shared philosophy. As stated in the testimony of CenturyLink operations witness Schafer, this approach will likely be implemented to ensure that the customer is at the center of everything the company does. This structure has proven successful in driving customer service, responsiveness and accountability closer to the customer and enabling the company to be more proactive and successful in direct response marketing efforts on a market-by-market basis.

Q. ARE THERE OTHER AREAS WHERE YOU BELIEVE THAT THE TRANSACTION WILL HAVE POSITIVE BENEFITS?

A. Yes, as I mentioned, the Transaction will also have a positive impact on the state of competition. Healthy competition is in large part driven by the existence of a variety of viable network platforms in a given market. Competition is most robust in markets where there is intermodal competition: that is, where services are being delivered over wireless, wireline, and cable platforms. If any of those platforms is rendered unsustainable, it would negatively impact competition and consumers. The combination of CenturyLink and Qwest network infrastructure and operating experience ensures that a stable, capable, reliable network operator will be available to weather long-term technological and competitive changes yet to come.

Q. IN YOUR TESTIMONY THUS FAR, YOU HAVE DESCRIBED HOW THE TRANSACTION IS CONSISTENT WITH THE AFFILIATED INTEREST RULES AND PROMOTES THE PUBLIC INTEREST. DO YOU BELIEVE THERE ARE ANY POTENTIAL HARMS THAT COULD RESULT FROM THE MERGER?

A. No. The Transaction will not disrupt existing service arrangements or regulatory commitments. Both companies have affirmed that existing wholesale and interconnection arrangements and commitments will remain intact, and that the operating companies will honor the terms of existing Commission-ordered regulatory commitments. In this regard, the Transaction will not have any impact on compliance with the regulatory requirements of this Commission. The Transaction will not in any way affect this Commission's jurisdiction over QC, QCC, QLDC or the CTL Regulated Entities, the type of regulation that they are subject to, or any binding regulatory commitments that have been placed by the Commission. Moreover, as described in Mr. Glover's testimony, the Transaction will not impair the financial status of the operating subsidiaries, prevent them from attracting capital at fair and reasonable terms, or impair the ability of any of those entities to provide safe, reasonable and adequate service.

IV. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The Transaction meets the requirements of the Affiliated Interest Rules and is in the public interest. It is a straightforward, parent-level stock-for-stock transaction without any complex financing structures. It combines two leading communications companies with customer-focused, industry-leading capabilities and complementary networks and operating strengths. The Qwest regulated subsidiaries will continue to provide services as they do today, but with the added benefit of a financially stronger parent and a more localized approach to service and meeting evolving customer demands. The combined company's senior management team will consist of proven leaders with extensive experience in the industry and a successful track record of transactional integration.

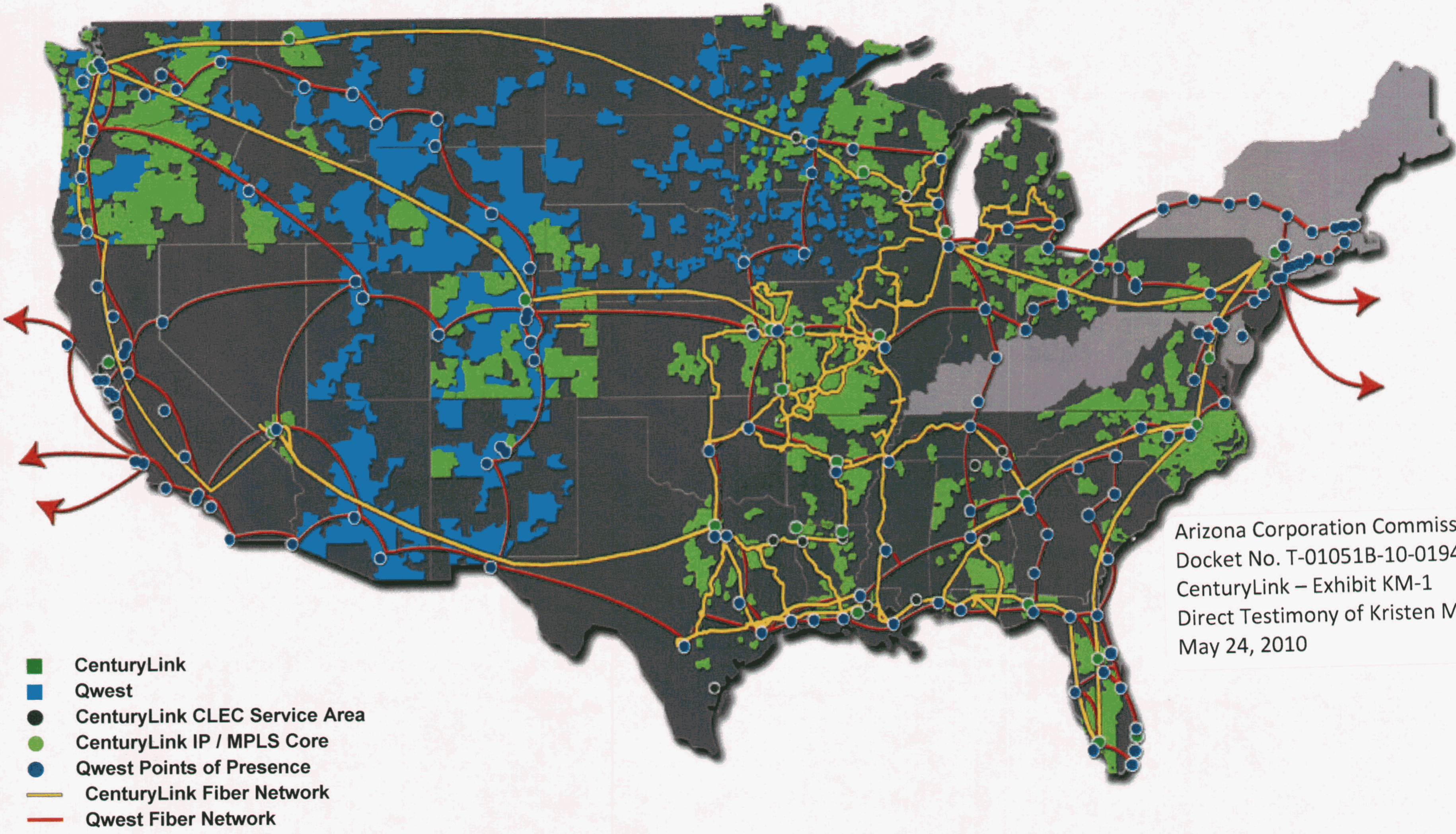
CenturyLink will become stronger, and more diverse and flexible, by leveraging the complementary financial, operational and network strengths of each of the two companies. This will help to ensure and accelerate the continued deployment of advanced, broadband services to the benefit of both residential and business customers and competition in general. The combined company's expertise in bringing high-speed broadband services to market, together with the robust, nationwide fiber network, will also improve its competitive potential in the enterprise business market. In sum, the company will be better positioned for future growth and service to Arizona customers amid a rapidly changing and intensely competitive communications environment.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT KM-1

Local Operating Model / Premier Nationwide Network



Arizona Corporation Commission
Docket No. T-01051B-10-0194, et al.
CenturyLink – Exhibit KM-1
Direct Testimony of Kristen McMillan
May 24, 2010

CenturyLink™

Qwest

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN MAYES
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DIRECT TESTIMONY

OF

JAMES P. CAMPBELL

ON BEHALF OF

QWEST CORPORATION

QWEST COMMUNICATIONS COMPANY, LLC, AND

QWEST LD CORP.

MAY 24, 2010

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION WITH QWEST CORPORATION.

A. My name is James P. Campbell. I am Arizona State President for Qwest Communications. My business address is 20 E. Thomas Road, Phoenix, AZ, 85012.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EMPLOYMENT EXPERIENCE.

A. A copy of my biography is attached as Exhibit JPC-1.

II. INTRODUCTION

Q. ON WHAT PARTIES' BEHALF ARE YOU FILING TESTIMONY IN THIS PROCEEDING?

A. My direct testimony is prepared on behalf of the Qwest telecommunications entities operating in Arizona, who have joined with CenturyLink companies to file the Joint Notice and Application for Approval (the "Application") to which this testimony is attached.[1]

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to demonstrate to the Commission that the proposed merger transaction between CenturyLink and Qwest (the "Transaction") described in the Application, fully satisfies the criteria for reorganizations of public utility holding

[1] The filing's full caption is: "Joint Notice and Application of Qwest Corporation, Qwest Communications Company LLC, Qwest LD Corp, Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC, for Approval of the Proposed Merger of Their Parent Corporations Qwest Communications International Inc and CenturyTel, Inc."

companies addressed by the Commission's Affiliated Interests Rules (A.A.C R14-2-801, et seq.).

Q. ARE OTHER WITNESSES OFFERING TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE JOINT APPLICANTS?

A. Yes. Three other witnesses are presenting testimony in this proceeding. Kristin McMillan, CenturyLink's Vice President, State External Relations – Western Region, will describe the merger transaction, and demonstrate that CenturyLink has the managerial, operational, technical ability and experience to manage the combined company in the public interest. Todd Schafer, CenturyLink's President of the Mid-Atlantic Region, will provide a brief overview and history of CenturyLink and describe the company's demonstrated ability to successfully complete the integration process in previous acquisitions. Mr. Schafer will also testify about CenturyLinks localized "go to market" service delivery model. Jeff Glover, CenturyLink's Vice President – Regulatory Operations & Policy, will describe the compelling financial features of the Transaction, and demonstrate that the merger will result in a company that will have the financial resources necessary to invest in infrastructure to better serve the customers of Arizona. The Transaction results in no new debt, contains no complicated "financial engineering" and will result in a company with solid debt coverage ratios and sufficient liquidity. Mr. Glover will also address several specific financial issues listed in A.A.C. R-14-2-803(A).

Q. WHAT ARIZONA LEGAL STANDARDS DOES YOUR TESTIMONY ADDRESS?

A. The standard of review is provided in A.A.C R14-2-803(C): "At the conclusion of any hearing, the Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service." My testimony addresses this standard by clearly demonstrating that the Transaction will serve to create a more financially viable entity capable of (i) attracting the capital necessary to invest in its network, systems and employees, (ii) providing products and services essential to compete in today's market; and (iii) providing quality service to its subscriber base.

The Applicants also hold the opinion that should other rules or statutes apply, the standard for Commission approval is whether the Transaction is in the "public interest." As demonstrated in my testimony, and in the testimony of the other witnesses in this proceeding, the benefits that cause this Transaction to easily pass muster under the Affiliated Interests Rules demonstrate the transaction is in the overall public interest.

Q. PLEASE DESCRIBE THE QWEST ENTITIES OPERATING IN ARIZONA THAT ARE IMPACTED BY THIS TRANSACTION.

A. The Qwest entities operating in Arizona are Qwest Corporation ("QC"), Qwest LD Corp. ("QLDC"), and Qwest Communications Company, LLC ("QCC"). Each of those entities is a direct subsidiary of Qwest Services Corp., which is a subsidiary of Qwest Communications International Inc. ("QCII"), a publicly traded holding company. Neither QCII nor Qwest Services Corp is a public service corporation or a regulated carrier under the Arizona Constitution or statutes, to my understanding.

QCII is the indirect sole shareowner of QC, which provides telecommunications services in Arizona and 13 other states. QC is the successor in interest to pioneer telephone and telegraph companies that were authorized by the territorial legislature to provide services in 1877. QC is an incumbent local exchange carrier ("ILEC") and a Bell Operating Company ("BOC") under the Telecommunications Act of 1996 (the "Act"). QC provides regulated local exchange and intrastate interexchange services under the jurisdiction of this Commission. QC also provides interconnection service to Competitive Local Exchange Carriers ("CLECS") through numerous interconnection agreements under the auspices of the Act, all of which are approved by this Commission.

QCII is the indirect sole shareowner of QLDC, which provides resale interexchange services under the regulation of this Commission. QLDC is the entity formed by Qwest as part of the approval processes under Sections 271 and 272 of the Act to provide interLATA interexchange services originating in Arizona. Further, QCII is the indirect sole shareowner of QCC, which provides facilities based long distance service under the regulation of this Commission. In Arizona, QCC holds a Certificate of Convenience and Necessity ("CC&N") to provide certain competitive local exchange services; however, QCC has not commenced operations in that regard. QCC also provides facilities-based and resold interexchange and competitive local exchange services nationwide. The Transaction will result in the indirect transfer of control of QC, QLDC, and QCC to CenturyLink.

Q. PLEASE ADDRESS THE CRITERIA DEFINED IN A.A.C. R14-2-803(A).

A. A.A.C. R14-2-803(A) sets forth eleven specific information requirements which must be met in proceedings such as this one. The following describes the required information and where it may be found:

(i) **Officers and Directors.** The names and addresses of the current officers and directors of CenturyTel, Inc. are stated at the CenturyLink website at:

http://www.centurylink.com/Pages/AboutUs/CompanyInformation/Leadership/[2]

[2] The officers' address is : Century Link, 100 Century Link Drive, Monroe, LA 71203

and:

http://www.centurylink.com/Pages/AboutUs/Governance/boardOfDirectors.jsp.

(ii) **Business Purposes for Reorganization**. The business purposes of the Transaction are described throughout my testimony and the testimony of other Joint Applicant witnesses in this proceeding. A further discussion of the reasons for the Transaction can be found at:

http://www.centurylinkqwestmerger.com/downloads/presentations/Investor%20Presentation-4-22-10.pdf.

(iii) **Proposed Method of Financing.** The Transaction is a stock-for-stock exchange transaction that requires no new financing or refinancing and adds no new debt. Impacts to the CenturyLink capital structure as a result of the merger are addressed in the testimony of Mr. Glover.

(iv) **Capital Structure of Operating Subsidiaries.** The current capital structure of the operating subsidiaries will not be adversely impacted by the Transaction, as described in the testimony of Mr. Glover.

(v) **Corporation Organization Chart.** Pre-merger organization charts of the structure of the Qwest and CenturyLink corporate entities and the post Transaction structure of the surviving corporate entities are attached as Exhibit A to the Application.

(vi) **Allocation of Income Taxes**. Any changes to the income tax allocation methodology are unknown at this time. The Applicants recognize that the tax allocation methodology may be subject to Commission review in future proceedings under tax regulations and guidelines existing at that time.

(vii) **Changes in Cost of Service/Cost of Capital.** The transaction is not expected to have an adverse impact on the cost of service or the cost of capital for the post-merger operating entities, as described more fully in the testimony of Mr. Glover.

(viii) **Diversification Plans of Affiliates**. CenturyLink's business operations will continue as described in its 2009 10K filed with the SEC, which may be accessed at:
http://www.corporate-ir.net/seccapsule/seccapsule.asp?m=f&c=112635&fid=6776569&dc= .

(ix) **Documents and Filings.** The proposed Transaction will be subject to review by the FCC, the Department of Justice, and numerous state public utility commissions. Because of the substantial number of filings to be made in connection with the Transaction, the Applicants did not attach any non-Arizona jurisdictional filings with the Application filed on May 13. 2010. The parties will provide copies of relevant documents and filings upon request by the Commission.

(x) **Investments in Affiliates.** The annual and cumulative investment by CenturyLink in each affiliate for the next five years has not been determined.

The Transaction results in a financially strong entity that will provide customers with diversified and high quality services.

(xi) **Access to Capital for Construction of New Plant and Improvements to Existing Plant.** As described in the testimony of Mr. Glover, CenturyLink anticipates that the post Transaction entities will be able to continue to attract capital on terms as favorable or more favorable than would be available without the Transaction, and that adequate capital will be available for construction of necessary new utility plant and for improvements in existing utility plant.

Q. ARE THE JOINT APPLICANTS SEEKING EXPEDITED APPROVAL OF THE MERGER TRANSACTION?

A. Yes. Expedited treatment is requested to allow the Joint Applicants to more quickly integrate the companies in order to bring the benefits described in my testimony to consumer, business, wholesale customers, and shareholders sooner.

III. THE TRANSACTION

Q. PLEASE BRIEFLY DESCRIBE THE CENTURYLINK-QWEST MERGER TRANSACTION.

A. On April 21, 2010, Qwest and CenturyLink entered into an Agreement and Plan of Merger to consummate the Transaction. The Transaction is a tax free, stock-for-stock transaction with no new debt or refinancing required. Shareholders of QCII will receive 0.1664 shares of CenturyLink for each share of QCII common stock owned at closing. Upon completion of the Transaction, the shareholders of pre-merger CenturyLink will own approximately 50.5% of post-merger CenturyLink, and the shareholders of pre-merger QCII will own approximately 49.5% of post-merger CenturyLink. CenturyLink will issue new stock to acquire QCII and the Transaction does not involve the payment of cash. The Transaction is not financed through debt or any sort of complex financing tools used in some other recent telecommunications merger transactions. Finally, the Transaction does not result in the transfer of assets, exchanges or operations to a wholly different provider. QCII will become a wholly owned subsidiary of CenturyLink. QCII's operating subsidiaries, QC, QCC and QLDC will remain subsidiaries of QCII. As such, the structure and financing of the Transaction are simple. Exhibit A attached to the Application shows the pre- and post-transaction corporate structure.

Q. MR. GLOVER DESCRIBES THE FINANCIAL IMPACTS OF THE TRANSACTION. HAS QWEST REDUCED ITS LEVEL OF NET DEBT OVER THE PAST FEW YEARS?

A. Yes. Qwest has steadily reduced its level of net debt over the past several years. As of the end of 2009, Qwest's net debt as reported in its fourth quarter 2009 earnings announcement was $11.8 billion,[3] which represents more than a 23% reduction from Qwest's $15.4 billion debt at the end of 2004.[4] Qwest has continued to lower its net debt in the first quarter of 2010, with a reduction to $11.7 billion.[5] Qwest plans to reduce debt further prior to the closing of the Transaction.

IV. IMPACT ON CURRENT REGULATORY AND CUSTOMER OBLIGATIONS

Q. HOW WILL THE MERGER IMPACT QWEST'S OPERATIONS IN ARIZONA?

[3] See: http://investor.qwest.com/earningsarchive

[4] See: Form 10-K of Qwest Communications International for the fiscal year ended December 31, 2005

[5] See: http://investor.qwest.com/earningsarchive

A. The Transaction involves a parent-level transfer of control of QCII only. QC, QCC and QLDC will continue to operate as separate carriers and each will continue to provide services to their customers under the same regulatory regime in existence before the-merger. After the transaction is completed, there may be a change in the names under which the companies are doing business (i.e., the "d/b/a" name), and retail billing operations may be combined, but otherwise the Transaction will be transparent for customers. Retail end user and wholesale customers will continue to receive service from the same carrier that serves them today.

Q. WILL THE POST-MERGER REGULATED ENTITIES CONTINUE TO COMPLY WITH EXISTING REGULATORY OBLIGATIONS?

A. Yes. The new company, and its regulated entities, will abide by all applicable local, state and federal regulatory obligations..

Q. WILL THE POST-MERGER REGULATED COMPANY CONTINUE TO OPERATE UNDER THE TERMS OF THE REVISED PRICE CAP PLAN APPROVED BY THE COMMISSION?

A. Yes. On March 23, 2006, the Commission issued Decision 68604 in Docket T-01051B-03-0454, approving QC's Revised Price Cap Plan ("Price Cap Plan"). The Price Cap Plan is still in place, and the post-merger company will continue to comply with all the requirements defined in the Price Cap Plan and the Service Quality Plan. Any changes to such services will require the same regulatory approval that applies to those services pre-merger.

Q. WILL THE POST-MERGER REGULATED COMPANY PROVIDE SERVICES TO RETAIL CUSTOMERS IN ARIZONA UNDER THE SAME TARIFFS, CATALOGS AND RATE SCHEDULES AS QWEST PROVIDED THOSE SERVICES PRIOR TO THE MERGER?

A. Yes. Services will be provided in accordance with the same tariffs, catalogs and rate schedules that were in effect prior to the completion of the Transaction.

Q. WILL THE MERGER TRANSACTION IMPACT QWEST'S WHOLESALE RELATIONSHIP WITH OTHER CARRIERS?

A. No. Currently, Qwest has Commission-approved Interconnection Agreements with many CLECs, and these agreements will not be impacted by the Transaction. All prices, terms and conditions of these agreements will remain in effect until such time as they are renegotiated or expire by their own terms. In addition, the Arizona QC Access Service Price Cap Tariff and the Arizona QC Competitive Private Line Transport Services Price Cap Tariffs will remain in effect after the merger is consummated.

Q. WILL THE MERGER HAVE ANY IMPACT ON QWEST'S APPLICATION FOR A GRANT FROM THE BROADBAND INITIATIVES PROGRAM (BIP) ADMINISTERED BY THE RURAL UTILITIES SERVICE?

A. No. On March 25, 2010, Qwest filed an application for a federal stimulus grant from the Broadband Initiatives Program (BIP), a program of the U.S. Department of Agriculture (USDA), to extend broadband at speeds of 12 to 40 Mbps to rural communities throughout its local service region, including Arizona. The total cost of the proposed deployment would be $467 million, and Qwest is requesting a grant for $350 million (75% of deployment costs) region-wide. Of this $350 million, Qwest is seeking $42 million in Arizona to fund projects totaling $56 million for the deployment of broadband services to over 2,000 business, schools, health care facilities and over 80,000 new living units. The Transaction will not have any impact on this request.

V. BENEFITS OF THE MERGER

A. Economies of Scale and Scope

Q. PLEASE BRIEFLY DESCRIBE THE ATTRIBUTES OF THE COMBINED COMPANY.

A. The combined company at the end of 2009 had a enterprise value, (market capitalization and debt) of approximately $37 billion ($19 billion from Qwest and $18 billion from CenturyLink). For 2009, the two companies reported combined revenues of approximately $20 billion. The combined company will operate a fiber network of approximately 180,000 miles, serving over 5 million broadband customers and 17 million access lines. In the state of Arizona, Qwest currently serves over 1.4 million retail access lines with $7.3 billion in investment and employs over 2,600 people throughout the state. Currently, CenturyLink does not have significant operations in Arizona;[6] thus the post-merger network, facilities and operations in Arizona will be the same as they were pre-merger.

Q. DO YOU BELIEVE THAT THE PROPOSED MERGER OF CENTURYLINK AND QWEST IS IN THE PUBLIC INTEREST?

A. Yes. The Transaction is in the public interest and will provide a number of benefits to customers of CenturyLink and Qwest in Arizona. First, as described by Mr. Glover, the combined company will be stronger and more stable from a financial perspective than

[6] As noted in the Application, Arizona has not been a market in which CenturyLink has established a significant presence. Embarq Communications, Inc., d/b/a CenturyLink Communications, is authorized by this Commission to provide resold long distance services. Embarq Payphone Services, Inc. is authorized to provide payphone services; however, it has very few customers. CenturyTel Solutions, LLC is authorized to provide resold long distance services and competitive local exchange services; however, it has not commenced operations in this state.

either entity would be on its own. As a result, the combined entity will have access to the necessary capital to invest in a network capable of providing enhanced products and services. For example, the post merger company will be able to more aggressively pursue deployment of its Fiber to the Cell Tower ("FTTCT") and Fiber to the Node ("FTTN") facilities. This fiber rich network will increase broadband speeds to consumers, and allow the company to further develop new video choices to better serve customers. The post-merger company will be well positioned to make the investments necessary to compete more effectively in the rapidly changing and increasingly competitive telecommunications market.

Second, the combined company will have a strategic focus to offer products and services at rates, terms and service quality levels that provide differentiation in the market. Even a carrier that knows its customers' preferences cannot compete effectively in today's marketplace without sufficient size and scope to match those preferences with suitable products or services offered at affordable rates. The post-Transaction enterprise will be able to focus more strategically and rapidly respond to customer preferences to provide a full portfolio of quality, advanced communications services that will differentiate the company in the markets it serves.

Third, the merging of CenturyLink's regional operating model and targeted marketing focus with Qwest's industry-leading network and strong position in the business, government and wholesale markets will result in the continued provision of high-quality services to retail and wholesale customers in Arizona. Finally, all of these benefits will undoubtedly serve to make the market in Arizona even more competitive, thereby improving choice, prices and service quality for consumers in the state.

Q. WILL THE POST-MERGER COMPANY BE ABLE TO TAKE ADVANTAGE OF INCREASED ECONOMIES OF SCOPE AND SCALE?

A. Yes. The Transaction will result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently. In addition to those benefits described above related to capital investment and the ability to aggressively deploy advanced products and services, the increased size of the combined company is also likely to enhance its purchasing power, which may lead to a reduction in some input costs. The combination of the serving areas in many states will provide for increased economies of scale that will benefit customers not only in those states where Qwest and CenturyLink operate independently, but also states like Arizona that will indirectly benefit from the increased efficiencies of the company as a whole. In addition, the combined company will be able to achieve economies of scope by enhancing its ability to partner more effectively with other providers, such as satellite TV and wireless providers.

The significant synergies of the merger are further discussed in the testimony of Mr. Glover.

Q. WILL THE COMBINED ENTITY BENEFIT FROM THE COMBINATION OF URBAN AND RURAL ASSETS?

A. Yes. As noted above, the merger will result in a combination of urban and rural assets nationally and in each of the states where Qwest and CenturyLink currently operate, resulting in a more balanced urban and rural footprint. This combination increases the diversity of revenue sources, providing increased company stability, which benefits all customers, including those in Arizona. CenturyLink's distinctive expertise in serving smaller, rural areas combined with Qwest's industry-leading experience serving enterprise business customers, employing a national fiber-optic network and data centers, will position the post-merger entity to capitalize on its collective knowledge of local customers' preferences and to deliver innovative technology and product offerings to both urban and rural markets.

Q. WHAT TYPES OF SERVICES DOES QWEST OFFER TO ENTERPRISE BUSINESS CUSTOMERS?

A. Qwest offers a full portfolio of services to enterprise business and governmental customers, with an increasing focus on offering new state-of-the art "strategic" services. Qwest's business markets customers use its strategic services to access the Internet and Internet-based services, as well as to connect to private networks and to conduct internal and external data transmissions such as transferring files from one location to another. Qwest also provides value-added services and integrated solutions that make communications more secure, reliable and efficient for its business markets customers. These services include primarily private line, Qwest iQ Networking, hosting, broadband and Internet protocol enabled services. Qwest hosting services include providing space, power, bandwidth and managed service in 16 hosting centers in 12 metropolitan areas.

B. Enhanced Ability to Compete

Q. WILL THE COMBINED ENTITY BE BETTER ABLE TO COMPETE IN THE NATIONAL TELECOMMUNICATIONS MARKET?

A. Yes. From a national perspective, the combined company will be significantly larger than each company alone, and as described above and in the testimony of Mr. Glover, will have significantly more financial resources and an enhanced ability to attract capital. These resources, along with increased scale and scope, will allow the combined entity to adapt to changes in the marketplace, and to better compete nationally with the larger well-capitalized players in the market such as AT&T, Verizon, Comcast and many others. In particular, the post-merger entity will have more resources to compete with AT&T and Verizon in the enterprise business market. For total year 2009, Qwest total Business Markets Group revenues were $4.09 billion, compared to business revenues of $14.74 billion for AT&T and $14.98 billion for Verizon.[7] In terms of business revenues for 10 of Qwest's top competitors,[8] Qwest's share of the business market is less than 10%, compared to 33% each for AT&T and Verizon. The Transaction will provide the post-merger entity with the additional financial strength, scale and scope economies and geographic coverage to better compete with these providers, offering state-of-the-art innovative services to large business and government customers throughout the country.

Q. WILL A COMPETITOR BE ELIMINATED IN THE STATE OF ARIZONA BY THE MERGER OF QWEST AND CENTURYLINK?

A. No. Because CenturyLink does not have a significant presence in Arizona today, consumers and business customers will not see the elimination of a competing telephone service provider in their local areas due to the merger.[9] In addition, customers in Arizona will continue to have multiple intramodal and intermodal competitive options to meet their

[7] See 2009 10K reports for Qwest at http://www.fuelteam.wallst.com/modules/secfilings/drawFiling.asp?docKey=136-0001193125100324281CV9M1A0LSA5RAV3V7GT46DI4S&formType=10-K&date=2/16/2010&docFormat=HTM;

Verizon at http://investor.verizon.com/sec/sec_frame.aspx?FilingID=7081932;

and AT&T at http://phx.corporate-ir.net/phoenix.zhtml?c=113088&p=irol-SECText&TEXT=aHR0cDovL2NjYm4uMTBrd2l6YXJkLmNvbS94bWwvZmlsaW5nLnhtbD9yZXBvPXRlbmsmaXBhZ2U9Njc4ODcwOCZhdHRhY2g9T04mc1hCUkw9MQ%3d%3d.

[8] Includes AT&T, Verizon, Sprint, Cbeyond, Cogent, Global Crossing, Level 3, PAETEC, tw telecom and XO Communications.

[9] In the states where Qwest and CenturyLink both operate as ILECs, the companies generally serve complementary local exchange areas. While there are a few limited areas where one company serves business or government customers in the serving area of the other carrier, these areas are very competitive and customers can choose to purchase telecommunications services from a number of other providers. The Transaction will not lessen business or enterprise competition materially in these markets.

telecommunications needs—from CLECs, cable providers, wireless providers and Voice over Internet Protocol ("VoIP") providers—as described immediately below.

Q. WILL THE COMBINED ENTITY BE BETTER ABLE TO COMPETE WITH INTRAMODAL AND INTERMODAL COMPETITORS IN THE ARIZONA TELECOMMUNICATIONS MARKET?

A. Yes. Qwest currently is facing intense competitive pressures in Arizona, and the level of this competition is increasing rapidly. Between December 2001 and December 2009, Qwest residential and business access lines in Arizona declined over 48%, from 2.83 million to 1.46 million. Over this same time period, the population of Arizona grew 24%[10] and it may be conservatively assumed that demand for telecommunications services has increased apace. Declining access lines in the context of a growing marketplace demonstrates that Qwest faces increasing competition from cable telephony providers, wireless providers, VoIP providers and CLECs. Line losses can result in the reduction of economies of scale—a process that can be stemmed by the combination of the two companies. Completing the Transaction would result in increased economies of scale as well as scope, as described above.

Q. WHAT TYPES OF COMPANIES COMPETE WITH QWEST TODAY IN ARIZONA?

A. A diverse group of companies compete with Qwest throughout Arizona markets, offering competing voice and broadband services. Voice competitors include: (1) CLECs and cable TV companies such as Cox Communications ("Cox"), (2) wireless providers such as AT&T and Verizon Wireless, and (3) VoIP providers such as Vonage and Google. In the

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[10] See: http://www.census.gov/popest/states/states.html. Percentage change from June 2001 to June 2009.

broadband market, Qwest is competing with cable TV companies such as Cox and broadband wireless companies such as AT&T, Verizon and Sprint.

Q. PLEASE DESCRIBE COMPETITION FROM CABLE COMPANIES IN ARIZONA.

A. Cox is the major cable company operating in Arizona and now offers digital telephone and broadband service to customers in many parts of the state, including Phoenix and Tucson. Other major national cable companies operating in Arizona include Comcast and Time Warner Cable, along with smaller companies such as Cable One and NPG Cable. Cox is the third largest cable company in the U.S., with 6 million cable subscribers, 3.9 million high speed internet customers and 2.3 million digital voice customers. Qwest believes that Cox serves several hundred thousand phone subscribers in the Phoenix and Tucson areas.[11] Nationally, Comcast is the largest cable provider, with digital voice service available to 48.4 million—or 95%-- of the 51.2 million homes it passes. It now serves 7.6 million voice customers, 15.9 million high speed internet customers, and 23.6 million video customers.[12]

Cable companies have been investing in upgrading their networks to the DOCSIS 3.0 standard, which allows for greater broadband speeds. According to the *Broadband in America Report*, "Cable broadband upgraded to DOCSIS 3.0 is becoming widely available today at advertised speeds as high as 50 Mbps downstream (with one firm advertising 101 Mbps speeds)" and 20 mbps upstream.[13] Cox plans to have DOCSIS 3.0 enabled services

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[11] Since Cox is a private company, it is not required to release financial information publicly, and thus Qwest does not have access to detailed financial or operating data for Cox operations. This number is an estimate only.
[12] Comcast 2009 Annual Report (10K), page 2. See: http://files.shareholder.com/downloads/CMCSA/789830167x0xS1193125-10-37551/1166691/filing.pdf
[13] *Broadband in America Report* at 21 and 33. See: http://www.broadband.gov/docs/Broadband_in_America.pdf

available to two-thirds of its footprint by the end of 2010.[14] According to Cox, its "Ultimate Tier" service "allows for download speeds of 50 Mbps and upload speeds of 5 Mbps, with users seeing considerably faster online gaming experiences and video sharing."[15] Comcast has been particularly aggressive in adding DOCSIS 3.0 capability to its network, which it claims allows much higher broadband speeds of up to 100 Mbps.[16] As a company, in 2009 Comcast reported $35.8 billion in revenue—compared to $12.3 billion for Qwest. As noted earlier, the 2009 pro forma revenues for the combined Qwest-CenturyLink entity are approximately $20 billion—still lower than Comcast, but much closer in terms of the competitive scale of the companies.

The post-merger company will have the financial, operational and managerial strength to better compete against cable companies like Comcast nationally and with other cable providers such as Cox in cities such as Phoenix and Tucson. For example, approval of the Transaction would allow the combined entity to utilize CenturyLink's development of IPTV and Qwest's experience deploying FTTN to provide enhanced entertainment and broadband offerings that compete with cable's DOCSIS 3.0-based offerings. Qwest has been investing significant sums to increase its broadband capability through its FTTN initiative, which allows Qwest to offer broadband services at significantly higher speeds up to 40 mbps downstream and 20 mbps upstream. According to Qwest's first quarter 2010 Earnings Announcement, "Qwest continued to expand its fiber to the node (FTTN) footprint in the quarter, and services are now available to more than 3.8 million residential households. In the quarter, 64,000 customers added high speed Internet services that utilize

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14 Cox Press Release, July 29, 2009. *See* http://cox.mediaroom.com/index.php?s=43&item=439. (*Also see Broadband in America Report* at 22.)

15 *Id.*

16 Comcast Comments at Bank of America-Merrill Lynch Conference, September 9, 2009. *See* http://files.shareholder.com/downloads/CMCSA/789830167x0x321428/bb736678-a561-44d5-bece-b201ec4e3cd3/CMCSA-Sep_9,_2009.pdf.

the fiber network."[17] Consumers in Arizona will benefit because the post-merger entity will have the increased financial strength to more aggressively pursue FTTN and FTTCT efforts in the future. In addition, Qwest previously announced it would begin development of its next generation of backbone facilities to "provide 100 Gbps speeds across the network when fully implemented over the next year."[18] Such initiatives will be enhanced with the additional financial resources resulting from the merger.

Q. IS COMPETITION FROM WIRELESS PROVIDERS FLOURISHING IN ARIZONA?

A. Yes. According to the FCC's Local Competition Report, as of June 2008, there were 4.93 million wireless subscribers in Arizona, while there were 3.07 million wirelines (both ILEC and CLEC).[19] In fact, the number of wireless subscribers has increased over 144%, from only 2.02 million in June 2001.[20] The FCC data show that the wireless share of the total access line market has grown significantly over this timeframe, and wireline access lines now account for less than 40% of all wireline/wireless connections in Arizona:[21]

Most Arizona consumers, except those in extremely remote areas, have wireless options. The decline in Qwest landlines, coupled with the dramatic increase in wireless connections, demonstrates that Arizona customers increasingly view wireless phones as a substitute for wireline service.[22] Wireline providers must have the resources to compete effectively with

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[17] Press Release, Qwest 1Q10 earnings Report, May 5, 2010.
[18] *Id.*
[19] *Local Telephone Competition: Status as of June 30, 2008*; Industry Analysis and Technology Division, Wireline Competition Bureau, July 2009, tables 7 & 14.
[20] *Id.*, table 14.
[21] *Id.*
[22] In fact, a significant number of customers have "cut the cord" and no longer subscribe to wireline service, and this trend is accelerating. According to a survey conducted by the National Center for Health Statistics ("NCHS"), in the last 6 months of 2009, 24.59% of U.S. households did not have a traditional landline telephone, but did have at least one wireless telephone. In addition, another 14.9 % of households are "wireless mostly" and use their wireless phone for nearly all calling. In total, these wireless only and "wireless mostly" households make up almost 40% of households. *Centers for Disease Control and Prevention, National Center for Health Statistics, Wireless*

increasingly diverse and advanced wireless options in the marketplace so that customers can continue to benefit from robust competition between the platforms. The post-merger company will have those resources.

Wireless broadband, which includes mobile broadband, fixed wireless broadband and satellite-based broadband options, is experiencing significant growth as carriers are making the investment necessary to increase speeds, availability and quality. Increasingly, customers see wireless broadband as a competitive option to wireline broadband services. As wireless broadband speeds increase and wireless devices evolve, it is likely that more and more broadband customers will be tempted to "cut the cord" as they have done with voice services.

Mobile wireless technologies are evolving rapidly. While Internet access was first provided over Second Generation (2G) technology, 2G was supplanted by the 3G technologies that are used to provide mobile broadband in many areas today. 3G can be used to provide downstream speeds of up to 7.2 mbps (using HSPA 7.2).[23] In order to support faster 3G HSPA technology, AT&T is investing heavily in bringing fiber facilities to its cell sites.[24] Many wireless companies, including AT&T and Verizon, are also working towards a 4G Long Term Evolution (LTE) standard that will allow faster wireless broadband speeds than are available on the current 3G network -- with projected speeds of about 10 mbps.[25] Some carriers are implementing a "WiMax" 4G solution. Clearwire, whose investors include Sprint Nextel, Comcast, Time Warner Cable, Google and Intel, has already implemented its "CLEAR" 4G WiMax solution in numerous cities in the U.S.

Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2009, released May 12. 2010, page 1.

[23] *Broadband in America Report* at 23.

[24] *Id.* at 27.

[25] *Id.* at 23.

CLEAR provides average mobile download speeds of 3 to 6 mbps with bursts over 10 mbps.[26]

When customers disconnect wireline voice and/or broadband services (i.e., "cut the cord") in favor of wireless voice and broadband services, additional pressure is placed on landline carriers such as Qwest and CenturyLink. The combined post-merger company will be better equipped to offer innovative voice and broadband services in a more efficient and cost-effective manner, with, for example, greater broadband speeds and reach than either company could achieve alone. Thus, the Transaction better positions the combined company to provide the portfolio of products that can better compete with the many wireless options that are available to customers today and will be available in the future. Customers will derive a direct benefit from the Transaction, since it will help assure that they will continue to have the ability to choose from a wide variety of wireline options to meet their diverse needs.

In addition, the increasing use of wireless broadband has created a significant demand for deployment of FTTCT. Qwest views this as a major growth opportunity. There are approximately 18,000 cell sites in the 14 state Qwest region, and Qwest has already contracted to provide fiber to 4,000 locations[27], including approximately 700 sites in Arizona in 2010. The combined company will have increased resources to more aggressively deploy FTTCT to take advantage of this significant growth opportunity.

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[26] *Id.*
[27] See: http://investor.qwest.com/analyst-meeting

C. Specific Customer Benefits

Q. PLEASE DETAIL HOW CONSUMERS WILL BENEFIT FROM THE MERGER TRANSACTION?

A. Consumers will benefit from CenturyLink's localized "go to market" approach, and the combined company's enhanced ability to develop new and innovative services. For example, current Qwest customers will benefit from knowledge and skills gained in CenturyLink's IPTV trials. Current CenturyLink customers will benefit from Qwest's experience in building out its FTTN network. The combined company's financial resources will allow the company to better meet the challenge of providing broadband to more customers at higher speeds. In addition, more resources will be available to develop new services using platforms such as Internet protocols.

Q. PLEASE DESCRIBE HOW BUSINESS CUSTOMERS WILL BENEFIT FROM THE MERGER TRANSACTION

A. CenturyLink's regional operating model and targeted marketing focus coupled with Qwest's industry-leading network and strong business, government and wholesale focus will position the combined company to improve and expand deployment of innovative advanced products and services to business customers nationally and in Arizona. The combination creates a robust, national fiber network backbone network of approximately 180,000 miles with a distribution network serving over 17 million access lines across 37 states. The combined entity will be able to deliver strategic and customized product solutions to business, wholesale, and government customers throughout the nation by combining Qwest's significant national fiber-optic network and data centers and CenturyLink's core fiber network. The company will have increased ability to serve the needs of local, regional and national businesses and government agencies.

Q PLEASE SUMMARIZE HOW WHOLESALE CUSTOMERS WILL BENEFIT FROM THE MERGER TRANSACTION

A. The additional financial resources, combined network capacity and geographic reach afforded by the merger will allow the combined company to continue to serve the wholesale market as valued customers. For example, as the demand for broadband wireless services has mushroomed, the need for additional fiber capacity to serve cellular tower sites (often referred to as wireless backhaul) has increased dramatically. As noted above, Qwest is already committing significant resources to serve the increased demand from wireless carriers in its region, and the combined entity will possess the resources to continue this investment.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. CenturyLink and Qwest have filed a Notice and Application for Approval of the Merger between CenturyLink and Qwest. The Transaction easily meets the requirements of A.A.C. R14-2-803, as well as being consistent with the public interest, as shown by my testimony and the testimony of the other Joint Applicant witnesses.

The merger will not result in customer disruption or confusion as the combined entity's services will continue to be offered under the same regulatory regime that exists today in Arizona. The new company will abide by all of the regulatory obligations of all of its regulated entities in Arizona before the merger, including QC's Price Cap Plan obligations. Additionally, CLECs and Interexchange Carriers will continue to receive high quality wholesale services from the post-merger company at the rates, terms and conditions that are contained in current interconnection agreements and access tariffs.

The Transaction will result in a combined enterprise that can achieve greater economies of scale and scope than the two companies operating independently. CenturyLink has a very minor presence in Arizona today (and, the areas served by Qwest and CenturyLink in other states are generally complementary). Thus, the transaction will result in no competitive harm in Arizona (or elsewhere). Further, the combination of the serving areas will make it easier to implement operating efficiencies and infrastructure improvements. The combination of the company's strengths will allow the combined company to facilitate the deployment of additional bandwidth-intensive services such as broadband service and advanced business products.

Finally, the increased scale and scope afforded by the merger will allow the combined entity to better compete both nationally with the larger well-capitalized players in the market such as AT&T, Verizon, Cox, Comcast, and many others. This improved competitive positioning benefits customers by giving them more choices for their communications needs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

EXHIBIT JPC-1

Biography
James P. Campbell
Arizona State President

James (Jim) Campbell, Qwest's new Arizona State President, joined Qwest Communications in July of 2008. Prior to accepting the position at Qwest, Mr. Campbell managed the Denver law firm of Campbell, Killin, Brittan & Ray, LLC. He specialized in the areas of telecommunications, cable television franchising, general real estate and corporate law. Mr. Campbell represented regional and national telecommunications firms, including Qwest Communications and Adelphia Communications in regulatory, government affairs, cable television franchising, legislative general contract issues, telecommunications § 251 interconnection and right of way.

Prior to joining the law firm, Mr. Campbell was Vice President of Law and Public Policy for Media One, Inc., handling all legal and government affairs issues for the nation's fifth largest cable company for the eastern United States. After leaving Media One, Mr. Campbell went to work for Qwest Communications in Denver as Executive Director of Law and Public Policy, handling all local government affairs and right-of-way issues for the western United States regional Bell operating company.

Mr. Campbell has a B.A. in History from the University of Santa Clara and received his J.D. from the University of Denver in 1991. He is a member of the Denver Bar Association and is licensed in Colorado.

Mr. Campbell currently serves as President of the board of the southwest chapter of the Crohn's & Colitis Foundation. He also sits on the board of the Arizona Chamber of Commerce, the Phoenix Police Reserve Foundation and Project C.U.R.E. He is a member of the United Way Campaign Committee and the 2011 All Star Game Selection Committee of the Arizona Diamondbacks. He previously served on the boards of Regis Jesuit High School, Crohn's Colitis Foundation, Mount St. Vincent Home for Children and the Florida and Virginia Cable Telecommunications Associations.

He and his wife, Deb, have two daughters.

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN MAYES
Chairman
GARY PIERCE
Commissioner
SANDRA KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BOB STUMP
Commissioner

JOINT NOTICE AND APPLICATION OF QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP., EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURY LINK COMMUNICATIONS, EMBARQ PAYPHONE SERVICES, INC. D/B/A/ CENTURYLINK, AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	)	**DOCKET NO. T-01051B-10-0194** **DOCKET NO. T-02811B-10-0194** **DOCKET NO. T-04190A-10-0194** **DOCKET NO. T-20443A-10-0194** **DOCKET NO. T-03555A-10-0194** **DOCKET NO. T-03902A-10-0194**

DIRECT TESTIMONY

OF

TODD SCHAFER

ON BEHALF OF

EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURYLINK COMMUNICATIONS

EMBARQ PAYPHONE SERVICES, INC. D/B/A/ CENTURYLINK, AND

CENTURYTEL SOLUTIONS, LLC

MAY 24, 2010

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I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Todd Schafer and my business address is 14111 Capital Blvd, Wake Forest, NC 27587.

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

A. I am employed by CenturyLink as the President for the Mid Atlantic Region.

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

A. In 1987, I graduated with a B.S. from the University of Wisconsin-Stevens Point majoring in both Business Administration-Finance as well as Managerial Accounting. Immediately after graduation, I joined the Audit Division of Arthur Andersen & Co. For 3 ½ years, my role was to perform audit work at various clients.

In 1991, I became the Vice President of Urban Telephone Corporation, a subsidiary of Rochester Telephone Corporation in Clintonville, Wisconsin. Rochester Telephone later changed its name to Frontier Corporation which is now part of Citizens Communications operating under the Frontier brand name.

In 1993, I became the State of Wisconsin General Manager responsible for the five telecommunications companies owned by Frontier in Wisconsin. From 1993 until early 2001, my role as State General Manager was to oversee and lead all activities for the companies in Wisconsin including all the day to day operations, customer service, community relations, financial performance, network investment and performance, competitive and regulatory direction as well as the integration of the five once independently owned and operated companies into Frontier's Regional operating model.

In early 2001, I began working for CenturyTel becoming the General Manager for its wireline and wireless operations in eastern Wisconsin and the Upper Peninsula of Michigan. As the General Manager, my responsibility was to lead the eastern Wisconsin market responsible for overall financial performance, level of service, customer facing sales distribution, market competitiveness and network development.

In 2004, I became the Regional Vice President responsible for CenturyTel's Southern Region. From 2004 until June 2009, my role as Regional Vice President was to lead the overall performance of the eight states in the region. Financial performance, level of service, customer facing sales distribution, market competitiveness and daily operations were elements of my responsibility.

Since July 2009, I have been the President of the Mid Atlantic Region of CenturyLink leading the results for the five states in the region. My role is very similar to the role I had for CenturyTel's Southern region but significantly larger in customer and employee counts.

II. INTRODUCTION

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am testifying in support of the Joint Application ("Application") filed by operating subsidiaries[1] of CenturyTel, Inc., d/b/a CenturyLink ("CenturyLink")[2] and operating subsidiaries[3] of Qwest Communications International Inc. ("Qwest") with the Arizona Corporation ("Commission") on May 13, 2010. My

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[1] The CenturyLink, Inc. subsidiaries filing the Application are: Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC.

[2] CenturyTel, Inc. will change its name to CenturyLink, Inc. with shareholder approval on May 20, 2010.

[3] The Qwest subsidiaries filing the Application are: Qwest Corporation ("QC"), Qwest Communications Company LLC ("QCC"), and Qwest LD Corp., ("QLDC").

testimony will provide a brief overview and history of CenturyLink, including a description of the company's demonstrated ability to successfully complete the integration process associated with prior acquisitions. In addition, I will describe CenturyLink's highly localized business model which focuses on empowering local personnel to meet the distinct needs of the markets they serve and places the customer at the center of what the company does.

Q. PLEASE GIVE A BRIEF OVERVIEW AND HISTORY OF CENTURYLINK.

A. CenturyLink is a holding company that conducts business principally through wholly-owned subsidiaries that offer a broad array of high-quality communications products and services. These products and services are provided to consumers and businesses in 33 states. Headquartered in Monroe, Louisiana, CenturyLink is an S&P 500 company and has been listed in the Fortune 500 list of America's largest corporations. As of December 31, 2009, CenturyLink provided "ILEC" services over approximately seven million access lines, and high-speed Internet and data transmission services to over 2.2 million customers. With its exceptional network infrastructure, localized approach to service and its commitment to invest in broadband, CenturyLink has been a leading provider of advanced broadband services in the majority of the markets it serves. The company currently employs about 20,000 employees.

CenturyLink started as a single-exchange, family-run local telephone company in 1930. Throughout the years, CenturyLink has grown its operations into new markets by successfully acquiring and integrating companies, properties, and assets and improving and expanding services in those markets. As I will discuss in more detail below, many of these acquisitions have been relatively large transactions that greatly expanded the then-existing company's size and footprint. The company also acquired significant fiber assets in 2003 and 2005 which has enabled it to develop and grow an extensive, high-speed optical core network that provides wholesale and retail fiber transport services to customers all across the United States.

Q. COULD YOU EXPAND UPON THE WIDE ARRAY OF COMMUNICATIONS SERVICES THAT CENTURYLINK PROVIDES?

A. Yes. These services include a host of local and long-distance voice, high-speed Internet, video entertainment and wholesale local network access services, as well as a variety of broadband and high bandwidth services. In various areas, CenturyLink also offers security monitoring, home networking, data hosting, national and metro Ethernet, systems/network management and other professional, business and information services. To secure its position as a leading provider of advanced broadband services, the company has invested heavily not only to extend its fiber core network, but also to deploy fiber deeper into its local networks. CenturyLink has been a leader in the launching of DSL offerings and is expanding or preparing to expand its Internet protocol television (IPTV) product into additional locations which is made possible by the investment in faster broadband speeds. We are in the process of building out and turning up additional IPTV markets. We anticipate staggered turn ups with availability to significant customer bases throughout the rest of 2010 and the first half of 2011. The deployments are in addition to current deployments in Columbia and Jefferson City, Missouri, and Lacrosse, Wisconsin.

III. CENTURYLINK'S CONSOLIDATION HISTORY

Q. YOU HAVE STATED THAT CENTURYLINK HAS GROWN OVER TIME IN PART DUE TO A NUMBER OF SUCCESSFUL, STRATEGIC ACQUISITIONS. PLEASE DESCRIBE CENTURYLINK'S CONSOLIDATION HISTORY.

A. CenturyLink is an American business success story. What started as a family run business being operated from the parlor of a residence in northeastern Louisiana, has grown into one of the most well-respected national communications companies in the United States. Over the years, the company has successfully completed and integrated a number of acquisitions which has enabled the company to expand its national footprint and build upon its commitment to provide excellent customer service and to improve its network. With each transaction, the company has been able to increase in size and financial strength, enabling it to improve the range of services, enhance customer service and place itself in a more stable financial position.

Exhibit TS-1, which I have attached and made part of testimony, illustrates a timeline of the various acquisitions. While there are a number of examples which illustrate the company's expertise in this area as shown on Exhibit TS-1, let me speak to several of the larger ones. In the late 1990's, CenturyLink added approximately 600,000 access lines across twelve states when it acquired Pacific Telecom, Inc. At that time, the transaction more than doubled the size of the company. Over the next few years, the company engaged in a series of acquisitions that once again doubled the company's size when it added another 1.2 million access lines acquired from GTE, Ameritech, and Verizon, concentrated primarily in Alabama, Arkansas, Missouri, and Wisconsin. These acquisitions significantly expanded its presence in those states and demonstrated the company's ability to not only grow rapidly, but to also successfully integrate and operate nearly two million new access lines serving wholesale, business and residential customers. Most recently, CenturyLink acquired Embarq Corporation ("Embarq") and its 5.4 million access lines, which more than tripled the size of the company.

In each case, the integration efforts have been successful. Billing, financial and customer care system conversions have been executed smoothly and in accordance with established time frames. These efforts have included standardizing key operational processes, making strategic investments in infrastructure, aligning and holding employees accountable, providing advanced technical support in the field, enhancing communication strategies and increasing and streamlining training, among other things. Overall, the company has maintained a sharp focus on accountability and commitment at all levels of management to achieving a successful transition.

CenturyLink's senior executive management team has one of the longest tenures in the industry, and is recognized by the financial community as one of the most successful and experienced in managing mergers and acquisitions. CenturyLink is confident that, with the combined experience and leadership abilities of the management teams, the execution of this integration will be as smooth and successful as the Embarq integration and others have been in the past.

Q. WOULD YOU PROVIDE EXAMPLES OF THAT INTEGRATION PROCESS?

A. Absolutely. The best way to describe our approach to integration and other M&A processes is that the entire company works holistically to ensure that all operating units and departments are working in unison to achieve business and integration objectives. Regardless of the size of the acquisition, the company establishes carefully developed integration plans and targeted timelines for all relevant functional areas with clearly defined owners and metrics to measure progress.[4] CenturyLink's integration success is attributable to learning from each transaction, establishing workable schedules and action plans and then executing on those plans. Minimizing customer confusion and disruptions are over-arching goals of our integration process.

As an example, on July 1, 2009 CenturyTel closed on its acquisition of the much larger Embarq in a sizeable transaction which created a leading communications

[4] A graphic illustration of some of the major tracked milestones associated with integration of the Embarq transaction is attached hereto as Exhibit TS-2.

service provider which as of the end of 2009 had 7 million access lines, 2.2 million broadband customers and 535,000 video customers in 33 states. The company's significant, focused, and meaningful, progress since the CenturyTel/Embarq closing in July 2009 is indicative of its ability to successfully integrate acquisitions and its foresight in anticipating growth as it makes operational or system decisions. For example, several years ago CenturyLink made significant investment in and upgraded its financial and billing systems in order to deliver integrated, customer service and improved levels of financial accountability. These system upgrades were made with an eye towards future expansion which has enabled CenturyLink to quickly and seamlessly reach many key integration milestones. Consequently, very quickly after close, financial and human resource systems were converted. Within months, a phased schedule for converting customer billing systems was implemented. Already, approximately 25 percent of the access lines served by former Embarq systems have been successfully and seamlessly converted to CenturyLink's single integrated retail customer service and billing system. Another 25% of former Embarq access lines are expected to convert by year end 2010, with the remaining access lines converted by the third Quarter of 2011, or within about 24-27 months after closing.

The successful integration of Embarq has not been limited to systems however. Since the closing, CenturyLink has expanded its core fiber network by building or leasing fiber optic transport to connect former Embarq and CenturyTel markets in the western United States with markets on the east coast. As a result, CenturyLink's long-haul network now connects 90 percent of its service areas, reducing costs and creating revenue opportunities from new service opportunities. IPTV has been deployed in former Embarq markets and the company is ramping up its initiative to deploy IPTV in other locations. Broadband deployment has continued with the introduction of new products such as "Pure Broadband."

Broadband speeds and additional deployment to unserved areas have increased in multiple markets. And, CenturyLink has been deploying its "triple play" offering to bring more competition to customers in multiple-dwelling-unit buildings—a customer segment that was not a significant focus for former Embarq.

In addition to system conversions and network deployment, the company finalized the budgeting process, completed organizational design and many staffing decisions, and launched a new brand. On the day of closing, the company had its five-region "go-to-market" concept in place and operational. The region concept has successfully brought renewed local focus to all markets. The success of the concept has been defined and demonstrated by a local leadership structure that is focused on the local needs of communities and customers and the importance of maintaining a local market presence.

IV. CENTURYLINK'S REGIONAL "GO-TO-MARKET" MODEL

Q. YOU MENTION THE EFFECTIVENESS OF CENTURYLINK'S FIVE-REGION "GO-TO-MARKET" CONCEPT. PLEASE EXPLAIN THE ATTRIBUTES OF THAT OPERATING MODEL IN MORE DETAIL.

A. The region organizational structure brings our business closer to the customer and provides a localized approach. Upon completion of the Embarq transaction, CenturyLink implemented its proven "go-to-market" service delivery model, which presently includes five regions and 22 market clusters in the 33 states in which the company operates.[5] A regional president oversees each of the five regions, and a general manager and various operations managers are assigned to

[5] An illustration of how the regional management approach and its components fit within the overall Go-to-Market Service Delivery Model is attached hereto as Exhibit TS-3. A map showing the five regions implemented at close of the Embarq transaction is attached hereto as Exhibit TS-4.

each of the market clusters. This more de-centralized local structure enables a leaner, more efficient central corporate operation. Placing a significant percentage of company leadership in the field creates a clear local market focus, which drives operations and service decision-making closer to the customer. Together with CenturyLink's integrated retail customer care and billing system, this model promotes more accountability to the customer. The company is able to provide more direct and localized service and can respond to customers and competition more quickly, on a market-by-market basis. Essentially, this model focuses on empowering local personnel to meet the distinct needs of their markets and places the customer at the center of what the company does.

Q. WILL THAT MODEL BE INCORPORATED INTO THE AREAS OF QWEST'S OPERATIONAL STRUCTURE UPON THE COMPLETION OF THE TRANSACTION?

A. Yes, we anticipate it likely will, as CenturyLink's structure has proven to be a successful service delivery model. No changes will be made prior to closing, and we will first need to evaluate Qwest's structure and consider adjustment to the configurations necessarily to fit the newly merged operations and to ensure that any modifications continue to meet customer expectations.

Q. HAS CENTURYLINK FOUND THE LOCALLY FOCUSED BUSINESS MODEL APPROACH WORKS WELL IN URBAN MARKETS AS WELL AS RURAL?

A. Yes. CenturyLink's business model is focused on driving accountability to customers and results of the market at a local level. Markets often differ for many more reasons than population densities as even urban markets have differing levels of competition, customer needs, and unique attributes. For example, while the CenturyLink Ft. Myers, FL and Las Vegas, NV markets are clearly both urban markets, they have varying customer-types, demographics, and competitive activities between these markets. Having dedicated General Managers and their local teams in both markets helps to more clearly distinguish those unique elements and significantly improves our ability to adjust our specific strategies and tactics to meet the needs of each individual market.

Q. IN DISCUSSING A MORE LOCALIZED SERVICE APPROACH, YOU REFER TO THE COMPANY'S CUSTOMER CARE SYSTEMS. DO YOU HAVE ANY EXAMPLES OF IMPROVEMENTS THAT HAVE ENHANCED THE ABILITY OF CENTURYLINK TO PROVIDE MORE TARGETED, LOCALIZED CUSTOMER SERVICE?

A. Yes. CenturyLink employs a "neighborhood" approach to customer service call centers that enables customer calls to be matched with associates that are trained to understand the nuances of the state. The neighborhoods are designed and grouped to align available staffing with the needs of the states that are included in that group. Through the neighborhood approach, customer service associates have a focus and an "ownership" of the states for which they are responsible. They understand the service offerings in that region and are even aware of current happenings in the area as the call screens have the ability to provide real time information about the locale so that there is a real connection between the associate and the customer. This is another approach that likely will be adopted during the integration of Qwest.

Q. DOES THIS LOCALLY FOCUSED APPROACH HELP YOU TO ADDRESS THE CHANGING NATURE AND CHALLENGES OF THE BUSINESS THAT MS. MCMILLAN DISCUSSES IN HER TESTIMONY?

A. Absolutely. As Ms. McMillan discusses, there is no question that the communication industry has changed dramatically in the last several years. Customers now have, more service and provider options and more varied expectations that carriers must meet. While all markets change, markets do not all change in the same way or at the same speeds. As I mentioned, even two markets that share some common characteristics such as the two urban markets of

Ft. Myers and Las Vegas, still have unique needs that are best served through a locally focused approach that can more quickly determine and address the changes in the market.

V. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS?

A. Yes. The Transaction brings together two leading communications companies with complementary networks and operating footprints. By building on each company's operational and network strengths, the combined company will have an impressive national presence with the local depth that will allow it to better serve all of its customers. The combination creates a company that will be well-positioned to lead the deployment of advanced services, as well as successfully managing the challenging and rapidly changing telecommunications environment in order to provide safe. reasonable, and reliable service to its customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT TS-1

CenturyLink – Experienced Consolidator

1997 – Acquisition of Pacific Telecom, Inc.; 600k access lines in 12 states (doubled the size of CTL); $1.3 billion

1998 – Acquired 89k access lines from Ameritech in WI; $221 million

2000 – Acquired 490k access lines from GTE in AR, MO & WI; $1.5 billion

2002 – Sold Wireless Properties to Alltel; $1.6 billion

2002 – Acquired 650k access lines from Verizon in AL & MO; $2 billion

2005 – Acquired fiber assets in 2003 & 2005 to enhance LightCore; $120 million

2007 – Acquisition of Madison River Com.; 165k access lines in 4 states; $830 million

2009 – Acquired Embarq Corporation; 5.4m access lines; (more than tripling the size of CTL) $11.6 billion

EXHIBIT TS-2

Integration Timelines

Embarq Transaction

July 1 -

- Transaction close
- CenturyLink region operating model launch

YE 2010
~ 50% customer conversion completion target

3Q 2011
~ 100% customer conversion completion target

2009 | 2010 | 2011 | 2012

October 2009 -

- Financial & HR systems conversion
- Brand Launch
- OH customer conversion

May 2010 -

- ~ 25% Customer conversions complete (OH & NC)

1H 2011
~100% LD traffic migration target

Qwest Transaction

Anticipate 1H2011 transaction close

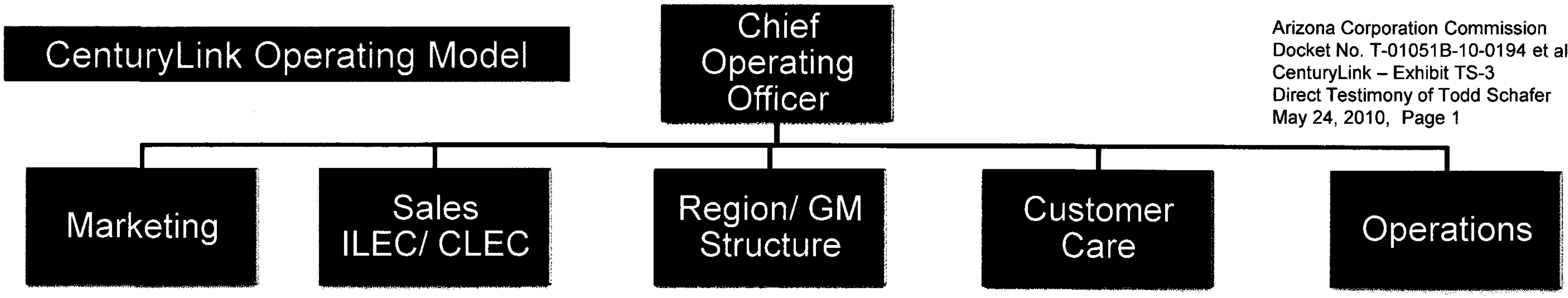
Integration process continues

2011 | 2012

EXHIBIT TS-3

Arizona Corporation Commission
Docket No. T-01051B-10-0194 et al.
CenturyLink – Exhibit TS-3
Direct Testimony of Todd Schafer
May 24, 2010, Page 1

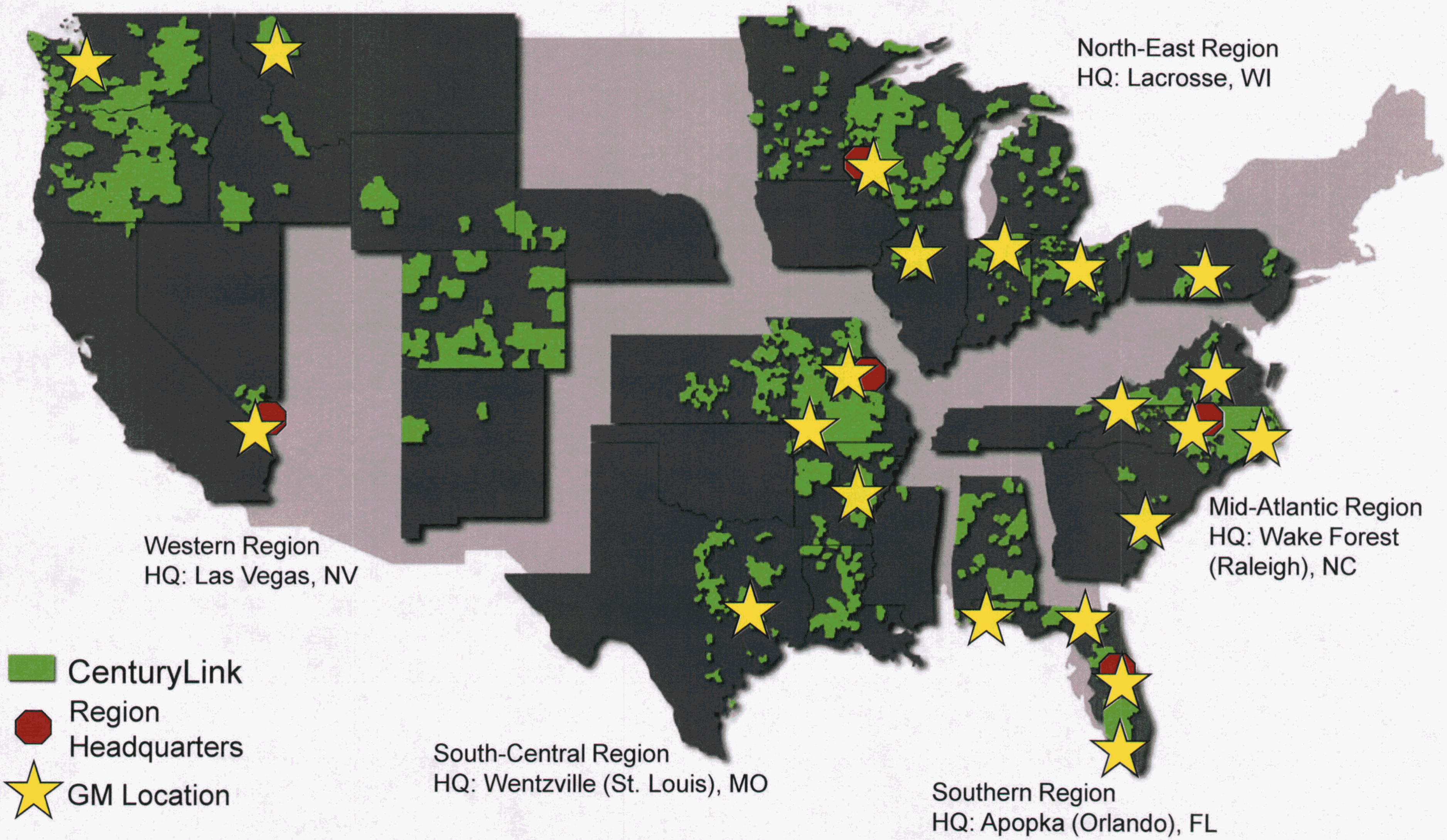
CenturyLink Operating Model



- RVP/GM Structure
- Area Ops Manager
- Area Plant Supervisors
- Technicians
- Community Focus
- Local Consumer Distribution:
  - Retail stores
  - Door to Door Sales
  - Multi Dwelling Unit Sales

Proven Go-to-Market Service Delivery Model

EXHIBIT TS-4


North-East Region
HQ: Lacrosse, WI
Mid-Atlantic Region
HQ: Wake Forest
(Raleigh), NC
Western Region
HQ: Las Vegas, NV
South-Central Region
HQ: Wentzville (St. Louis), MO
Southern Region
HQ: Apopka (Orlando), FL
CenturyLink
Region
Headquarters
GM Location

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
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JOINT NOTICE AND APPLICATION OF QWEST CORPORATION, QWEST COMMUNICATIONS COMPANY, LLC, QWEST LD CORP., EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURY LINK COMMUNICATIONS, EMBARQ PAYPHONE SERVICES, INC. D/B/A/ CENTURYLINK, AND CENTURYTEL SOLUTIONS, LLC FOR APPROVAL OF THE PROPOSED MERGER OF THEIR PARENT CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	DOCKET NO. T-01051B-10-0194 DOCKET NO. T-02811B-10-0194 DOCKET NO. T-04190A-10-0194 DOCKET NO. T-20443A-10-0194 DOCKET NO. T-03555A-10-0194 DOCKET NO. T-03902A-10-0194

DIRECT TESTIMONY

OF

JEFF GLOVER

ON BEHALF OF

EMBARQ COMMUNICATIONS, INC. D/B/A/ CENTURY LINK

COMMUNICATIONS EMBARQ PAYPHONE SERVICES, INC. D/B/A/

CENTURYLINK, AND

CENTURYTEL SOLUTIONS, LLC

MAY 24, 2010

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Direct Testimony of Jeff Glover

I. IDENTIFICATION OF WITNESS

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, Inc. ("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 Notice and Application for Approval of Merger ("Application") filed with the Arizona Corporation Commission ("Commission") on May 13, 2010, by certain subsidiary corporations[1] of CenturyLink, Inc.[2] ("CenturyLink") and certain subsidiary corporations[3] of Qwest Communications International Inc. ("Qwest"), for the merger of their parent

[1]The CenturyLink subsidiary corporations named in the filing are Embarq Communications, Inc. d/b/a CenturyLink Communications, Embarq Payphone Services, Inc. d/b/a CenturyLink, and CenturyTel Solutions, LLC. It is my understanding that these subsidiaries are "public service corporations" under Arizona law.
[2] CenturyLink, Inc. was known as CenturyTel, Inc. as of the date of the Application.
[3] Qwest Corporation ("QC"), Qwest Communications Company LLC ("QCC") and Qwest LD Corp. ("QLDC"). It is my understanding that these subsidiaries are "public service corporations" under Arizona law, and are each a "public utility" under the Arizona Affiliated Interests Rules (A.A.C. R14-2-803 et seq.).

corporations CenturyLink and Qwest. My testimony will provide a detailed overview of the financial characteristics of the combined parent company arising from the proposed transaction. Further, my testimony will support and demonstrate that the combination affirmatively creates benefits for customers and the State of Arizona, meets the requirements of the Commission's Affiliated Interests Rules, and is in the public interest.

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

A. Yes. I have reviewed the testimonies of Kristin McMillan and Todd Schafer, representing CenturyLink, and James P. Campbell, representing Qwest, all of whom provide detail 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.

III. EXECUTIVE SUMMARY

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[4]; (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 which show that this combination should be approved under the financial standards required by the Commission's Affiliated Interest Rules, because the financial status of the "public utilit[ies]" and their ability to attract capital at fair and reasonable terms will not be impaired. Further, my testimony will demonstrate that this combination is in the public interest. 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;
2. The financially-based affirmative benefits of the proposed transaction; and

[4] 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.

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,[5] and more than one million enterprise customers. At year-end 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),[6] excluding any estimated synergies, of $3.4 billion.[7] With 2009 pro forma combined net leverage of 2.4 times before

[5] *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 (JG-1). References to individual slides will refer to them by their original slide number.

[6] *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."

[7] Merger Conference Call, slide 8.

synergies and 2.2 times after run-rate estimated synergies (both ratios calculated excluding one-time integration costs),[8] the merged company is 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.[9] Using 2009 pro forma financials, the merged company would have had a reasonable 45% 2009 pro forma dividend payout ratio.[10] 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 communications services to customers and communities across the country.

[8] 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.
[9] Merger Conference Call, slide 6.
[10] Merger Conference Call, slide 7.

IV. REQUIREMENTS OF THE ARIZONA AFFILIATED INTEREST RULES

Q. CAN YOU ADDRESS THE SPECIFIC FINANCIAL DISCLOSURES REQUIRED BY THE ARIZONA COMMISSION AFFILIATED INTEREST RULES?

A. My understanding is that from a financial perspective, the Arizona Affiliated Interest Rules, specifically A.A.C. R14-2-803(C), requires the Commission to determine whether the merger will impair the financial status of the public utilities, otherwise prevent them from attracting capital at fair and reasonable terms, or impair the ability of the public utilities to provide safe, reasonable and adequate service.[11] In connection with that standard of review, A.A.C. R14-2-803(A) requires certain financial information related to: (i) the proposed method of financing and the resultant capital structure of the holding company, (ii) the capital structure of the "public utility," (iii) changes in cost of service/cost of capital, and (iv) access to capital for construction of new plant and improvements to existing plant. I will address directly these in summary here, but note that more detailed information regarding each can be found later in my testimony. In terms of the transaction financing, the proposed merger involves a stock-for-stock exchange that will require no new financing or refinancing and will add no new debt to the combined company's balance sheet. Regarding the capital structure of

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[11] The "public utilit[ies}" here, according to the definition in the Affiliated Interests Rules, are the Qwest operating entities which joined in the Application.

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 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. More specifically, the merged company will have a stronger balance sheet, improved credit quality, and higher levels of free cash flow than those of pre-merger Qwest. In short, the proposed transaction will not result in an impairment 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.

V. 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,[12] resulting in an $18.43 billion total enterprise value (equity market capitalization plus net debt).

[12] Market capitalization is based on 299.57 million shares outstanding and a closing price of $36.21 on the New York Stock Exchange on December 31, 2009.

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.[13] 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 capitalization of $7.19 billion at the end of 2009,[14] resulting in an $18.98 billion total enterprise value.

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

[14] Market capitalization is based on 1.707 billion shares outstanding and a closing price of $4.21 on the New York Stock Exchange on December 31, 2009.

VI. FINANCIALLY-BASED AFFIRMATIVE BENEFITS OF THE TRANSACTION.

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 a wholly-owned subsidiary of 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.[15] 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.[16] 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.[17] 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 December 31,

[15] Merger Conference Call, slide 6.
[16] *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.
[17] *Id.*, slide 6.

2009.[18] 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.

[18] *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 approximately $3.4 billion in free cash flow[19] 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 approximately $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.[20] 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

[19] *Id.*, slide 8.
[20] Merger Conference Call, slide 6.

$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 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.[21] 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

[21] 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%.

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 years.[22] 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 other testimonies, 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).

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[22] 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 JG-2.

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 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).[23] 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?

[23] 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.

A. Yes. The pattern is that CenturyLink has added debt at the time of acquisitions and consistently has reduced those 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 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 year-end 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 "CenturyTel management's commitment to an investment grade rating and its historically balanced use of free cash flow between debt reduction and shareholder returns."[24] CenturyLink intends to apply this same discipline in strengthening the merged company's balance sheet following consummation of the proposed transaction.

VII. SPECIFIC FINANCIAL CHARACTERISTICS OF THE MERGED COMPANY

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

[24] Moody's Investors Service, *Rating Action: Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade*, April 22, 2010 [hereafter "Moody's, April 2010]; attached hereto as Exhibit JG - 3.

A. The two companies chose to avoid incurring any additional debt. Thus, the price[25] 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.[26]

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 standalone 2009 net leverage was 2.7 times.[27] 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

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[25] 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.
[26] 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.
[27] Merger Conference Call, slide 12.

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. Yes. 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.[28] 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.

Q. IS QWEST IN THE PROCESS OF REDUCING DEBT?

[28] Merger Conference Call, slide 8.

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.[29] 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.

[29] *Q1 2010 Qwest Communications Earnings Conference Call*, Transcript, May 5, 2010.

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 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.[30] 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.[31] 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

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[30] Moody's, April 2010.
[31] 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 JG-4.

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 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%.[32] 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.[33] Additionally, the combined company's estimated payout ratio compares favorably with AT&T's 2009 ratio of 57% and Verizon's ratio of 67%.[34] 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.

[32] Merger Conference Call, slide 7.
[33] Merger Conference Call, slide 12.
[34] AT&T's 2009 payout ratio is based on dividends of $9.67 billion and free cash flow of $17.11 billion; Verizon's 2009 dividends were $5.27 billion while the free cash flow was $7.669 billion (after adjusting to exclude Vodafone's minority ownership of 45% ($6.649 billion) of Verizon Wireless' free cash flow).

VIII. SUMMARY

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 both 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.

The merger should be approved. As the foregoing demonstrates, the merger strengthens the financial status of the Joint Applicants, enhances the financial strength of the merged Qwest entities especially, and in no way impairs their ability to acquire capital at fair and reasonable terms, or to provide safe, reasonable and adequate service to customers. Accordingly, the requirements of the Affiliated Interest Rules are well satisfied. The Commission may also take comfort that the merged company will be financially strong, and the proposed transaction is, in all respects, in the public interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

EXHIBIT JG-1

CenturyLink and Qwest Merger Conference Call

Thursday, April 22, 2010

Arizona Corporation Commission
Docket No. T-01051B-10-0194, et al.
CenturyLink – Exhibit JG-1
Direct Testimony of Jeff Glover
May 24, 2010

CenturyLink™

Qwest®

Safe Harbor Language

Except for the historical and factual information contained herein, the matters set forth in this presentation, including statements regarding the expected timing and benefits of the acquisition such as efficiencies, cost savings, enhanced revenues, growth potential, market profile and financial strength, and the competitive ability and position of the combined company, and other statements identified by words such as "estimates," "expects," "projects," "plans," and similar expressions are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the ability of the parties to timely and successfully receive the required approvals of regulatory agencies and their respective shareholders; the possibility that the anticipated benefits from the acquisition cannot be fully realized or may take longer to realize than expected; the possibility that costs or difficulties related to the integration of Qwest's operations into CenturyLink will be greater than expected; the ability of the combined company to retain and hire key personnel; the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry; the ability of the combined company to effectively adjust to changes in the communications industry and to successfully introduce new product or service offerings on a timely and cost-effective basis; any adverse developments in commercial disputes or legal proceedings; the ability of the combined company to utilize net operating losses in amounts projected; changes in our future cash requirements; and other risk factors and cautionary statements as detailed from time to time in each of CenturyLink's and Qwest's reports filed with the Securities and Exchange Commission (SEC). There can be no assurance that the proposed acquisition will in fact be consummated. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the acquisition or the combined company. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. Unless legally required, CenturyLink and Qwest undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Additional Information

CenturyLink and Qwest plan to file a joint proxy statement/prospectus with the SEC. INVESTORS ARE URGED TO READ THE JOINT PROXY STATEMENT/PROSPECTUS WHEN IT BECOMES AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION. You will be able to obtain the joint proxy statement/prospectus, as well as other filings containing information about CenturyLink and Qwest, free of charge, at the website maintained by the SEC at www.sec.gov. Copies of the joint proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the joint proxy statement/prospectus can also be obtained, free of charge, by directing a request to CenturyLink, 100 CenturyLink Drive, Monroe, Louisiana 71203, Attention: Corporate Secretary, or to Qwest, 1801 California Street, Denver, Colorado 80202, Attention: Shareholder Relations, 51st Floor. The respective directors and executive officers of CenturyLink and Qwest and other persons may be deemed to be participants in the solicitation of proxies in respect of the proposed transaction. Information regarding CenturyLink's directors and executive officers is available in its proxy statement filed with the SEC by CenturyLink on April 7, 2010, and information regarding Qwest directors and executive officers is available in its proxy statement filed with the SEC by Qwest on March 17, 2010. These documents can be obtained free of charge from the sources indicated above. Other information regarding the interests of the participants in the proxy solicitation will be included in the joint proxy statement/prospectus and other relevant materials to be filed with the SEC when they become available. This communication shall not constitute an offer to sell or the solicitation of an offer to sell or the solicitation of an offer to buy any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended.

Participants

Glen F. Post, III
Chief Executive Officer & President, CenturyLink

Edward A. Mueller,
Chairman & Chief Executive Officer, Qwest

R. Stewart Ewing, Jr.
Chief Financial Officer, CenturyLink

Joseph J. Euteneuer
Chief Financial Officer, Qwest

Transaction Overview

Glen F. Post, III

CEO & President, CenturyLink

CenturyLink™

Qwest

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

CenturyLink™

Qwest

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

Compelling for Shareholders (cont'd)

Well positioned strategically with significant scale and scope

- National breadth and local depth with a compelling array of broadband products and services
- Diverse markets and revenues
- Strong growth platform - enterprise, broadband and enhanced services
- Attractive strategic product and service partner

Enhanced shareholder value, sustainable dividend and financial flexibility

- Free cash flow accretive upon closing
- Significant synergies: $625 million run-rate [a] with NPV of $3.3 billion
- Attractive tax assets: $5.8 billion NOLs with NPV of $1.7 billion
- Improved 2009 payout ratio from 54.8% to 45.1% (after run-rate synergies)
- Conservative capital structure

Experienced management team with strong integration track record

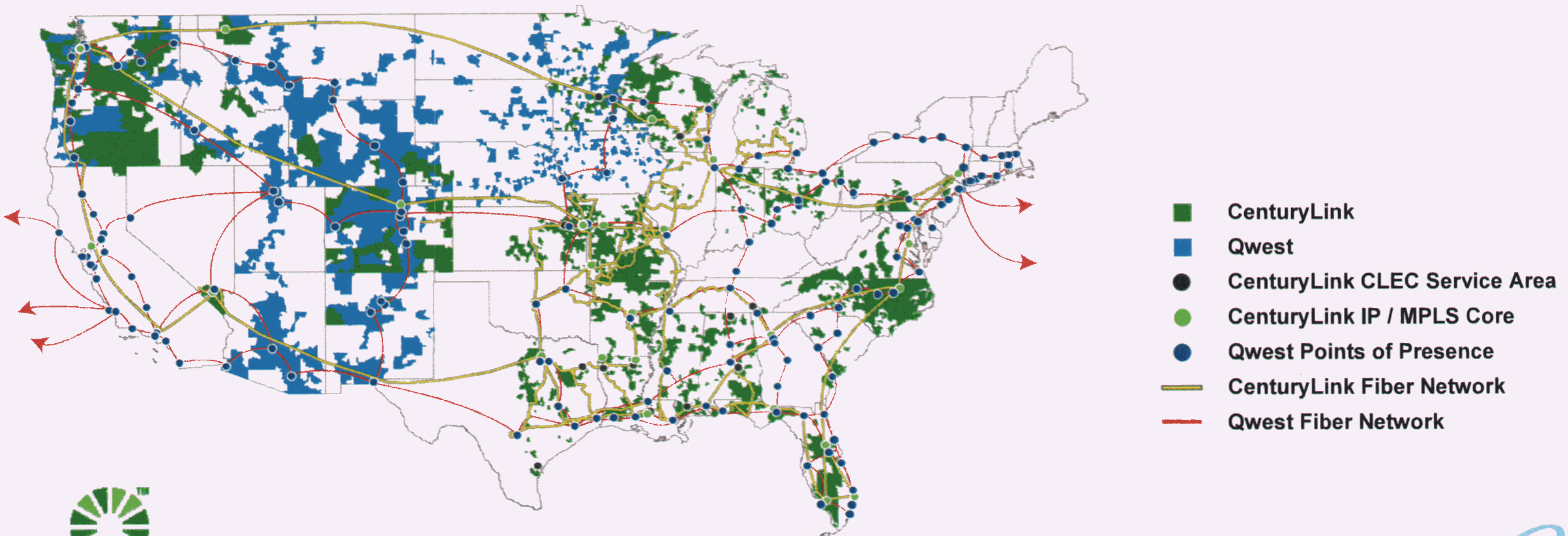
(a) Includes $575 million of run-rate operating expense synergies and $50 million of run-rate capex synergies

A Local Operating Model with A Premier Nationwide Network

Transformational transaction will create a nationwide, industry-leading communications company with national breadth and local depth

National Breadth
- Approximately $5 billion of pro forma 2009 enterprise revenue
- Serves more than 95% of Fortune 500 companies
- Leverages fiber network to lower costs and expand on-net footprint

Local Depth
- CenturyLink's operating model focus on local accountability
- Sales and services closer to the customer



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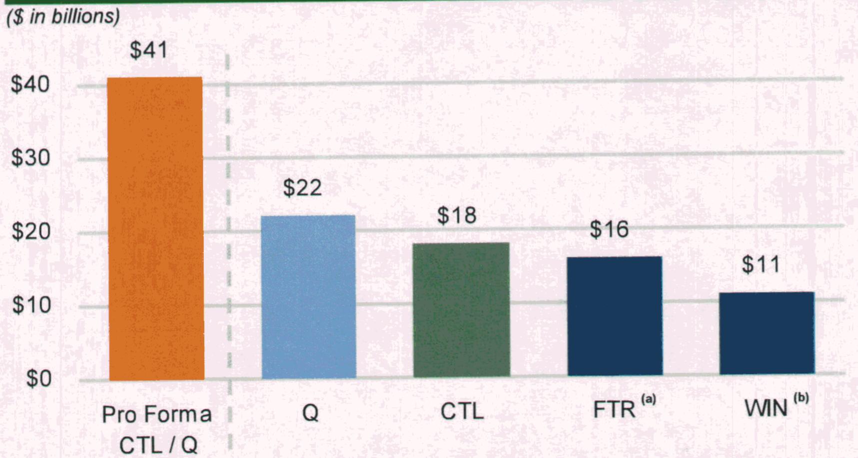
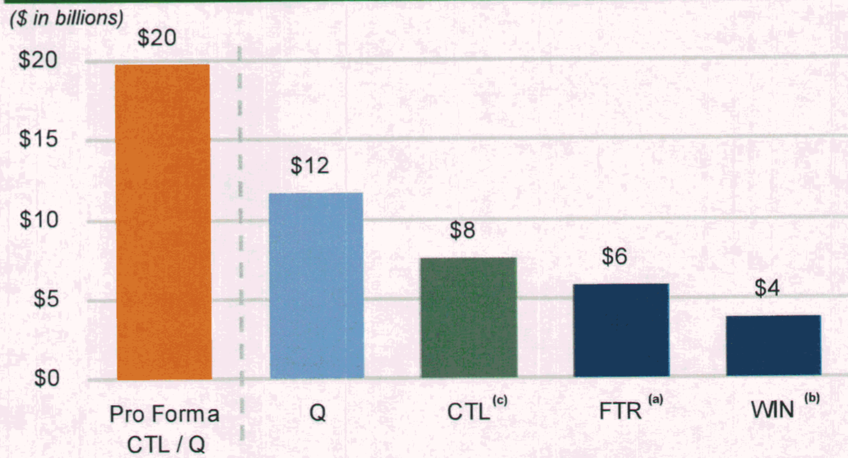
Enhanced Scale, Scope and Reach

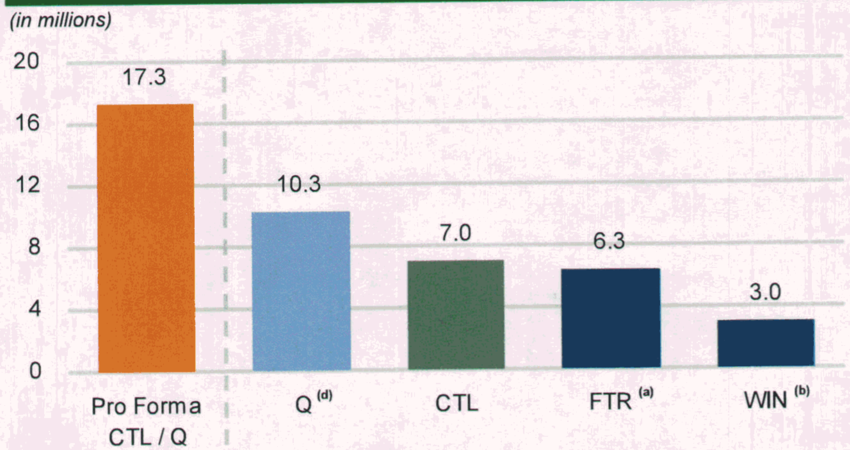
Firm Value



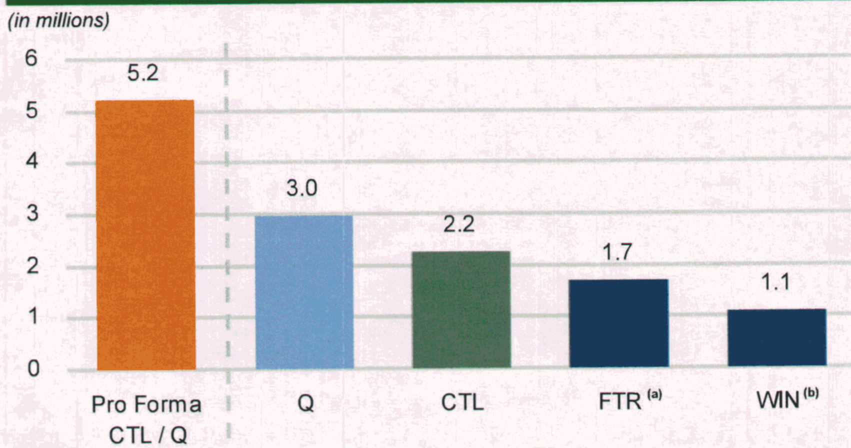
2009 Revenue



2009 Access Lines



2009 Broadband Subscribers



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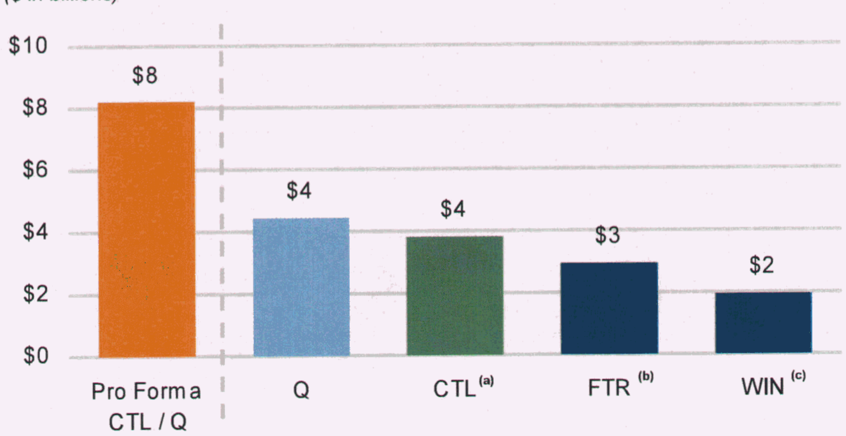
Source: Company filings
Note: Firm value as of April 21, 2010
(a) Pro forma for Frontier's acquisition of Verizon assets
(b) Pro forma for Windstream's acquisition of Nuvox; Not pro forma for acquisition of Iowa Telecom
(c) Pro forma for CenturyTel's acquisition of Embarq
(d) Includes ~403k affiliate access lines

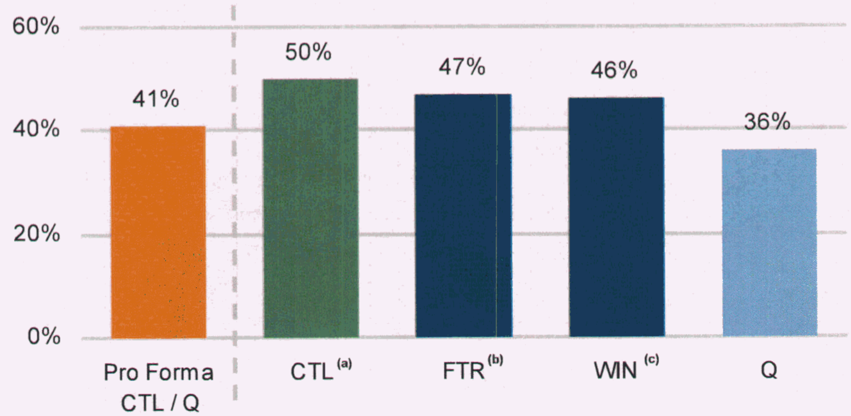
Qwest

Attractive Financial Profile

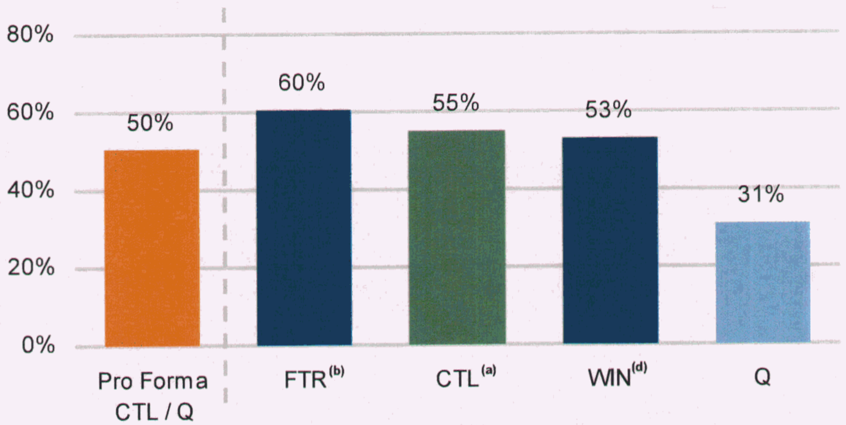
2009 EBITDA



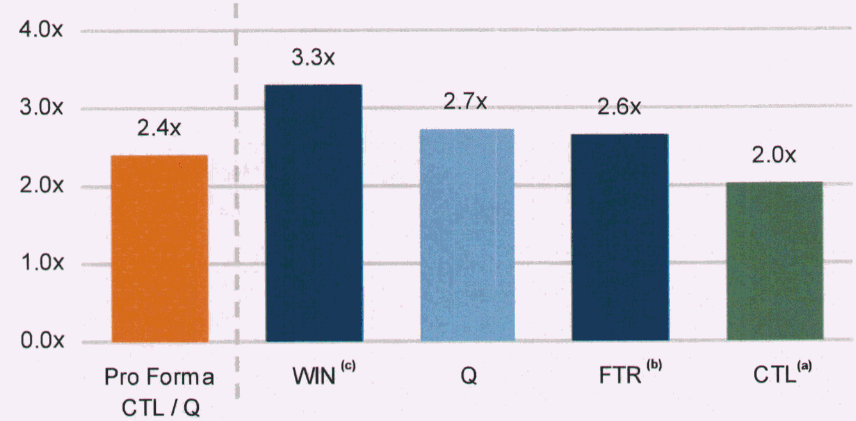
2009 EBITDA % Margin



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	$650 - $800 million
	• One-time capital costs to achieve synergies	$150 - $200 million

CenturyLink™

Qwest

Governance

Chairman of the Board:	William A. Owens
Chief Executive Officer & President:	Glen F. Post III
Chief Financial Officer:	R. Stewart Ewing Jr.
Chief Operating Officer:	Karen A. Puckett
President of Business Markets Group:	Christopher K. Ancell
Board Members:	4 members from the current Qwest Board, including Edward A. Mueller, Qwest's Chairman and Chief Executive Officer to be added to CenturyLink Board

Qwest's Perspective

Edward A. Mueller

Chairman & CEO, Qwest

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Qwest®

Value Accretive for Qwest Shareholders

- Opportunity to participate in the future success of industry-leading communications company
- Attractive premium compared to current stock price
- Benefit from value creation upon realization of substantial synergies
- Receive ~50% increase in rate of annual dividend
- Increased financial strength and flexibility

Closing

Glen F. Post, III

CEO & *President*, CenturyLink

CenturyLink™

Qwest

Great Strategic Combination

- Significantly enhanced scale with improved growth characteristics
- Immediately accretive to free cash flow / improved payout ratio
- Significant free cash flow, solid balance sheet and strong liquidity
- Extensive broadband capabilities with 173,000-mile fiber network
- Experienced and dedicated employee team

CenturyLink

EXHIBIT JG-2

Morgan Stanley

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Morgan Stanley & Co. Incorporated

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Arizona Corporation Commission
Docket No. T-01051B-10-0194, et al.
CenturyLink – Exhibit JG-2
Direct Testimony of Jeff Glover
May 24, 2010

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 DATE	YEAR	RANGE LOW	RANGE HIGH	ACTUAL	DIFFERENCE vs 1Q GUIDANCE LOW-END	DIFFERENCE vs 1Q GUIDANCE 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

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

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

Qwest deal: 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?

Embarq integration/synergies: 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

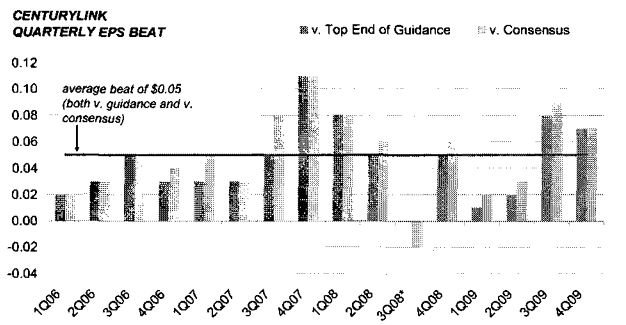
Guidance vs. Morgan Stanley Estimates

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

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of March 31, 2010)

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1042**	**41%**	**325**	**43%**	**31%**
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Not-Rated/Hold	**15**	**1%**	**4**	**1%**	**27%**
Underweight/Sell	**373**	**15%**	**87**	**11%**	**23%**
Total	**2,525**		**764**		

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

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Tel: +852 2848 5200

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 JG-3

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.

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EXHIBIT JG-4

Arizona Corporation Commission
Docket No. T-01051B-10-0194, et al.
CenturyLink – Exhibit JG-4
Direct Testimony of Jeff Glover
May 24, 2010

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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:
Allyn Arden, CFA, New York (1) 212-438-7832;allyn_arden@standardandpoors.com

Table Of Contents

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+

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