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Attorneys for Intervenor CWA

BEFORE THE ARIZONA

CORPORATION COMMISSION

IN THE MATTER OF THE 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 CENTURY LINK, AND CENTURYTEL SOLUTIONS, LLC, FOR APPROVAL OF THE PROPOSED MERGER OF THEIR CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	Docket Nos. T-01051B-10-0194 T-02811B-10-0194 T-04190A-10-0194 T-20443A-10-0194 T-03555A-10-0194 T-03902A-10-0194 **NOTICE OF FILING DIRECT TESTIMONY AND EXHIBITS OF RANDY BARBER AND JASPER GURGANUS ON BEHALF OF INTERVENOR CWA**

Intervenor Communications Workers of America, AFL-CIO, CLC ("CWA"), by and through undersigned counsel, hereby provides notice that it has filed the attached Direct Testimony of CWA witnesses Randy Barber and Jasper Gurganus in the above captioned docket.

RESPECTFULLY SUBMITTED this 27th day of September 2010.

LUBIN & ENOCH, P.C.

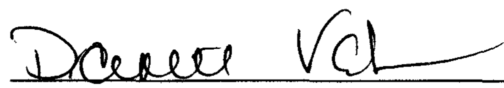
Nicholas J. Enoch, Esq.
Attorney for Intervenor CWA

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of September, 2010, an Original and thirteen (13) copies of the CWA's Testimony was filed with:

Arizona Corporation Commission
Docket Control Center
1200 West Washington Street
Phoenix, Arizona 85007-2996

I hereby further certify that I have this day served one (1) copy of the foregoing document on all parties of record in this proceeding via regular*/e-mail, as set forth on the attached Service List (not including Arizona Reporting Service and Lyn Farmer).



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Filed: September 27, 2010

INTRODUCTION

Q. Please state your name and business address.

A. My name is Randy Barber. My office address is: Suite 204, 6935 Laurel Avenue, Takoma Park, Maryland 20912.

Q. By whom are you employed and in what capacity?

A. I am employed by the Center for Economic Organizing and serve as its president.

Q. On whose behalf are you testifying in this case?

A. I am testifying on behalf of the Communications Workers of America (CWA).

Q. Why is CWA interested in this case?

A. CWA is an international union representing 14,327 workers in the state of Arizona who are also consumers. Approximately 2,150 of their members in the state are employed by Qwest and, as such, will be directly affected by the proposed transaction. CWA is concerned about the long-term prospects of its employer, as well as the employer's ability and commitment to safely and reliably operate and maintain that company's telecommunications network in Arizona.

Q. Have you been engaged to offer expert analysis and testimony on the proposed CenturyLink-Qwest transaction in other regulatory proceedings?

A. Yes. I have been retained by CWA to provide analyses and testimony concerning this proposed transaction. I expect to participate in the union's interventions before commissions in several other states.

BACKGROUND

Q. When you were engaged by CWA on this case, what were you asked to do?

A. I have been asked to evaluate the proposed transaction and provide expert analysis and testimony, based on my financial experience as well as my knowledge of other telecommunications transactions.

Q. Do you have experience in rendering opinions as an expert witness?

A. Yes. While I do not specialize in being an expert witness, I have performed that function on several occasions, and I have assisted experts and attorneys in the financial and analytical aspects of judicial, quasi-judicial and regulatory proceedings. Most relevantly, I served as the financial expert for the CWA and the International Brotherhood of Electrical Workers (IBEW) in three recent telecommunications transactions: FairPoint Communications' acquisition of Verizon's Northern New England landline business, the merger of Embarq and CenturyTel that formed CenturyLink, and Frontier Communications' acquisition of Verizon landline businesses in fourteen states.

In addition, I have testified as an expert witness (either at trial or by deposition) in several judicial proceedings and arbitrations. These have included, for example, a class action law suit involving A.P. Moller-Maersk/BTT, a National Mediation Board Single Carrier proceeding, the Big Sky Airlines Bankruptcy, and an Examiner's Investigation into the Bankruptcy of Eastern Air Lines. I have also served as an expert consultant in various proceedings where it was not necessary for me to testify, such as an airline fitness investigation involving ATX, a cross-border airline merger investigation (American Airlines-Canadian Airlines), and a major CWA/AT&T arbitration.

Q. What in your educational and employment background has qualified you to provide an expert opinion on issues such as those presented in this case?

A. After attending Dartmouth College, I have worked as a financial consultant for more than 25 years. I specialize in complex financial and operational analyses of companies and industries, sometimes in the context of collective bargaining, other times in support of clients' strategic or policy interests. My clients tend to be labor unions and pension funds. I also regularly analyze a wide range of issues impacting specific employee benefit plans. Among the companies that I have analyzed are Alcatel, Avaya, AT&T, Boeing, Catholic Healthcare West, Celestica, CenturyTel (now CenturyLink), Columbia/HCA, Eastern Air Lines, Edison Schools, Embarq, FairPoint Communications, Frontier Communications, Idearc, Lucent Technologies, MCI, Oregon Steel, Qwest, RH Donnelley, Sprint, Sylvan Learning Systems, Texas Air Corporation, TIAA-CREF, United Air Lines, the United States Postal Service, Verizon, Wal-Mart, and the Washington (DC) Hospital Center. More broadly, I have provided clients with various analyses of such industries as aerospace manufacturing, air transport, for-profit education, newspaper publishing, off-road vehicle manufacturers, and telecommunications and internet access and content providers.

In addition, I have performed a wide range of analyses of private sector pension plans and public employee retirement systems across the country. These include investigations into factors associated with under-funding, integration of two or more benefit plans, efforts to improve the operations of benefit plans, evaluations of proposed investment and funding mechanisms, and proposals to convert defined benefit plans into defined contribution plans. A number of the activities mentioned above have taken the form of joint labor-management initiatives in which I served as the union expert, paired with one or more management experts. Some of these projects included work with AT&T, Lucent Technologies, and the League of Voluntary Hospitals and Nursing Homes (New York City and environs).

I also have been serving as an advisor to FairPoint's labor unions after FairPoint acquired Verizon's Northern New England operations in 2008. I have closely observed the unfolding FairPoint debacle since that time. I have participated in scores of joint labor-management task force meetings during at least four distinct phases since the transaction closed:

- Initially these meetings were designed to develop a cooperative relationship in the wake of the unions' opposition to the transaction;
- Subsequently, they evolved into problem-solving sessions in attempts to grapple

with what can only be described as a systems meltdown as the company struggled to convert and integrate the legacy Verizon operations to new platforms;

- During the period leading up to FairPoint's Chapter 11 bankruptcy filing in October 2009 and for several months thereafter, these meetings were used to keep the union leadership informed about the company's status and plans, and they provided important background for successfully negotiated amendments to the FairPoint collective bargaining agreements;
- After FairPoint was forced to file for protection under the bankruptcy code, I have been serving as an advisor to the union-designated member of the FairPoint Unsecured Creditors Committee; and,
- Pursuant to an agreement in the amended union contracts, a Joint Leadership Committee was formally established. This entity, which is comprised of top FairPoint and union leaders, is charged with identifying and implementing $25 million in annualized cost-savings, efficiencies and revenue gains over the next year and concerns itself with virtually every aspect of FairPoint's Northern New England operations.

Q. What is the scope of your testimony?

A. In conjunction with the testimony of Jasper Gurganus, I will evaluate the key risks associated with this transaction, drawing on statements from equity and ratings agency analysts, industry participants, and others. I also draw heavily on the representations of the Joint Applicants themselves, both through their filings with the Securities and Exchange Commission and their public replies to interrogatories. Although I would have very much preferred to delve into the Joint Applicants' confidential internal financial, transaction and planning documents, at this time CenturyLink and Qwest are resisting CWA's requests for such data as well as my ability to review said documents. As such, my testimony is limited to publicly available information.

Q. In order to render an opinion, what information do you need to review?

A. Ideally, I should be able review all relevant information that was available to the CenturyLink and Qwest Boards of Directors, management, and advisors, as well as subsequently developed data regarding either of the companies, the transaction, and refined projections regarding the post-closing combined companies.

Q. Have you been able to review all of the information you require?

A. No. I have been able to review the publicly available data submitted by the Joint Applicants in this and other state proceedings, along with their submissions to the Federal Communications Commission and the Securities and Exchange Commission. To this point, from my ongoing work in the other states, namely Minnesota, I have only had access to a small portion of the confidential information which I believe is required to develop a full analysis of this transaction.[1] I am advised by Counsel that CWA will so be filing a "motion to compel" the production of such data in Arizona, but regardless of the outcome of that action, I obviously will not have had access to this information for use in this pre-filed testimony. Nevertheless, I am able to render an opinion about the proposed transaction based on the information that has been made available to me as of September 27, 2010. I would add the caveat that it is possible that additional information that I hope will be provided later in this proceeding could lead me to alter my analysis.

Q. **Why is it important to have access to the purportedly Highly Confidential documents?**

A. Not only will a thorough review of these documents provide a deeper understanding of CenturyLink's plans, including integration-related issues, it will help verify – or allay – the CWA's concerns that the companies are taking on too much too soon and that a much more orderly, disciplined and validated process is indeed in the public interest. A detailed analysis of the data available to Qwest and CenturyLink at the time they entered into this proposed transaction could be useful in understanding the potential risks and rewards of this merger.

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[1] Pursuant to a September 21, 2010 Order from an Administrative Law Judge in Minnesota, I have been granted access to the Joint Applicants' "highly confidential" documents in that state's parallel proceeding. See the September 22, 2010 Notice of Filing Supplemental Authority by Integra Telecom, et al, for a copy of the Minnesota ALJ's Order. Although the Joint Applicants are appealing a portion of that ruling, and are thus withholding some information, they have very recently produced a significant number of "highly confidential" documents. I have only

Q. Please summarize the types of documents that you were able to review in this case.

A. I have reviewed documents that fall into a number of categories:

- Press reports;
- CenturyLink and Qwest filings with the Securities and Exchange Commission;
- Documents from various public utility regulatory agencies;
- Documents derived from on-line databases;
- Proprietary analyses produced by a number of investment advisory firms;
- Pre-filed testimony from CenturyLink and Qwest; and,
- Non-confidential CenturyLink and Qwest responses to numerous interrogatories and requests for production of documents in this case.

Q. Based on your review and analysis, are you able to render an opinion about the reasonableness of the companies' financial assumptions and analyses?

A. No. Without access to the internal financial projections and documents that I describe above, I do not believe that it is possible to develop a reliable opinion regarding the reasonableness of the companies' financial assumptions and analyses.

Absent this critical data, however, it is possible to develop opinions regarding the potential operational, planning, execution and integration risks associated with this proposed transaction, along with a reasonable understanding of the ways in which these

just begun analyzing those documents for possible use in the Minnesota case.

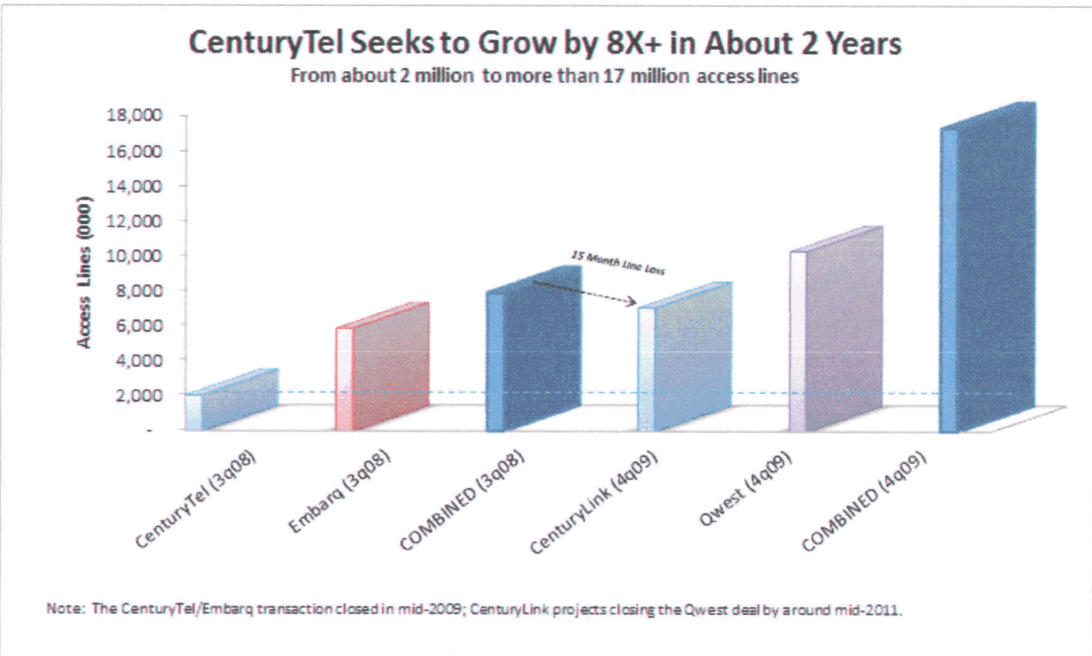
dynamics might interact.

Concerns With the Proposed Transaction:

INTEGRATION AND EXECUTION RISKS COULD LEAD TO SERIOUS PROBLEMS

Q. Please provide a broad summary of your analysis.

A. This transaction is simply too much too soon, and it carries with it significant risks associated with the planning and execution of the two companies' integration plans. While the Joint Applicants make very broad assertions about the benefits of this proposed transaction and about their ability to execute it efficiently, as I will demonstrate later in this testimony, they provide very little concrete backing for these assertions. The scale and scope of the proposed acquisition present considerable challenges and risks. CenturyLink has not yet finished digesting Embarq, and yet it now proposes to integrate Qwest, a company more than twice again its size. With this acquisition, CenturyLink seeks to grow by 800 percent in just over two years – from about 2 million access lines before the Embarq acquisition to 17 million lines with a CenturyLink/Qwest combination. (See chart below.) Moreover, CenturyLink will acquire Qwest's long-haul business, an entirely new line of business for this largely rural local exchange carrier, and it will face a much broader array of challenges with its wholesale customers.



In sum, this proposed transaction is full of risk, particularly with respect to CenturyLink's ability to adequately plan and execute a hugely complex integration process.

Q. The Joint Applicants argue that they have amply demonstrated the benefits from the proposed transaction. Do you agree?

A. No, I do not. As I will show below with a few selected examples, while their pre-filed direct testimony makes many promises and assertions, upon closer examination through interrogatories, Joint Applicants do not appear to be able to substantiate many of their key assertions about the benefits of this transaction.

THERE IS MUCH LESS THAN MEETS THE EYE IN THE JOINT APPLICANTS' PRE-FILED TESTIMONY

Q. You say that the Joint Applicants have failed to back up many assertions. Can you be more specific?

A. Yes. Speaking about the "success" of the Embarq integration, CenturyLink witness Todd Schafer implies that the Commission should take comfort from the company's deep integration experience: "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."[2]

But when asked by CWA whether the combined CenturyTel/Embarq systems are capable of integrating a company of the size and complexity of Qwest (CWA 39.d); whether any Qwest systems will become the platform for the combined companies (CWA 39.e), and whether any Qwest or CenturyLink facilities will be made redundant or reduced as a result of the merger (CWA 39.i), CenturyLink simply stated that "(n)o

[2] Direct Testimony of Todd Schafer, CenturyLink, May 24, 2010, p. 7

decisions have been made yet regarding which systems will be used in the integration."

Continuing his description of the Embarq integration process (and by implication, what is to be expected with a Qwest integration), Mr. Schafer testified that, prior to closing, "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."[3]

However, in response to a CWA interrogatory, CenturyLink replied that prior to the closing of the proposed Qwest transaction, other than its already announced determination that Arizona will be a regional headquarters, the only decisions referred to above that will be made will be some high-level personnel selections and the establishment of a "preliminary reporting hierarchy." "All other decisions will be made after the closing of the transaction." (CenturyLink reply to CWA 40)

Mr. Schafer testified that "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."[4]

Again, though, when asked by CWA for a description of the types of adjustments that CenturyLink believes are required, the company simply (and unhelpfully) reiterated

[3] Schafer, p. 8

[4] Schafer, p. 9

the obvious, that "no changes will be made prior to closing" and that before any changes are implemented, "a comparison will have to be made of the Qwest and CenturyLink operating models to determine what changes must be made to the Qwest operating model to bring it more in line with the CenturyLink operating model." (CenturyLink reply to CWA 41)

Mr. Schafer also testified that "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."[5]

In response to CWA's question regarding how this "neighborhood" approach to customer service call centers will impact the operations of Arizona facilities and operations, CenturyLink provided a vague reply that only reinforces my view that the

Commission should require CenturyLink to fully document any of its plans that will have a material impact on Arizona consumers prior to being permitted to begin the integration process with the Qwest operations: "It is too early in the process to determine how exactly the 'neighborhood' approach to customer service call centers would impact Arizona facilities and operations. Before any decisions can be made regarding where the customer service calls for the combined company will be answered, a full evaluation of the call volumes of the combined company must be undertaken." (CenturyLink reply to CWA 42; also see CenturyLink's reply to Staff 3-3)

Moreover, as Mr. Gurganus' testimony amply demonstrates, Mr. Schafer's glowing description of an impliedly flawless Embarq integration process clearly glosses over a number of problems that the merged companies are encountering.[6]

MANY OUTSIDE ANALYSTS ARE QUITE CONCERNED ABOUT THE POTENTIAL INTEGRATION RISKS ATTENDANT WITH THIS TRANSACTION

Q. Are there others who share your concern?

A. Yes. To begin with, all three debt rating agencies expressed similar reservations. While

[5] Schafer, p. 10

[6] While I have not discussed these issues with any other intervenors in this case, I am aware that several CLECs recently filed testimony in the companion proceedings in Colorado, Iowa and Minnesota where similar concerns about CenturyLink's operational systems and integration processes were raised.

regulators and stock analysts have very different tasks, and serve different functions, in this instance the Commission would do well to heed the comments of independent stock analysts regarding integration risks related to the transaction. Moody's Investor Service and Standard & Poor's both placed CenturyTel's bonds on a "negative watch" list. Moody's explained that "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," Moody's noted. Standard and Poor's echoed these views: "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." Fitch Ratings expressed similar concerns in placing CenturyLink debt on its "Watch Negative" list.[7]

More recently, Morningstar credit analyst Michael Hodel issued a warning that CenturyLink "is taking an unnecessary risk with the Qwest merger":

> "Embarq tripled the firm's size; Qwest will roughly double it again. In addition to following closely on the heels of a major integration effort, we expect that

[7] 2010; Moody's Investor's Service, "Moody's changes CenturyTel's outlook to negative; reviews Qwest's ratings for upgrade," April 22,2010; Standard and Poor's Global Credit Portal Ratings Direct, "Research Update: CenturyTel -BBB – Rating on Watch Negative on Deal to Acquire Qwest Communications; Qwest BB Rating on Watch Positive," April 22, 2010. "Fitch Places CenturyTel's Ratings on Watch Negative; Qwest's Ratings on Watch Positive," April 22, 2010

improving Qwest's performance will prove more challenging."

"The biggest key to the Qwest merger is a successful integration of the businesses. Cutting costs is the primary reason to do this deal, in our view, as a means of better offsetting the decline of the phone business. We believe there is a real risk that things don't go entirely according to plan. Management doesn't expect to fully realize cost savings three to five years after closing, and that integration will cost up to $1 billion initially--a lot is likely to change before the integration is complete."[8]

As if to reinforce Hodel's warning, CenturyLink recently petitioned the Federal Communications Commission for a waiver of its One Day Porting Order, citing the fact that it is still "in the process of integrating two separate databases in connection with the merger of CenturyTel and Embarq." CenturyLink requested a 10-month delay in meeting the Commission's one-day porting requirements, from August 1, 2010 to May 1, 2011. CenturyLink justified the waiver request with a claim of "special circumstances" to meet the CenturyTel/Embarq merger commitment to consolidate its wholesale ordering systems by October 1, 2010.[9]

While not opining on the merits of the CenturyLink waiver request, it is worth noting that CenturyLink's "special circumstances" are of its own making. How many more "special circumstances" will CenturyLink need once it undertakes to integrate Qwest OSS systems with what it hopes will be newly consolidated CenturyTel/Embarq systems?

Q. Beyond the financial community, have other observers expressed any concerns?

A. Yes. For example, the National Regulatory Research Institute's Sherry Lichtenberg cautioned that there could be significant risks associated with this transaction and identified five key areas she urged regulators to explore in depth: " (1) Financial review, (2) quality of service/customer support, (3) systems integration, (4) competition, and (5) broadband deployment/support."[10] Citing the bankruptcy filings that followed the Carlyle Group's acquisition of Verizon Hawaii and FairPoint's acquisition of Verizon's Northern New England properties, Lichtenberg argued that in "these cases, (and even in the better managed transition of BellSouth's systems to those of its new owner AT&T) the rush to achieve the promised financial "synergies" from the integration of disparate IT systems and processes for ordering, installing, billing, and trouble handling have had unanticipated negative consequences."

It is important to underline that all five areas cited by Lichtenberg are ultimately integrally linked and that problems in one area can easily lead to problems in some or all of the others. They really cannot – and should not—be considered in isolation.

Recently, elected federal officials have made similar comments about the need for careful regulatory scrutiny in conjunction with the Joint Applicants' proposed

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[8] Morningstar, May 27, 2010: "Centurytel is taking an unnecessary risk with the Qwest merger, in our view"
[9] CenturyLink One Day Porting Waiver Request to the FCC
[10] Evaluating the Proposed Merger of CenturyLink and Qwest Communications, Sherry Lichtenberg, Ph. D.

transaction. According to Communications Daily, five members of Oregon's Congressional delegation "expressed concerns about the proposed CenturyLink-Qwest Merger. In a Sept. 8 letter to FCC Chairman Julius Genachowski, Sens. Ron Wyden and Jeff Merkley and Reps. Earl Blumenauer, Peter DeFazio and David Wu say they want reassurance that the commission will make sure the new company maintains its customer service and operational quality, and it 'can immediately provide non-discriminatory access.'"[11]

Finally, as discussed by Mr. Gurganus in his testimony, the Joint Applicants themselves describe an array of potential risks associated with the proposed transaction.

CENTURYLINK ACKNOWLEDGES THAT A PANOPLY OF KEY QUESTIONS REMAIN UNANSWERED AND MANY CANNOT PRACTICALLY OR LEGALLY BE ANSWERED UNTIL THE TRANSACTION CLOSES

Q. You testified that the Joint Applicants, and particularly CenturyLink, are unable to answer important questions about the prospects of the combined firm. Please elaborate.

July 9, 2010

[11] Communications Daily, September 17, 2010.

A. The Joint Applicants have developed what is almost a mantra, beginning with the statement that "Integration planning is in the early stages and decisions have not been made at this time."[12] The mantra continues: "However, because the transaction results in the entirety of Qwest, including operations and systems, merging into and operating as a subsidiary of CenturyLink, it will allow a disciplined approach to reviewing systems and practices and will allow integration decisions to proceed in an orderly disciplined manner." This appears in CenturyLink's reply to Integra 2-23, but variations of "orderly manner", "disciplined manner", or "disciplined approach" appear in dozens of replies.

The Joint Applicants profess not to have made decisions regarding a host of key issues. For example, asked by CWA which Qwest and which CenturyLink systems will be utilized post-merger, CenturyLink replied that "no decisions have been made at this time."(CWA-33 and 34) Also included in the "no decision" category were such fundamental organizational issues as "the number of regions that it will have post-merger" (CWA-31) or "the number of market clusters that it will have postmerger." (CWA-32).

In this and a host of other replies, the implication is inescapable: many fundamental decisions regarding the combined companies' structure, operations, and systems will only be made after the closing of the merger and CenturyLink has assumed full control over Qwest.

[12] CenturyLink reply to Integra 2-23. For similar responses, see CenturyLink's replies to Staff 2-22, 5-2, 6-1 and 8-1, CWA 26(g), 26(e), 33, 34, 43 , Cox 2-3, and Integra 2-23, 2-26, 2-27, 2-28, 2-30, 2-31, 2-32, 2-34b, 2-35h, 2-43, 2-44, 2-46, 2-50 (supplemental), 2-61, 2-62, 2-64, 2-67, 2-68, 2-72, 2-79 (supplemental), 2-82, 2-83, 2-84, 2-91, 2-103b, 2-107, 2-108, 2-112, 2-136, 2-137, and 2-155f. Also see Qwest's reply to Integra 2-34a.

In fact, in many replies, the Joint Applicants were explicit that final plans will not or cannot be made until after the proposed deal closes: "Until the transaction has been completed and the necessary decisions have been made, specific details regarding the implementation (who? what? where? when? why? how?) of these planning assumptions will not be available." (Staff 1-1)[13]

Joint Applicants "cannot project the timing or nature of changes"

Similarly, replying to Commission Staff queries regarding the expected impact on employment status and employment benefits received by employees of the Joint Applicants in Arizona following the closing of the transaction, CenturyLink replied: "until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, we cannot project the timing or nature of changes, if any, to operations and employees in Arizona." (Staff 2-37) Asked whether it forsees any Arizona workforce layoffs as a result of the transaction, CenturyLink again replied: "Until the transaction is complete and necessary decisions have been made on how to best integrate the two companies, we cannot project the timing or nature of changes, if any, to operations and employees in Arizona." (Staff 2-38) CenturyLink provided an identical response to Staff's query about whether there would be any plant or facility closings (Staff 2-39).

In its heavily redacted reply to Staff's 7th set of interrogatories, CenturyLink

[13] Also see CenturyLinks responses to Staff 2-10, 2-11, 2-30, 2-31, 2-34, 2-37, 2-38, 2-39, 4-4, 7-2, 7-5, 7-11, 8-1, Integra 2-47, 2-52g, 2-52l, 2-133, and 2-136.

begged off answering Staff's question regarding headcount reductions resulting from synergies, replying instead that "actual headcount reduction numbers or headcount related operating expense savings including the total number, specific company and functional organization impact will not be known until detailed integration planning has been completed." (Staff 7-2) And as CenturyLink has made very clear, its integration planning will not be completed until after the transaction has closed.

CenturyLink temporizes on integration plans

CenturyLink's reply to CWA 38 temporizes with a process explanation: "As noted above, the integration process is only beginning but will generally look at an Integration Management structure that will define the integration strategy, leverage past experiences for integration work plans and tools, provide guidance and recommendations, and assess current environment, among other tasks designed to ensure the integration runs smoothly and no gaps exist. Cross functional teams will identify operating model options, close high priority gaps towards the initial, interim and future state operating models, and develop a roadmap of key integration activities. As part of the integration process, the current Qwest operating environment will be assessed to aid in the integration planning process."

CenturyLink was asked by Integra to elaborate and provide details regarding its disclosure in the SEC Form S-4 that "CenturyLink is expected to incur substantial expenses in connection with integrating the business, operations, networks, systems, technologies, policies and procedures of Qwest with those of CenturyLink. There are a large number of systems that must be integrated, including billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance." CenturyLink's reply reinforces my conclusion that the key integration decisions will only be made after the deal is completed: "***Specific integration initiatives and associated expenditures will not be fully developed until the transaction is complete, and the necessary decisions have been made on how to best integrate the two companies***. It is anticipated the combined company will incur integration costs related to system and customer conversions (including hardware and software costs) and certain employee-related severance costs. CenturyLink estimates integration initiatives associated with the Qwest acquisition will cause it to incur approximately $650-800 million of non-recurring operating expenses and $150-200 million of non-recurring capital costs."[14] (Integra2-47) (emphasis added)

In other words, CenturyLink's own statements acknowledges that complete integration plans will not -- indeed cannot -- be formulated until sometime following the closing of the transaction.

Unable to disclose which systems will be utilized

Interestingly, when pressed by Integra about CenturyLink testimony filed in Oregon

[14] On September 13, 2010, CenturyLink filed supplemental "confidential" or "highly-confidential" responses and attachments to eleven Integra data requests, including to Integra 2-47 (along with a "highly confidential" supplemental attachment for Integra 2-47). These responses were filed under seal, so I have not seen them at this time. The other replies filed under seal were to Integra 2-2, 2-22, 2-41, 2-52, 2-59, 2-77, 2-78, 2-111, 2-142 and 2-153.

regarding the Joint Applicants projected "methodical review of both companies' systems and processes to determine the best system to be used on a going-forward basis…,"[15] CenturyLink refused to reply, arguing that this testimony was irrelevant in Arizona. (Integra-49). However, CenturyLink ***did*** respond to this query in Minnesota. Responding to the question whether CenturyLink or Qwest systems and processes will be utilized by the merged companies, CenturyLink replied that the "review of both CenturyLink and Qwest systems and processes will include an extensive assessment of the systems' capabilities, performance and customer support. A disciplined approach involving subject matter experts from both companies will be followed. ***The evaluation will take the time needed to make an informed decision on the best system and processes to be used on a go-forward basis from both a combined company and a wholesale customer perspective.*** CenturyLink will include in its review input provided by its wholesale customers. It has not been determined whether third-party testing will be included in the assessment process." (CenturyLink reply to Integra-49 in Minnesota PUC Docket No. P-421, et al./PA-10-456) (emphasis added)

No immediate changes anticipated

With monotonous frequency, CenturyLink says that "Upon merger closing CenturyLink does not anticipate any ***immediate changes*** . . ." (emphasis added) to a wide array of systems and processes. These include:

[15] Direct Testimony of Michael Hunsucker in Oregon Docket UM 1484, dated June 22, 2010, pp. 8-9. Available at: http://edocs.puc.state.or.us/efdocs/HTB/um1484htb152954.pdf

" . . . the systems (OSS and other) that will be utilized in existing Qwest service areas." (CWA 33)

" . . . the systems (OSS and other) that will be utilized in existing CenturyLink service areas." (CWA 34)

" . . . to the Qwest wholesale or retail billing and back-office operation." (Qwest reply to Integra 2-34a)

" . . . to the Qwest CLEC OSS systems." (Integra 2-23, Cox 3-1)

" . . . to the Qwest CLEC ASR and LSR process." (Integra 2-26, 2-28)

" . . . to the Qwest CLEC trouble reporting system." (Integra 2-32)

" . . . to the Qwest CLEC trouble reporting processing." (Integra 2-33)

" . . . to the Qwest billing platform." (Integra 2-34b through 2-34g)

" . . . to Qwest's or CenturyLink's Provisioning Systems." (Integra 2-35)

" . . . to the Qwest CLEC order entry system." (Integra 2-44)

" . . . to the Qwest wholesale operations." (Integra 2-46, 2-51, 2-71, 2-72, 2-137)

" . . . to the Qwest performance plans." (Integra 2-61)

" . . . to the Qwest performance measurement requirements." (Integra 2-62)

" . . . the Qwest Firm Order Commitment dates." (Integra 2-64)

" . . . to the Qwest Wholesale and CLEC support centers." (Integra 2-67)

" . . . to the Qwest Standard Interval Guide." (Integra 2-82, 2-83, 2-84)

" . . . to the Qwest service pricing." (Integra 2-85)

" . . . to Qwest's or CenturyLink's rates for wholesale services." (Integra 2-86)

" . . . to Qwest's or CenturyLink's term and volume discount plans." (Integra 2-88)

" . . . to Qwest's or CenturyLink's intrastate or interstate tariffs." (Integra 2-89)

" . . . to the Qwest Product Catalogs." (Integra 2-91)

" . . . to the Qwest investments strategy." (Integra 2-103b)

" . . . to the Qwest Technical Publications." (Integra 2-107)

" . . . to the Qwest collocations procedures." (Integra 2-108)

" . . . to the Qwest hot loop cut process." (Integra 2-112)

" . . . to Qwest's current template interconnection agreements." (Integra 2-115)

" . . . to Qwest's agreements." (Integra 2-117)

" . . . to Qwest's or CenturyLink's Change Management Processes (CMP) or CMD documents. (Integra 2-118)

" . . . to Qwest's or CenturyLink's Price Cap Plans." (Integra 2-134)

" . . . to the account team structure or escalation lists." (Cox 2-1)

Again, the Joint Applicants (through CenturyLink) are making the case for a slow, deliberate approach to planning as well as implementing post-merger integration processes.

Over and over again, the Joint Applicants acknowledge that they are far from being able to answer many of the key questions posed to them by intervenors, and likely won't be able to do so until after the close. For example, asked by Integra to identify "any and all duplicative functions the Joint Applicants anticipate eliminating to achieve synergy savings, CenturyLink answered that it has no concrete plans yet and that any synergies from eliminating duplicative functions will not even be known until post-closing (see CenturyLink's answer to Integra 2-52e which refers back to Integra 2-47).

Unable to provide Arizona-specific integration or capital expenditure plans

Moreover, CenturyLink says that it "has not estimated synergy savings or one-time merger costs by state." (Integra 2-53) Combined with other answers from CenturyLink, it is clear that it has no intention to develop final Arizona-specific integration plans until after the transaction closes.

Asked by Commission Staff to provide Arizona-specific details of the Joint Applicants' post-merger plans for capital investments, CenturyLink's reply was vague and noncommittal: "At this time, CenturyLink has not yet established any specific plans regarding Arizona capital expenditures. Once the merger is finalized, and the new operating model has been implemented, individuals from the legacy Qwest and

CenturyLink companies will assess the. network infrastructure in Arizona and make any recommendations related to changes in capital expenditures in order to better serve Arizona consumers." (Staff 2-10)

No network investment or balance sheet decisions until after the deal closes

Finally, CenturyLink makes much about the purported financial benefits, including balance sheet improvements, which will accompany the transaction. When pressed by Integra, however, the company essentially pleads ignorance saying that it will actually remain in the dark about this until sometime after the deal is closed: "Until the Transaction is complete, and the necessary decisions have been made on how to best integrate the two companies, plans regarding network investment and appropriate balance sheet improvement (debt reduction) have not been developed. The analysis and decisions regarding how CenturyLink plans to best utilize its free cash flow will be completed as part of the detailed integration planning efforts." (Integra 2-133; also see Staff 2-10)

CONCLUSION AND RECOMMENDATIONS

Q. Based on your analyses, what do you conclude?

A. I believe that this transaction, as proposed, is not in the public interest.

It is simply too much, too soon.

There are very good reasons to be concerned about CenturyLink's ability to rise to the challenge of absorbing and integrating the much larger and much more complicated Qwest operations.

In addition, through their unwillingness or inability to supply satisfactory answers to questions regarding virtually every aspect of the proposed transaction, the Joint Applicants have failed to demonstrate that they have the capabilities, plans and resources to successfully execute this transaction.

I am concerned that, with this transaction, management could be overwhelmed by the challenges it faces and distracted in their efforts to achieve too much too quickly. As noted by multiple commentators, CenturyLink's management will be under significant pressures from shareholders – and probably lenders – to achieve at least the promised level of synergies, which can only be achieved through the early integration of the Qwest operations into those of its new parent, CenturyLink. At the same time, they will be under pressure from customers and regulators to deliver on the promises they have made in these proceedings as well.

I am particularly concerned that CenturyLink management intends to undertake the integration of the Qwest operations before they have completely executed the Embarq integration. I am also alarmed by the Joint Applicants' inability or unwillingness to articulate fully developed plans regarding the Qwest integration. In my view, CenturyLink should only be permitted to begin any Qwest integration efforts after the

Embarq integration has been completed and proven and after a subsequent complete review of its integration plans.

Q. Why do you conclude that it is reasonable to delay any approval of the actual integration of Qwest and CenturyLink until after both the transaction and the ongoing Embarq integration have been completed?

A. As I have demonstrated, the Joint Applicants have asserted literally dozens of times that key plans, decisions, and so forth must await the completion of the transaction for legal and/or practical reasons. Given the Joint Applicants' own acknowledgment that many crucial decisions must await the closing of the transaction, and their repeated assurances that given Qwest's ongoing separate legal and operational status, this would not create any problems – and would in fact be an advantage – they have made the case themselves that a slower, more deliberate process is not only reasonable but essential.

Q. Are you saying that the Commission should reject this transaction?

A. As currently proposed, yes.

Q. And if the Commission rejects your recommendation and decides to approve this transaction, are there conditions that you believe would ameliorate the potential risks you have described?

A. Yes. The Joint Applicants could be permitted to proceed with this transaction – that is, the purchase of Qwest's common stock by CenturyLink – if they are willing to agree to maintain Qwest as a completely arms-length subsidiary of CenturyTel until the four broad criteria described below are met (along with the conditions outlined by Mr. Gurganus):

1. The Embarq integration has been completed and sufficient time has passed to demonstrate that the combined CenturyTel/Embarq assets are operating as intended;

2. CenturyLink and Qwest have developed and submitted a complete integration plan to the Commission for its review and approval;

3. After formal review with the participation of interested parties, the Commission approve this plan, including any amendments the Commission deems necessary; and,

4. All other outstanding issues, such as service quality and broadband commitments, have been resolved to the satisfaction of the Commission.

Assuming CenturyLink and Qwest agree to these conditions, the proposed transaction could be in the public interest.

I would stress, though, that under these recommendations, no actions involving integration of the two firms would be permitted until the above criteria are met.

CenturyLink should not be able to begin integrating the Qwest operations until and unless it has demonstrated to the satisfaction of the Commission (after formal proceedings, including intervention by interested parties) that the Embarq integration has been successfully completed and that its plans for integrating Qwest are fully defined, demonstrably reasonable, and in the public interest.

Given CenturyLink's oft-repeated assertions that many crucial plans cannot be finalized until it acquires legal ownership and control of Qwest, this solution would permit the transaction to go forward while preserving the ability of the Commission to ensure that it is effectuated in a systematic, disciplined manner that serves the public interest.

Moreover, this approach will preserve the benefits of Qwest's significant operational and financial gains over the past few years. To rush into an ill-considered and financially-driven integration effort would risk undermining Qwest's recent success.

Finally, in their replies to dozens of interrogatories, the Joint Applicants have made a compelling case that they will not be in a position to evaluate how best to proceed with the daunting task of integrating systems and operations that together serve almost 20 million customers, including some 1.5 million in Arizona, until after the proposed transaction is consummated and CenturyLink assumes legal control of Qwest.

By requiring that Qwest be operated on a truly separate, arms-length basis until the Joint Applicants have conclusively demonstrated that they are prepared to initiate this integration process, they will have the time and opportunity to get it right.

Q. As you are aware, Mr. Gurganus also makes a number of recommendations to the Commission in the event that it determines to approve the transaction. Do you have any comments about his recommendations?

A. Yes. I wholeheartedly support Mr. Gurganus' recommendations. His calls for a deliberative approach to integration including a review and audit of the systems, inclusion of frontline, union workers on the integration committee, concrete timetables and plans for integration, guarantees of employment levels, requirements for employee training programs, reporting requirements combined with penalties, as well as his specific recommendations regarding broadband buildout are fully compatible with the four broad criteria I have recommended.

THERE IS NO NEED TO RUSH: QWEST HAS STEADILY IMPROVED ITS FORTUNES OVER THE PAST FEW YEARS.

Q. You are recommending a process that would effectively require CenturyLink to take a much more deliberate – and slower – approach to implementing any integration processes with Qwest. Wouldn't this have an adverse effect on Qwest's financial standing?

A. No, it would not. Despite some impressions to the contrary, Qwest has steadily improved its financial performance, effectively "picking itself off of the floor" over the past few years. This has obviously not been lost on the financial analysts who follow the company closely.

On the telephone conference call announcing this proposed transaction, several analysts expressed a mixture of surprise and skepticism about the deal. For example, UBS analyst John Hodulik observed: "it seems like Qwest is well-positioned as it has been in years. A lot of it is because of your efforts. It turns out the business model has turned around. . . . Is there any reason why the deal has to happen now? I mean I think myself and some investors are a little surprised it happened as soon as it has when it looks like Qwest really has a lot of runway at this point."[16]

In a clear indication of Qwest's improving prospects, Moody's Investor Services recently upgraded Qwest's debt ratings to one step below investment grade based on the company's continuing operational and financial improvements, including a reduction of debt by 10% since the beginning of the year. ""Qwest has produced strong results while facing the dual challenges of a structurally weak industry position and heavy macro-economic headwinds" said Moody's analyst Dennis Saputo. "This solid operational performance, combined with a record of proactive debt reduction has served Qwest well and results in the positive rating action today." Even assuming the proposed deal fails to close, "the rating would likely be confirmed with a stable outlook," Moody's said.[17]

Moreover, from these and other projections prepared by Wall Street analysts, it appears that both Qwest and CenturyLink would have similar financial prospects if they were to remain stand-alone companies. Analysts expect both companies to be profitable, but to continue to lose revenues and market share over the next few years.

For example, Citigroup Global Markets analyst Michael Rollins recently produced a report which, in many ways, predicts that Qwest will fare better than its proposed merger partner. As can be seen in the table below, Citigroup projects that Qwest's Revenues and Operating Income before Depreciation and Amortization (OIBDA) will decline at one-third the rate of CenturyLink, that its Net Income to Common will actually increase significantly (70%) versus a slight decline for CenturyLink, that its Equity Free Cash Flow will increase at almost double the rate of CenturyLink and that its net debt will decline at three times the rate of CenturyLink.

[16] Qwest Communications, SEC Form 425, April 22, 2010, Exhibit 99.3, Transcript, CenturyLink Qwest Merger Announcement Call

[17] Moody's Investor Services, August 13, 2010, "Moody's upgrades Qwest's ratings; continues review for possible upgrade"

Citigroup Projections for CenturyLink and Qwest (Standalone) 2010 and 2013

	2010E	2013E	Projected Change, 2013 vs 2010
CenturyLink			
Total Revenues	$7,009	$6,120	-13%
OIBDA	$3,627	$3,172	-13%
Net Income to Common	$929	$894	-4%
Equity Free Cash Flow	$1,207	$1,301	8%
Total Net Debt	$7,223	$6,373	-12%
Qwest			
Total Revenues	$11,719	$11,251	-4%
OIBDA	$4,348	$4,193	-4%
Net Income to Common	$494	$840	70%
Equity Free Cash Flow	$1,662	$1,883	13%
Total Net Debt	$10,742	$7,083	-34%

$ in millions; Source: Citigroup Global Markets, August 5, 2010, " CenturyLink & Qwest Solid 2Q Results Reinforce Favorable Cash Flow Prospects For FY10; Reit. Buy on Q & CTL;" Figures 5 and 10

This is a critical point to keep in mind when evaluating my recommendation that would require the integration process be held in abeyance until CenturyLink proves that it has successfully completed the Embarq integration, submits a fully fleshed out integration plan, and obtains approval from the Commission to begin implementing it. Based on all of the information available to me, Qwest is not expected to be materially worse off than CenturyLink (and may be better off) by continuing to operate as a stand-alone company, even if it takes four or five years for CenturyLink to complete the Embarq integration and develop integration plans for Qwest.

It is clear to me that there truly is no need to rush this transaction, since Qwest would appear to be in a position to sustain itself indefinitely on a standalone basis, whether or not the proposed transaction is consummated.

Q. Does this conclude your direct testimony?

A. Yes, it does.

EXHIBIT

Company

5 August 2010 | 16 pages

CenturyLink & Qwest

Solid 2Q Results Reinforce Favorable Cash Flow Prospects For FY10; Reit. Buy on Q & CTL

Michael Rollins, CFA

Gage T Krieger

Kevin Toomey

- **Quick Call** — We remain a buyer of Qwest & CenturyLink, and believe the combined FCF prospects for the pending merger can support the PF dividend yield of ~8%, while leaving room to potentially repatriating a greater proportion of FCF to shareholders over time. We believe both companies have room to outperform consensus expectations for cash flow, while we continue to like the pre-synergy PF valuation at only 7x FY11 FCF vs. the peers at ~8x. We prefer Buy-rated Q given its 5.4% discount to the pending merger terms with CTL.

- **Slowing Access Line Losses Should Help Future Revenue Prospects** — Both Qwest and CenturyLink showed some constructive signs for a decelerating rate of revenue loss over time, as the volume of access losses have improved on a year-over-year basis over the past few quarters. Meanwhile, we believe Qwest is showing positive progress at stabilizing its business segment and reducing the rate of erosion within its wholesale business; the pending deployments of fiber to cell sites should further be a help to improve wholesale revenue prospects in the future.

- **Favorable Synergy Realization From Embarq Acquisition** — CenturyLink reported 2Q Embarq related cost synergies of $75 million, ahead of our $70 million expectation. Management commented that the annual synergy run rate improved sequentially exiting 2Q at $315 million up from $300 million in 1Q/10, while the company expects that rate to increase to around $330 mil exiting 2010. This compares to our prior forecasts of ~$300 million for synergies for FY10 and we still expect CTL to hit a cumulative target of $375 mil. during FY11.

- **Qwest and CTL Showing Solid Execution on Cash Flow Generation** — We believe both companies are continuing to show cost cutting capabilities as demonstrated by margin improvement during 2Q/10 on a yoy basis. Qwest was able to maintain flat OIBDA for every $1 of revenue lost on a year-over-year basis during 2Q/10, while CTL only lost about 33 cents of OIBDA for every $1 of revenue lost on a yoy basis. (which includes the benefit of the above-referenced synergy realization).

	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
Ticker	Old	New	Old	New	Old	New	Old	New
CTL	1H	1H	US$40.00	US$40.00	US$3.33	US$3.38	US$3.32	US$3.23
Q	1H	1H	US$6.60	US$6.60	US$0.38	US$0.38	US$0.42	US$0.43

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Estimate Changes

Summary of Estimate Changes for CenturyLink

We have adjusted our estimates for 3Q10, FY10, FY11 and FY12 to reflect CenturyLink's 2Q results and its updated guidance. We have adjusted our revenue estimate for 3Q10 from $1.72 billion to $1.73 billion, for FY10 from $6.97 billion to $7.01 billion, for FY11 from $6.53 billion to $6.56 billion and for FY12 from $6.28 billion to $6.31 billion. We have adjusted our OIBDA forecasts for 3Q10 from $884 million to $889 million, for FY10 from $3.53 billion to $3.63 billion, for FY11 from $3.39 billion to $3.43 billion and for FY12 from $3.25 billion to $3.28 billion. Our EPS estimates changed for 3Q10 at $0.79, for FY10 from $3.33 to $3.38 for FY11 from $3.32 to $3.23, and for FY12 from $3.28 to $3.17.

Figure 1. CenturyLink Consensus vs. CIRA Estimates
($ in millions except per share data)

	3Q10E		2010E		2011E	
	CIR	Consensus	CIR	Consensus	CIR	Consensus
CenturyLink Revenue	$1,726.5	$1,743.4	$7,008.9	$7,041.1	$6,559.2	$6,771.6
CIR relative		-1%		0%		-3%
CenturyLink EPS	$0.79	$0.80	$3.38	$3.37	$3.23	$3.28
CIR relative		-2%		0%		-2%
CenturyLink OIBDA	$889.1	$878.2	$3,626.7	$3,575.4	$3,426.0	$3,460.6
CIR relative		1%		1%		-1%

Source: Company Reports, Citi Investment Research and Analysis and I\B\E\S

Figure 2. CenturyLink High-Level 3Q/10 and FY10 Guidance vs. CIRA Estimates
($ in millions, except per share estimates and access lines in 000s)

3Q/10 Guidance	CIR 3Q10	CIR	Current Guidance				
Item	Est. Current	Est. Previous	Low	High	Avg	Variance	% Var.
Total Revenues	$1,726	$1,717	$1,720	$1,745	$1,733	($6.0)	(0.3%)
Normalized EPS	$0.79	$0.79	$0.77	$0.81	$0.79	($0.00)	(0.3%)

FY10 Guidance	CIR FY10	CIR	Current Guidance				
Item	Est. Current	Est. Previous	Low	High	Avg	Variance	% Var.
Total Revenues	$7,009	$6,974	$6,965	$7,041	$7,003	$5.8	0.1%
Access Lines	6,481	6,478	6,441	6,511	6,476	5	0.1%
Capital Spending	850	850	$825	$875	$850	0	0.0%
Free Cash Flow*	1,594	1,564	1,560	1,600	$1,580	14	0.9%
Normalized EPS	$3.38	$3.33	$3.30	$3.40	$3.35	$0.03	0.8%

Source: Company Reports, Citi Investment Research and Analysis, and I\B\E\S

*Free Cash Flow is Normalized Net Income + D&A - Capex

Figure 3. Summary of Estimate Changes for CenturyLink
($ in millions, except subscriber metrics in 000s and per share metrics)

Line Item	3Q/10E New	3Q/10E Old	Variance H/(L)	2010E New	2010E Old	Variance H/(L)	2011E New	2011E Old	Variance H/(L)	2012E New	2012E Old	Variance H/(L)
Subscribers (000s)												
Access Lines	6,612	6,609	3	6,481	6,478	3	6,035	6,029	5	5,677	5,670	7
Net Adds	(155)	(155)	0	(558)	(561)	3	(446)	(449)	2	(357)	(359)	2
DSL Lines	2,371	2,375	(4)	2,411	2,415	(4)	2,542	2,549	(7)	2,641	2,650	(9)
Net Adds	35	35	0	175	179	(4)	131	134	(3)	98	101	(2)
Income Statement ($ in Millions)												
Total Revenue	1,726	1,717	9	7,009	6,974	35	6,559	6,527	32	6,311	6,281	30
OIBDA	889	884	5	3,627	3,599	28	3,426	3,386	40	3,284	3,246	38
OIBDA Margin	51.5%	51.5%	0.0%	51.7%	51.6%	0.1%	52.2%	51.9%	0.4%	52.0%	51.7%	0.4%
Operating Income	529	529	(0)	2,196	2,181	15	2,056	2,094	(38)	1,983	2,031	(48)
Net Income - GAAP	221	222	(1)	929	925	4	963	988	(26)	927	955	(28)
Normalized EPS	$0.79	$0.79	($0.01)	$3.38	$3.33	$0.05	$3.23	$3.32	($0.09)	$3.17	$3.28	($0.10)
CFFO	602	598	4	2,057	2,188	(131)	2,313	2,194	119	2,208	2,083	125
Equity Free Cash Flow	386	384	3	1,207	1,338	(131)	1,428	1,313	114	1,324	1,204	120
Balance Sheet ($ in Millions)												
Capital Expenditures	216	215	1	850	850	0	885	881	4	883	879	4
Net Working Investment	(236)	(376)	141	(211)	(351)	141	(136)	(201)	66	(61)	(51)	(9)
Cash	153	164	(10)	34	66	(32)	25	25	0	25	25	0
Gross Debt	7,550	7,471	79	7,425	7,346	79	6,925	6,846	79	6,425	6,346	79
Net Debt	7,397	7,308	89	7,392	7,280	111	6,900	6,821	79	6,400	6,321	79

Source: Company Reports and CIRA Estimates

Figure 4. CenturyLink 2Q/10 Results vs. CIRA Estimates and Historicals
($ in millions, except per share and subscriber metrics)

Line Item	2Q/10 Actual	2Q/10 Estimate	Variance H/(L)	% Variance Rel. to Est.	Historical 2Q/09A	Historical % Change	Historical 1Q/10A	Historical % Change
Subscribers (000s)								
Access Lines	6,767.0	6,764.0	3.0	0.0%	7,355.0	(8.0%)	6,913.0	(2.1%)
Net Adds	(146.0)	(149.0)	3.0	(2.0%)	(164.0)	(11.0%)	(126.0)	15.9%
DSL Lines	2,336.0	2,340.0	(4.0)	(0.2%)	2,146.0	8.9%	2,306.0	1.3%
Net Adds	30.0	34.0	(4.0)	(11.8%)	29.0	3.4%	70.0	(57.1%)
Income Statement ($ in Millions)								
Total Revenue	1,772.0	1,754.9	17.1	1.0%	634.5	179.3%	1,800.4	(1.6%)
OIBDA	922.1	903.8	18.3	2.0%	303.6	203.7%	934.9	(1.4%)
OIBDA Margin	52.0%	51.5%	0.5%	1.0%	47.8%	8.7%	51.9%	0.2%
Operating Income	564.1	553.8	10.4	1.9%	175.0	222.3%	581.7	(3.0%)
Net Income - GAAP	238.8	235.1	3.7	1.6%	69.0	245.9%	252.6	(5.5%)
Normalized EPS	$0.88	$0.83	$0.05	$0.06	$0.84	$0.06	$0.93	($0.05)
CFFO	419.7	556.6	(136.9)	(24.6%)	252.0	66.5%	461.5	(9.0%)
Equity Free Cash Flow	224.7	337.2	(112.5)	(33.4%)	166.7	34.7%	294.3	(23.7%)
FD Average Shares	300.6	300.9	(0.3)	(0.1%)	99.5	202.3%	300.0	0.2%
Balance Sheet ($ in Millions)								
Capital Expenditures	195.0	219.4	(24.3)	(11.1%)	85.3	128.6%	167.2	16.7%
Net Working Investment	(235.7)	(376.5)	140.8	(37.4%)	(166.3)	41.7%	(426.5)	(44.7%)
Cash	186.4	201.0	(14.6)	(7.3%)	59.1	215.1%	206.5	(9.8%)
Gross Debt	7,675.2	7,596.1	79.1	1.0%	2,919.9	162.9%	7,721.1	(0.6%)
Net Debt	7,488.8	7,395.1	93.7	1.3%	2,860.7	161.8%	7,514.6	(0.3%)

Source: Company Reports and CIRA Estimates

Figure 5. Operating Forecasts & Key Metrics For CenturyLink
($ in millions, except per share and subscriber metrics)

	1Q/09	2Q/09	3Q/09	4Q/09	1Q/10	2Q/10	3Q/10E	4Q/10E	2008	2009	2010E	2011E	2012E	2013E
Total Revenues	**635.4**	**634.5**	**1,874.3**	**1,839.4**	**1,800.4**	**1,772.0**	**1,726.5**	**1,710.0**	**2,598.4**	**4,983.6**	**7,008.9**	**6,559.2**	**6,310.5**	**6,120.3**
% Growth	(2.0%)	(3.4%)	188.3%	186.2%	183.4%	179.3%	(7.9%)	(7.0%)	(0.3%)	91.8%	40.6%	(6.4%)	(3.8%)	(3.0%)
OIBDA	**305.5**	**303.6**	**929.8**	**943.6**	**934.9**	**922.1**	**889.1**	**880.6**	**1,255.5**	**2,482.5**	**3,626.7**	**3,426.0**	**3,283.6**	**3,172.3**
OIBDA Margin	48.1%	47.8%	49.6%	51.3%	51.9%	52.0%	51.5%	51.5%	48.3%	49.8%	51.7%	52.2%	52.0%	51.8%
% Growth	(3.4%)	(4.6%)	200.8%	202.5%	206.0%	203.7%	(4.4%)	(6.7%)	(2.8%)	97.7%	46.1%	(5.5%)	(4.2%)	(3.4%)
Operating Income	177.9	175.0	567.6	587.2	581.7	564.1	529.1	520.6	731.7	1,507.8	2,195.6	2,056.3	1,983.5	1,914.0
Operating Income Margin	28.0%	27.6%	30.3%	31.9%	32.3%	31.8%	30.6%	30.4%	28.2%	30.3%	31.3%	31.4%	31.4%	31.3%
% Growth	(1.4%)	(6.6%)	214.1%	220.6%	226.9%	222.3%	(6.8%)	(11.3%)	(3.1%)	106.1%	45.6%	(6.3%)	(3.5%)	(3.5%)
Net Income to Common	67.2	69.0	280.8	227.9	252.6	238.8	220.8	217.0	365.7	644.9	929.1	962.8	927.1	894.0
% Growth	(24.3%)	(25.1%)	231.5%	127.7%	276.2%	245.9%	(21.4%)	(4.8%)	(12.6%)	76.3%	44.1%	3.6%	(3.7%)	(3.6%)
Normalized FD EPS	**$0.82**	**$0.84**	**$0.90**	**$0.96**	**$0.93**	**$0.88**	**$0.79**	**$0.78**	**$3.37**	**$3.62**	**$3.38**	**$3.23**	**$3.17**	**$3.11**
% Growth	2.3%	(4.2%)	10.0%	9.4%	13.0%	5.5%	(12.7%)	(19.1%)	6.8%	7.4%	(6.8%)	(4.5%)	(1.7%)	(2.0%)
Equity Free Cash Flow	184.7	166.7	193.2	274.5	294.3	224.7	386.4	301.5	566.5	819.2	1,206.9	1,427.6	1,324.3	1,300.9
Equity Free Cash Flow per share	$1.86	$1.68	$0.65	$0.92	$0.98	$0.75	$1.29	$1.01	$5.51	$4.12	$4.03	$4.78	$4.53	$4.52
Avg. Outstanding Shares (MM)	99.1	99.5	298.4	299.2	300.0	300.6	299.4	299.0	102.9	199.1	299.7	298.5	292.2	287.6
Net PPE	2,822	2,786	9,363	9,097	8,970	8,866	8,777	8,744	2,896	9,097	8,744	8,434	8,122	7,783
Total Assets	7,934	7,887	22,957	22,563	22,322	22,200	21,988	21,781	8,254	22,563	21,781	21,288	20,871	20,470
Total Net Debt	2,793	2,692	7,524	7,423	7,346	7,320	7,228	7,223	2,903	7,423	7,223	6,816	6,807	6,373
Total Capital Expenditures	**45.5**	**85.3**	**286.3**	**337.4**	**167.2**	**195.0**	**215.8**	**272.0**	**286.8**	**754.5**	**850.0**	**885.5**	**883.5**	**856.8**
Key Statistics - Wireline														
	1Q/09	2Q/09	3Q/09	4Q/09	1Q/10	2Q/10	3Q/10E	4Q/10E	2008	2009	2010E	2011E	2012E	2013E
Total Access Lines (000s)	7,519	7,355	7,185	7,039	6,913	6,767	6,612	6,481	7,694	7,039	6,481	6,035	5,677	5,392
% Growth	(9.4%)	(9.2%)	(9.0%)	(8.5%)	(8.1%)	(8.0%)	(8.0%)	(7.9%)	(8.9%)	(8.5%)	(7.9%)	(6.9%)	(5.9%)	(5.0%)
Net Adds - Internal (000s)	(175.0)	(164.0)	(169.8)	(146.2)	(126.0)	(146.0)	(154.8)	(131.2)	(753.0)	(655.0)	(558.0)	(446.4)	(357.1)	(285.7)
Avg. Revenue per Line ($)	$84.56	$85.45	$85.94	$86.21	$86.03	$86.36	$86.03	$87.07	$84.82	$85.52	$86.36	$87.35	$89.80	$92.15
% YOY Change	0.9%	0.3%	0.2%	2.0%	1.7%	1.1%	0.1%	1.0%	6.3%	0.8%	1.0%	1.1%	2.8%	2.6%
Total Wireline Revenues	635.4	634.5	1,874.3	1,839.4	1,800.4	1,772.0	1,726.5	1,710.0	2,598.4	4,983.6	7,008.9	6,559.2	6,310.5	6,120.3
% Growth	(2.0%)	(3.4%)	188.3%	186.2%	183.4%	179.3%	(7.9%)	(7.0%)	(0.3%)	91.8%	40.6%	(6.4%)	(3.8%)	(3.0%)
Voice Revenues	1,125.9	1,097.6	829.7	700.7	812.9	790.6	771.2	752.7	4,789.0	3,753.9	3,127.4	2,864.8	2,654.1	2,483.3
% Growth	(9.5%)	(9.6%)	(29.6%)	(39.2%)	(27.8%)	(28.0%)	(7.1%)	7.4%	(6.5%)	(21.6%)	(16.7%)	(8.4%)	(7.4%)	(6.4%)
Network Access Revenues	191.8	190.4	352.8	436.3	286.2	275.0	267.7	260.6	819.1	1,171.3	1,089.5	943.8	890.6	842.8
% Growth	(8.1%)	(8.0%)	71.8%	120.3%	49.2%	44.4%	(24.1%)	(40.3%)	(8.3%)	43.0%	(7.0%)	(13.4%)	(5.6%)	(5.4%)
Data Revenues	139.9	142.9	470.5	461.3	467.4	473.0	460.4	463.1	524.2	1,214.7	1,863.9	1,824.3	1,841.3	1,871.0
% Growth	10.4%	9.1%	254.7%	245.0%	234.0%	230.9%	(2.1%)	0.4%	13.7%	131.7%	53.5%	(2.1%)	0.9%	1.6%
Fiber Transport Revenues	41.5	41.8	43.7	45.6	45.6	45.1	45.9	47.9	162.1	172.5	184.4	190.0	195.7	201.5
% Growth	4.7%	(3.2%)	14.9%	10.5%	9.9%	8.0%	5.0%	5.0%	1.7%	6.5%	6.9%	3.0%	3.0%	3.0%
Other Revenues	136.2	137.8	177.7	195.5	188.3	188.4	181.3	185.7	643.1	647.2	743.7	736.2	728.9	721.6
% Growth	(11.6%)	(16.5%)	8.5%	22.0%	38.3%	36.7%	2.0%	(5.0%)	52.2%	0.6%	14.9%	(1.0%)	(1.0%)	(1.0%)
Wireline Capital Expenditures	**597.6**	**593.7**	**682.6**	**603.7**	**606.7**	**577.6**	**587.0**	**581.4**	**2,582.0**	**2,477.7**	**2,352.7**	**2,214.8**	**2,143.5**	**2,091.1**
Key Statistics - Other Operations														
	1Q/09	2Q/09	3Q/09	4Q/09	1Q/10	2Q/10	3Q/10E	4Q/10E	2008	2009	2010E	2011E	2012E	2013E
Total Long Distance Lines (000s)	1,463	1,470	1,476	1,483	1,486	1,490	1,493	1,496	1,457	1,483	1,496	1,503	1,495	1,471
% Growth	3.3%	2.8%	2.3%	1.8%	1.6%	1.4%	1.1%	0.9%	3.8%	1.8%	0.9%	0.4%	(0.6%)	(1.6%)
% Local Access Lines	19%	20%	21%	21%	22%	22%	23%	23%	19%	21%	23%	25%	26%	27%
Net Adds - Internal (000s)	6.6	6.6	6.6	6.6	3.3	3.3	3.3	3.3	53.0	26.5	13.3	6.6	(8.4)	(23.4)
Total DSL Lines (000s)	2,117	2,146	2,189	2,236	2,306	2,336	2,371	2,411	2,053	2,236	2,411	2,542	2,641	2,715
% Growth	9.9%	8.9%	8.6%	8.9%	8.9%	8.9%	8.3%	7.8%	12.1%	8.9%	7.8%	5.4%	3.9%	2.8%
% Local Access Lines	28%	29%	30%	32%	33%	35%	36%	37%	27%	32%	37%	42%	47%	50%
Net Adds - Internal (000s)	64.0	29.0	43.0	47.0	70.0	30.0	35.0	40.0	221.0	183.0	175.0	131.3	98.4	73.8

Source: Company Reports and CIRA Estimates

Summary of Estimate Changes for Qwest

We are adjusting our estimates for Qwest following the 2Q10 earnings release. Our estimates for total revenue are changed for 3Q/10 at $2.93 billion, decreased modestly for FY10 from $11.72 billion to $11.71 billion, for FY11 from $11.41 billion to $11.40 billion and for FY12 from $11.28 billion to $11.26 billion. Our forecasts for OIBDA are roughly unchanged for 3Q/10 at $1.08 billion, for FY10 from $4.34 billion to $4.35 billion, for FY11 from $4.24 billion to $4.26 billion, and for FY12 from $4.189 billion to $4.185 billion. Our EPS estimates are unchanged for 3Q/10 at $0.09, and FY10 at $0.38, increased for FY11 from $0.43 to $0.42, and unchanged for FY12 at $0.45.

Figure 6. Qwest Consensus vs. CIRA Estimates

($ in millions except per share data)

	3Q10E CIR	3Q10E Consensus	2010E CIR	2010E Consensus	2011E CIR	2011E Consensus
Qwest Revenue	$2,930.3	$2,910.3	$11,718.7	$11,672.8	$11,400.3	$11,360.8
CIR relative		1%		0%		0%
Qwest EPS	$0.09	$0.09	$0.38	$0.38	$0.43	$0.39
CIR relative		0%		0%		10%
Qwest OIBDA	$1,081.4	$1,074.0	$4,348.1	$4,340.8	$4,262.6	$4,234.8
CIR relative		1%		0%		1%

Source: Company Reports, Citi Investment Research and Analysis, and I\B\E\S

Figure 7. Qwest '10 Guidance vs. CIRA Estimates

($ in millions)

2010 Guidance Item	CIR 2010 Est. Current	CIR Est. Previous	Current Guidance Low	High	Avg	% Var.
OIBDA	4,348	4,336	4,300	4,400	4,350	(0.0%)
Capital Spending	1,650	1,650	$1.70 billion or below			
Equity Free Cash Flow	1,662	1,594	1,500	1,600	1,550	7.2%

Source: Company Reports and CIRA estimates

Note: % Variance measures our estimate versus the mid-point of its guidance range.

Figure 8. Summary of Estimate Changes for Qwest

($ in millions, except per share and subscriber metrics)

Line Item	3Q/10E New	3Q/10E Old	Variance H/(L)	2010E New	2010E Old	Variance H/(L)	2011E New	2011E Old	Variance H/(L)	2012E New	2012E Old	Variance H/(L)
Subscribers (000s)												
Retail Access Lines	8,125	8,102	23	7,893	7,870	23	7,130	7,114	16	6,822	6,813	9
Net Adds	(274)	(269)	(5)	(975)	(998)	23	(763)	(756)	(7)	(308)	(301)	(7)
Total Access Lines	9,083	9,063	20	8,821	8,801	20	7,954	7,944	10	7,567	7,567	0
Net Adds	(304)	(299)	(5)	(1,104)	(1,124)	20	(867)	(857)	(10)	(387)	(377)	(10)
DSL Subscribers	2,879	2,902	(23)	2,899	2,927	(28)	2,994	3,027	(33)	3,079	3,117	(38)
Net Adds	20	25	(5)	87	115	(28)	95	100	(5)	85	90	(5)
Wireless Subscribers	1,062	1,090	(28)	1,147	1,174	(27)	1,222	1,249	(27)	1,297	1,324	(27)
Net Adds	80	84	(4)	309	336	(27)	75	75	0	75	75	0
Video Subscribers	981	1,013	(32)	1,021	1,044	(23)	1,121	1,144	(23)	1,201	1,224	(23)
Net Adds	30	31	(1)	81	104	(23)	100	100	0	80	80	0
Income Statement ($ in Millions)												
Mass Markets Revenue	1,136	1,143	(7)	4,600	4,617	(17)	4,309	4,342	(32)	4,131	4,170	(38)
Wholesale Revenue	679	679	(0)	2,693	2,710	(16)	2,605	2,622	(17)	2,555	2,573	(17)
Business Revenue	1,023	1,018	5	4,041	4,030	11	4,113	4,093	20	4,210	4,189	20
Other Revenue (USF)	92	92	0	384	366	79	373	355	18	362	344	18
Total Wireline Revenues	2,838	2,840	(2)	11,334	11,356	(22)	11,027	11,057	(30)	10,896	10,932	(35)
Wireless Revenues	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	2,930	2,932	(2)	11,719	11,722	(3)	11,400	11,412	(11)	11,258	11,276	(18)
OIBDA	1,081	1,083	(2)	4,348	4,336	12	4,263	4,241	21	4,189	4,185	5
OIBDA Margin	36.9%	36.9%	(0.0%)	37.1%	37.0%	0.1%	37.4%	37.2%	0.2%	37.2%	37.1%	0.1%
Operating Income	533	538	(5)	2,159	2,156	3	2,183	2,170	13	2,110	2,114	(4)
Net Income	154	155	(0)	494	484	10	738	725	14	773	773	(0)
EPS	$0.09	$0.09	($0.00)	$0.38	$0.38	$0.00	$0.43	$0.42	$0.01	$0.45	$0.45	$0.00
Balance Sheet ($ in Millions)												
Capital Expenditures	425	425	0	1,650	1,650	0	1,650	1,650	0	1,650	1,650	0
Net Working Investment	(599)	(341)	(258)	(599)	(341)	(258)	(549)	(291)	(258)	(499)	(241)	(258)
Gross Debt	12,833	13,046	(213)	11,833	12,046	(213)	9,945	9,983	(38)	8,743	8,789	(46)
Net Debt	10,945	11,046	(101)	10,742	10,750	(8)	9,591	9,630	(38)	8,389	8,436	(46)
Cash Flow ($ in Millions)												
CFFO - GAAP	820	818	2	3,312	3,244	67	3,367	3,336	31	3,423	3,415	8
Equity FCF - GAAP	395	393	2	1,662	1,594	67	1,717	1,686	31	1,773	1,765	8

Source: Company reports and CIRA estimates

Figure 9. Qwest 2Q10 Results vs. CIRA Estimates and Historicals
($ in millions, except per share and subscriber metrics)

	2Q10		Variance	% Variance	Historical			
Line Item	Actual	Estimate	H/(L)	Rel. to Est.	2Q/09A	% Change	1Q/10A	% Change
Subscribers (000s)								
Retail Access Lines	8,399	8,642	(243)	(2.8%)	9,377	(10.4%)	8,642	(2.8%)
Net Adds	(243)	(226)	(17)	7.5%	(283)	(14.1%)	(226)	7.5%
Total Access Lines	9,387	9,663	(276)	(2.9%)	10,484	(10.5%)	9,663	(2.9%)
Net Adds	(276)	(262)	(14)	5.3%	(316)	(12.7%)	(262)	5.3%
DSL Subscribers	2,859	2,852	7	0.2%	2,741	4.3%	2,852	0.2%
Net Adds	7	40	(33)	(82.5%)	33	(78.8%)	40	(82.5%)
Wireless Subscribers	982	922	60	6.5%	738	33.1%	922	6.5%
Net Adds	60	84	(24)	(28.6%)	20	200.0%	84	(28.6%)
Video Subscribers	951	951	0	0.0%	857	11.0%	951	0.0%
Net Adds	0	11	(11)	(100.0%)	18	(100.0%)	11	(100.0%)
Income Statement ($ in Millions)								
Mass Markets Revenue	1,163	1,183	(20)	(1.7%)	1,269	(8.4%)	1,183	(1.7%)
Wholesale Revenue	659	685	(26)	(3.8%)	730	(9.7%)	685	(3.8%)
Business Revenue	1,002	999	3	0.3%	1,002	0.0%	999	0.3%
Other Revenue (USF)	106	99	7	7.1%	89	19.1%	99	7.1%
Total Revenue	2,930	2,966	(36)	(1.2%)	3,090	(5.2%)	2,966	(1.2%)
Total Wireline Revenues (Ex USF)	2,824	2,867	(43)	(1.5%)	2,968	(4.9%)	2,867	(1.5%)
Wireless Revenues	0	0	0	NA	33	(100.0%)	0	NA
OIBDA	1,092	1,124	(32)	(2.8%)	1,092	0.0%	1,124	(2.8%)
OIBDA Margin	37.3%	37.9%	(0.6%)	(1.7%)	35.3%	5.5%	37.9%	(1.7%)
Operating Income	544	579	(35)	(6.0%)	514	5.8%	579	(6.0%)
Net Income	158	38	120	315.8%	212	(25.5%)	38	315.8%
EPS - Normalized (for severance and one-time costs)	$0.09	$0.10	($0.01)	(10.8%)	$0.08	12.8%	$0.10	(10.8%)
Balance Sheet ($ in Millions)								
Capital Expenditures	330	387	(57)	(14.7%)	348	(5.2%)	387	(14.7%)
Net Working Investment	(649)	(391)	(258)	66.0%	(451)	43.9%	(391)	66.0%
Gross Debt	13,083	13,546	(463)	(3.4%)	14,123	(7.4%)	13,546	(3.4%)
Net Debt	11,201	11,591	(390)	(3.4%)	12,224	(8.4%)	11,591	(3.4%)
Cash Flow ($ in Millions)								
CFFO (Reported)	919	722	197	27.3%	1,005	(8.6%)	722	27.3%
Equity FCF (Normalized)	589	335	254	75.8%	657	(10.4%)	335	75.8%

Source: Company reports and CIRA estimates

Figure 10. Operating Forecasts & Key Metrics For Qwest

($ in millions, except per share and subscriber metrics)

	1Q/09	2Q/09	3Q/09	4Q/09	1Q/10	2Q/10	3Q/10E	4Q/10E	2007	2008	2009	2010E	2011E	2012E	2013E
Total Revenues	**3,173**	**3,090**	**3,054**	**2,994**	**2,966**	**2,930**	**2,930**	**2,892**	**13,778**	**13,475**	**12,311**	**11,719**	**11,400**	**11,258**	**11,251**
% Growth	(6.6%)	(8.6%)	(9.6%)	(9.7%)	(6.5%)	(5.2%)	(4.0%)	(3.4%)	(1.0%)	(2.2%)	(8.6%)	(4.8%)	(2.7%)	(1.2%)	(0.1%)
OIBDA	**1,145**	**1,092**	**1,093**	**1,085**	**1,124**	**1,092**	**1,081**	**1,051**	**4,608**	**4,547**	**4,415**	**4,348**	**4,263**	**4,189**	**4,193**
OIBDA Margin	36.1%	35.3%	35.8%	36.2%	37.9%	37.3%	36.9%	36.3%	33.4%	33.7%	35.9%	37.1%	37.4%	37.2%	37.3%
% Growth	0.4%	(4.5%)	0.9%	(8.0%)	(1.8%)	0.0%	(1.1%)	(3.2%)	5.0%	(1.3%)	(2.9%)	(1.5%)	(2.0%)	(1.7%)	0.1%
Operating Income	572	514	512	506	579	544	533	503	2,149	2,193	2,104	2,159	2,183	2,110	2,113
Operating Income Margin	18.0%	16.6%	16.8%	16.9%	19.5%	18.6%	18.2%	17.4%	15.6%	16.3%	17.1%	18.4%	19.1%	18.7%	18.8%
% Growth	1.2%	(9.2%)	5.8%	(12.5%)	1.2%	5.8%	4.2%	(0.7%)	32.7%	2.0%	(4.1%)	2.6%	1.1%	(3.4%)	0.2%
Net Income to Common	206.0	212.0	136.0	108.0	38.0	158.0	154.5	143.2	2,917.0	683.0	662.0	494	738	773	840
% Growth	31.2%	11.6%	(9.9%)	(41.6%)	(81.6%)	(25.5%)	13.6%	32.6%	391.9%	(76.6%)	(3.1%)	(25.4%)	49.6%	4.6%	8.7%
EPS (fully diluted)	**$0.13**	**$0.08**	**$0.09**	**$0.08**	**$0.10**	**$0.09**	**$0.09**	**$0.09**	**$0.55**	**$0.43**	**$0.38**	**$0.38**	**$0.43**	**$0.45**	**$0.48**
% Growth	25.0%	(23.6%)	(10.1%)	(28.4%)	(19.3%)	12.8%	5.9%	6.3%	74.9%	(22.8%)	(10.0%)	(1.0%)	13.5%	3.4%	7.3%
CFFO	657.0	1,005.0	769.0	876.0	722.0	919.0	820.0	850.9	3,026.0	2,931.0	3,307.0	3,312	3,367	3,423	3,533
Equity Free Cash Flow	$323	$657	$428	$490	$335	$589	$395	$343	$1,357	$1,154	$1,898	$1,662	$1,717	$1,773	$1,883
Equity FCF/Share	**$0.18**	**$0.37**	**$0.24**	**$0.28**	**$0.19**	**$0.33**	**$0.22**	**$0.19**	**$0.74**	**$0.66**	**$1.07**	**$0.93**	**$0.95**	**$0.97**	**$1.02**
Avg. Outstanding Shares (MM)	1,706.8	1,722.8	1,719.5	1,720.6	1,739.4	1,761.5	1,764.6	1,769.0	1,919.8	1,737.8	1,717.4	1,758.6	1,779.9	1,797.5	1,815.3
Net PPE	12,816	12,622	12,399	12,299	12,078	11,929	11,866	11,886	13,671	13,045	12,299	11,886	11,576	11,207	10,807
Total Assets	19,711	20,226	20,225	20,380	19,362	18,959	18,841	18,004	22,532	20,182	20,380	18,004	16,837	16,408	15,978
Total Net Debt	12,698	12,224	11,958	11,691	11,591	11,201	10,945	10,742	13,167	12,991	11,691	10,742	9,591	8,389	7,083
Total Capital Expenditures	**334**	**348**	**341**	**386**	**387**	**330**	**425**	**508**	**1,669**	**1,777**	**1,409**	**1,650**	**1,650**	**1,650**	**1,650**

Key Statistics - Wireline

	1Q/09	2Q/09	3Q/09	4Q/09	1Q/10	2Q/10	3Q/10E	4Q/10E	2007	2008	2009	2010E	2011E	2012E	2013E
Total DSL Lines (000s)	2,708	2,741	2,770	2,812	2,852	2,859	2,879	2,899	2,413	2,652	2,812	2,899	2,994	3,079	3,154
% Growth	7.7%	7.3%	6.6%	6.0%	5.3%	4.3%	3.9%	3.1%	12.9%	9.9%	6.0%	3.1%	3.3%	2.8%	2.4%
DSL Net Adds - Internal (000s)	56.0	33.0	29.0	42.0	40.0	7.0	20.0	20.0	275.0	239.0	160.0	87.0	95.0	85.0	75.0
Total Access Lines (000s)	**10,800**	**10,484**	**10,170**	**9,925**	**9,663**	**9,387**	**9,083**	**8,821**	**12,336**	**11,127**	**9,925**	**8,821**	**7,954**	**7,567**	**7,335**
% Growth	(10.4%)	(10.8%)	(11.1%)	(10.8%)	(10.5%)	(10.5%)	(10.7%)	(11.1%)	(6.7%)	(9.8%)	(10.8%)	(11.1%)	(9.8%)	(4.9%)	(3.1%)
Net Adds - Internal (000s)	**(327)**	**(316)**	**(314)**	**(245)**	**(262)**	**(276)**	**(304)**	**(262)**	**(884)**	**(1,209)**	**(1,202)**	**(1,104)**	**(867)**	**(387)**	**(232)**
Mass Markets Revenue	1,325	1,269	1,226	1,200	1,183	1,163	1,136	1,118	5,993	5,746	5,020	4,600	4,309	4,131	4,104
% Growth	(10.8%)	(12.8%)	(14.1%)	(12.9%)	(10.7%)	(8.4%)	(7.3%)	(6.8%)	1.8%	(4.1%)	(12.6%)	(8.4%)	(6.3%)	(4.1%)	(0.7%)
Wholesale Revenue	769	730	719	695	685	659	679	670	3,570	3,343	2,913	2,693	2,605	2,555	2,518
% Growth	(10.5%)	(13.4%)	(13.9%)	(13.8%)	(10.9%)	(9.7%)	(5.6%)	(3.6%)	(2.9%)	(6.4%)	(12.9%)	(7.5%)	(3.3%)	(1.9%)	(1.5%)
Business Revenue	1,001	1,002	1,015	1,010	999	1,002	1,023	1,017	3,843	4,029	4,028	4,041	4,113	4,210	4,278
% Growth	2.7%	0.8%	(1.0%)	(2.4%)	(0.2%)	0.0%	0.8%	0.7%	(3.1%)	4.8%	(0.0%)	0.3%	1.8%	2.4%	1.6%
Other Revenue (USF)	78	89	94	89	99	106	92	87	372	357	350	384	373	362	351
% Growth	(1.3%)	(1.1%)	3.3%	(8.2%)	26.9%	19.1%	(2.0%)	(2.0%)	(4.9%)	(4.0%)	(2.0%)	9.8%	(3.0%)	(3.0%)	(3.0%)
Total Revenues	**3,173**	**3,090**	**3,054**	**2,994**	**2,966**	**2,930**	**2,930**	**2,892**	**13,778**	**13,475**	**12,311**	**11,719**	**11,400**	**11,258**	**11,251**
% Growth	(6.6%)	(8.6%)	(9.6%)	(9.7%)	(6.5%)	(5.2%)	(4.0%)	(3.4%)	(1.0%)	(2.2%)	(8.6%)	(4.8%)	(2.7%)	(1.2%)	(0.1%)
OIBDA	1,540.0	1,492.0	1,478.0	1,477.0	1,486.0	1,456.0	1,454.4	1,441.7	6,160.0	6,040.0	5,987.0	5,838.1	5,714.8	5,667.7	5,690.5
OIBDA Margin	**50.7%**	**50.3%**	**50.3%**	**50.9%**	**51.8%**	**51.6%**	**51.2%**	**51.4%**	**47.9%**	**47.7%**	**50.5%**	**51.5%**	**51.8%**	**52.0%**	**52.2%**
% Growth	1.2%	(1.7%)	2.9%	(5.5%)	(3.5%)	(2.4%)	(1.6%)	(2.4%)	(3.8%)	(1.9%)	(0.9%)	(2.5%)	(2.1%)	(0.8%)	0.4%
Operating Income	985.4	937.4	923.4	922.4	931.4	901.4	899.8	887.0	3,843.2	3,821.4	3,768.4	3,619.5	3,596.2	3,599.1	3,671.9
Operating Income Margin	32.4%	31.6%	31.4%	31.8%	32.5%	31.9%	31.7%	31.6%	29.9%	30.2%	31.8%	31.9%	32.6%	33.0%	33.7%
Cash Cost per Access Line ($)	47.28	47.27	47.84	47.37	47.00	47.87	49.95	50.77	47.06	50.22	47.44	48.85	52.78	56.15	58.26
Wireline Capital Expenditures	**334**	**348**	**341**	**386**	**387**	**330**	**425**	**508**	**1,305**	**1,711**	**1,409**	**1,650**	**1,650**	**1,650**	**1,650**

Source: Company reports and CIRA estimates

Company Focus

CenturyLink (CTL)

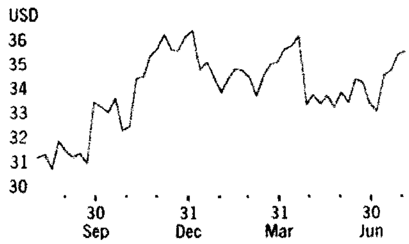
Solid 2Q Results Reinforce Favorable Cash Flow Prospects For FY10; Reit. Buy on Q & CTL

Estimate change ☑

- Please see bullets on front cover.

Buy/High Risk	1H
Price (04 Aug 10)	US$36.33
Target price	US$40.00
Expected share price return	10.1%
Expected dividend yield	8.0%
Expected total return	**18.1%**
Market Cap	US$10,945M

Price Performance (RIC: CTL.N, BB: CTL US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.82A	0.84A	0.90A	0.96A	3.62A	3.60A
2010E	**0.93A**	**0.88A**	**0.79E**	**0.78E**	**3.38E**	**3.37E**
Previous	0.93A	0.83E	0.79E	0.77E	3.33E	na
2011E	**na**	**na**	**na**	**na**	**3.23E**	**3.28E**
Previous	na	na	na	na	3.32E	na
2012E	**na**	**na**	**na**	**na**	**3.17E**	**3.32E**
Previous	na	na	na	na	3.28E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Qwest Communications International Inc (Q)

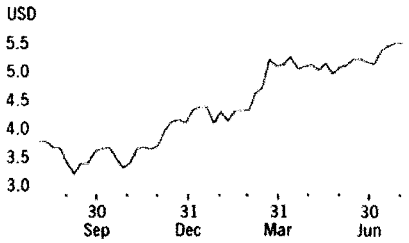
Solid 2Q Results Reinforce Favorable Cash Flow Prospects For FY10; Reit. Buy on Q & CTL

Estimate change ☑

- Please see bullets on front cover.

Buy/High Risk	**1H**
Price (04 Aug 10)	US$5.70
Target price	US$6.60
Expected share price return	15.8%
Expected dividend yield	5.6%
Expected total return	**21.4%**
Market Cap	US$9,897M

Price Performance (RIC: Q.N, BB: Q US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2009A	0.13A	0.08A	0.09A	0.08A	0.38A	0.39A
2010E	**0.10A**	**0.09A**	**0.09E**	**0.09E**	**0.38E**	**0.38E**
Previous	0.10A	0.09E	0.09E	0.09E	0.38E	na
2011E	**na**	**na**	**na**	**na**	**0.43E**	**0.39E**
Previous	na	na	na	na	0.42E	na
2012E	**na**	**na**	**na**	**na**	**0.45E**	**0.42E**
Previous	na	na	na	na	0.45E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

CenturyLink

Company description

CenturyLink is a rural local exchange carrier (RLEC), providing communications services to both residential and business customers. The bulk of CenturyLink's access lines are located within Alabama, Arkansas, Missouri, Washington, and Wisconsin. Additionally, CenturyLink operates a regional transport business, LightCore, which generates a wholesale revenue stream by offering network access to inter-exchange carriers (IXCs), such as AT&T and MCI; and receives universal service subsidies for operating in high-cost service areas. The company was founded in 1930 and was incorporated, formally, as CenturyTel in 1968. Since its listing on the NYSE in 1978, the company has primarily grown through acquisitions. On April 22, 2010, CenturyTel announced the pending acquisition of Qwest.

Investment strategy

We rate CenturyLink's shares Buy/High Risk (1H) based on the prospective opportunities from the recently completed merger with Embarq, including: 1) the combined opportunities to improve cash flow through merger-related synergies; 2) balance sheet flexibility to improve shareholder returns, as our analysis that shows the credit market has a more favorable view relative to the equity markets; and 3) the pro forma valuation remains attractive relative to its peers.

Valuation

Our $40 target price target is derived based on our stand-alone valuation of CTL of nearly $38 per share using the simple-average of 3 methods and then adding our base case estimate of potential value creation from merger-related synergies for the pending Qwest acquisition of $2.50 at a 90% probability the transaction is completed within 12-months. Our simple average for the stand-alone CTL valuation uses the following methodologies: Our DCF analysis yields a target price of over $36 per fully diluted share, based on our operating projections through 2015, including a weighted average cost of capital (WACC) of 7.7%, a beta of 1.0, and a long-term FCF growth assumption after 2015 of (1%), arriving at an operating enterprise value of $17.89 billion. From this amount, we subtract year-end 2011 net debt of $6.8 billion to derive an equity value of around $11.1 billion. These assumptions imply a terminal FCF multiple for the company of roughly 11.4x.

We apply a 9x P/FCF multiple to our 2011 FCF estimate of $4.69, which is in-line to the current Telco (RBOCs/RLECs/LECs) multiple range of roughly 6.0x-11.0x with an average of ~8x due to the company's projected FCF growth rate of (2.5%) between 2011-2014 compared to a range for the Telcos we cover of (9.1%) to 5.4% with an average of (1.8%), and we apply an in-line target FCF multiple to CTL versus some its rural peers. This method yields a value approaching $40 per share. On an EV/OIBDA basis, we set a target multiple of 5x our 2011 OIBDA estimate of $3.4 billion for CenturyLink, given a lower projected OIBDA growth rate of (3.4%) between 2011 and 2014, versus the peer group average of (1.5%), and yielding a projected equity value per share approaching $34.

Risks

We rate CenturyLink with a High Risk rating, highlighting three specific operating risks, including 1) alternative carrier competition should grow stronger over time, as wireless carriers extend network depth & cable MSOs roll out VoIP; 2) CTL's growth strategies offer limited expansion opportunities, while potentially diluting margins; & 3) capex may need to increase from investment in new products and/or extension of fiber closer to homes. We believe risks to our thesis include: 1) execution risk with recent mergers and acquisitions, including Embarq and Qwest, which are both large relative to CTL; 2) wireless & VoIP competition is likely to stimulate further access line losses; 3) the potential for regulatory change could be a significant and long-term drag on cash flow; 4) a change in interest rates & taxes may dilute valuation; & 5) there are risks associated with potential for higher investment in capex or acquisitions. If the impact from the above risk factors turns out to be greater than we anticipate, the stock could fail to achieve our target price.

Qwest Communications International Inc

Company description

Qwest has positioned itself as a global communications provider for both voice and data services to retail and wholesale customers. Qwest owns a local telephone franchise (the fourth largest regional bell operating company or RBOC) with 10.3 million lines at the end of 2009, covering roughly 11 million households that encompasses a 14-state region including the Northwestern US, and a national long distance (or long haul) network with global reach. On April 22, 2010, CenturyLink announced the pending acquisition of Qwest in an all stock deal that should provide CenturyLink shareholders with approximately 50.5% ownership in the pro forma company.

Investment strategy

We rate Qwest at a Buy/High (1H) rating, as we believe Qwest remains ripe for both an operational and financial restructuring to improve returns to shareholders. We see a meaningful change in the enterprise segment with growth opportunities, despite the potential for further economic weakness, as Qwest's investment to increase its salesforce by roughly 22% has improved its sales funnel. Our concerns around the mass markets and wholesale segments have largely played out in Qwest's financial results, while we see the prospect for Qwest to incrementally restructure its cost structure and further improve cash repatriation to shareholders in '10, as the company tries to get through the costs of ongoing litigation settlement payments.

Valuation

Our $6.60 target price for Qwest Communications International is based on a 90% probability the company completes its pending merger with CenturyLink with a pro forma target price for CTL of $40 and a 10% probability that Qwest reaches our assessment for the stand-alone value of around $6.10 using the simple average of the following methodologies:

For our P/FCF metric, we use a multiple of 6x 2011E FCF flow (CFFO-Capex) per share estimate of $0.95. Our free cash flow multiple of 6x is in the lower range of the diversified Telcos (which have had P/FCF multiples in the range of

6x-22x over the last four years with a mean of 12x to reflect a higher cost of equity for Qwest from higher financial leverage. We also estimate a three-year average growth rate of (0.1)% from 2011 through 2014 and arrive at a valuation of over $5.50 per share.

We use an EV/OIBDA multiple of 5x our 2011E OIBDA forecast of $4.26 billion, which is within trading ranges of the old AT&T (average range of 1.3x-10.2x with an average of 4.6x), and at the lower range of other diversified phone companies (average range of 4.6x- 14.5x with a mean of 7.0x over the last four years). Our 5x multiple yields a valuation of over $6.40 per share after subtracting forecasted net debt of $9.59 billion and dividing by fully diluted shares of 1.81 billion.

Our DCF analysis assumes revenues will decline slightly from $11.4 billion in 2011 to under $11.3 billion by 2015, and that OIBDA margins increase to 37.8% in 2015, and uses a 9.1% cost of equity, a risk-free rate of 3.47%, a 5.65% equity risk premium, and a 1.0 equity beta. Based on these assumptions, a WACC of 7.8%, and a long-term FCF growth assumption of (2%), we arrive at an operating EV of $19.7 billion. We added adjustments for tax NOLs of about $1.1 billion, leaving us with a total firm value of $20.8 billion. From this amount, we subtract year-end 2011 net debt of $9.6 billion to derive Qwest's equity value of under $11.2 billion, or over $6 per fully diluted share.

Risks

We rate Qwest Communications International High Risk, given the company's high, albeit improving degree of financial leverage versus its peers, stabilizing capital spending trends, and its moderating share price volatility.

Risks to downside for the share price include: 1) risk that CenturyLink does not complete the pending acquisition with Qwest; 2) risk to consensus expectations based on our forecasts; 3) acceleration in the rate of share loss to cable MSOs and wireless companies within the consumer segment; 4) further reinvestment needed to improve the trajectory of enterprise sales; 5) potential acquisitions as the company may need to add capabilities to improve the productivity of its longhaul network; and 6) possible changes to the regulatory environment that could affect revenue collection. Other risks include the prospect for wireline fundamentals to remain soft with respect to top-line trends that may limit investors willingness to close Qwest's discounted free cash flow multiple versus its peer average. Also, Qwest may chooses to pay down debt or more aggressively invest in its operations with excess cash flow rather than improve shareholder returns through share repurchases and/or a potential dividend increase. If the impact on the company from any of these factors proves to be greater than we anticipate, the stock could materially underperform our target price.

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BEFORE THE ARIZONA

CORPORATION COMMISSION

IN THE MATTER OF THE 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 CENTURY LINK, AND CENTURYTEL SOLUTIONS, LLC, FOR APPROVAL OF THE PROPOSED MERGER OF THEIR CORPORATIONS QWEST COMMUNICATIONS INTERNATIONAL INC. AND CENTURYTEL, INC.	Docket Nos. T-01051B-10-0194 T-02811B-10-0194 T-04190A-10-0194 T-20443A-10-0194 T-03555A-10-0194 T-03902A-10-0194 **PRE-FILED DIRECT TESTIMONY OF JASPER GURGANUS OF BEHALF OF THE COMMUNICATIONS WORKERS OF AMERICA (CWA}**

Q. Please state your name and business address.

A. My name is Jasper Gurganus. My office address is 501 Third Street, NW, Washington, DC 20001.

Q. By whom are you employed and in what capacity?

A. I am the Vice President of Telecommunications for the Communications Workers of America.

Q. Please describe your work experience in the telecommunications industry.

A. My work experience spans approximately forty-five years in the telecommunications industry. I was first employed as a residential installer-repairman in 1966 with Carolina Telephone and Telegraph Company which is now part of CenturyLink. Approximately five years later I was promoted to the job of business services technician and held that position for approximately 25 years. The majority of that time I also served as a local union representative which exposed me to many of the craft positions and work activities within the industry. I served six years as a CWA Representative and for the last 8 years as CWA's Telecommunications Vice President. My duties at CWA are devoted primarily to working for and with our members employed by companies in the rural telecommunications industry.

Q. Why is the Communications Workers of America interested in this case?

A. CWA is an international union representing 14,327 workers in the state of Arizona who are also consumers. Also, 2,128 of our members in the state are employed by Qwest. CWA holds a collective bargaining agreement with Qwest covering the terms and conditions of employment of those workers. CWA is vitally concerned with the outcome of this proceeding because our members and their families will be affected by the merger as workers, consumers and residents. Indeed, this transaction could adversely affect the economic health of the state and their local communities.

Q. What is the scope of your testimony?

A. I will discuss the risks enumerated by CenturyLink in its prospectus submitted to the Securities and Exchange Commission in July that relate to integration. Further, I will show that the integration risks are real and that current experience with the integration of CenturyLink systems in former Embarq territories is evidence of the potential public harm. Finally, I will explain how those concerns with systems integration could pose a serious threat to the quality of service received by Qwest customers in Arizona.

Q. What are the integration risks to which you refer?

A. On July 19, 2010, CenturyLink and Qwest sent a joint proxy statement / prospectus to their stockholders. Attached as Schedule JG-1 are excerpts from that document, which I will refer to as "Prospectus." In the Prospectus, CenturyLink lists two general categories of risks associated with integration:

- "CenturyLink expects to incur substantial expenses related to the merger" which includes integration-related expenses. Prospectus, p. 16.
- Following the merger, the combined company may be unable to integrate successfully the businesses of CenturyLink and Qwest and realize the anticipated benefits of the merger." Prospectus, p. 17.

CenturyLink lists some of the many systems that must be integrated including "billing, management information, purchasing, accounting, finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance." Prospectus, p. 16.

CenturyLink explains as follows why this integration poses a serious financial risk to the company:

> While CenturyLink has assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or the timing of its integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time.

Prospectus, p. 16.

CenturyLink further explains the element of risk by noting that it is likely to have to begin initiating integration with Qwest before it has completed its integration with Embarq. By taking on the Qwest acquisition prior to having successfully completed the Embarq integration, CenturyLink admits that the integration process of both acquisitions could be "delayed or rendered more costly or disruptive than would otherwise be the case." Prospectus, 16

Q. Do you agree with CenturyLink that there are risks associated with the proposed transaction?

A. I agree that there are risks associated with the transaction. In particular, I agree that there are serious risks associated with the acquisition of Qwest prior to successfully integrating systems relating to CenturyLink's recent acquisition of Embarq. Both of these acquisitions – each of which is large and challenging in its own right – pose huge risks of disrupting service for customers.

Q. How does the integration of Embarq relate to the integration of Qwest?

A. When it was acquired by CenturyLink, Embarq had operations in 18 states.[1] From information that was reported to me by CWA members who are employees of CenturyLink, it appears that only two of those states – Ohio and North Carolina – have been converted to CenturyLink systems from Embarq systems. Beginning in July of this year, I have engaged in an ongoing series of interviews and conversations with CWA local union leaders in those two states. As a result, I have been made aware of the sorts of difficulties being experienced during the transition. The conversion in Ohio was largely completed in October of 2009. North Carolina began its conversion earlier this year, in May of 2010.

These leaders, who are technicians currently employed fulltime by CenturyLink and were previously employed fulltime by Embarq, report a range of problems that stem from some core structural flaws including: the systems themselves have "glitches"; the systems often do not coordinate with other internal systems; insufficient training and resources were provided to former Embarq employees about the new systems; and, inadequate staffing support to respond appropriately to the transition issues that have arisen.

CenturyLink must successfully address the integration issues arising in Ohio and North Carolina so that the issues can be resolved in those states and avoided in the other states involved in the Embarq transaction. If these issues are not successfully addressed with the former Embarq operations, then the much larger task of integrating Qwest has a great potential to cause serious damage to CenturyLink and the customers it serves.

[1] CenturyTel-Embarq Joint Proxy Statement / Prospectus, dated Dec. 22, 2008, p. 1.

Q. Do you have some specific examples of the sort of problems CenturyLink is experiencing with the Embarq integration?

A. Yes. According to the interviews I conducted, workers are being dispatched to incorrect locations for service. One interviewee from North Carolina reported to me that the new dispatch system is sending residential Installation and Repair (I&R) technicians to business sites. Once there, the I&R tech obviously has to call in to have the work order referred to a business systems technician. This keeps the customer out of service longer or delays the start up of the new service. According to the reports I received, the additional delays have lasted at least one day.

Q. Do you have any other examples of problems with CenturyLink's attempts to integrate Embarq's customers onto CenturyLink computer systems?

A. Yes. Several workers reported being dispatched for service with insufficient or incorrect information. For example, one individual told me that he often received new service orders that fail to include information about what the customer ordered, so he has to ask the customer what they ordered and hope he has the right equipment with him to complete the installation.

Q. Are workers experiencing particular problems with the new systems?

A. Yes. CenturyLink's software that drives the dispatching and assigning is apparently very different than the systems the former Embarq technicians are accustomed to. For example, an interviewee in North Carolina explained that under the Embarq systems, technicians were given information about the cable pairs and the binding posts they were supposed to connect to. The software figured that out ahead of time so that the tech would arrive at the job site knowing exactly what had to be done. Under the new system, nothing coincides. Often information about the binding posts is not given or the wrong information is given, which causes additional delay to get accurate information.

Other techs reported that the CenturyLink system uses codes and layouts that are confusing and different from the type of information provided by the Embarq systems. For example, some of the work orders generated by the new system have some coding at the bottom that the techs cannot translate. Other work orders don't have enough information for the tech to understand the job that is being assigned. When they call in for information, it is clear the people in the center are looking at different fields on their computers than what appears on the computers in the technician's trucks. Needless to say, this makes it difficult to have a conversation about the problem, and it causes unnecessary delays in trying to solve the problem and serve the customer.

That report also illustrates another theme that ran through the experiences that were related to me – that the systems do not appear to be interconnected or coordinated. For example, when a tech calls into the assigner or to the central office, often the representative they deal with cannot access the same information about a particular job.

Q. Were you able to interview a customer service center worker about issues they may have with the new systems?

A. Yes. I interviewed a service center assistant at the CenturyLink center in North Carolina. Prior to the conversion, the center handled both programming and assignment work. Programming work involves getting into the switch and programming features the customer has requested on the line. This would include basic dial tone as well as enhanced features like DSL. Assignment involves the physical features, the facilities, that the techs will work on. The center handled work from all 18 Embarq states. Techs would call in with either programming or assignment questions, and the center workers could handle both. The former Embarq system allowed them to see everything they needed to support the techs – they could see the physical assignment and the programming at the same time.

Since the conversion, assignment work has been separated from programming work. The center in North Carolina handles programming. Assignments are handled by a different center in another state. If a tech calls in with a problem that turns out to be about assignment, the center worker has to send them to a different department, located at a different center to handle the problem. They cannot even access the information from their computers.

Customer Service Representatives use another system to write orders for new installations. That system is supposed to interface with the assignment and programming systems so that customer information flows through, but according to the center worker, that often doesn't happen. Trying to figure out how to solve the problem, which center to call, causes all kinds of problems. She told me it had the techs running in circles.

Q. Are these problems having any impact on work flow?

A. Yes. Calls from techs get backed up because the workers in the center are trying to get the correct information from different sources. Also, the center is now handling two new states – Alabama and Georgia – and they both use different switches, so the programmers have to learn the new equipment. All of this means that the pace of work has slowed down. I was told that the service center assistants used to handle 50 to 60 calls a day, but that each call is now so time-consuming that the load has been cut in half.

Q. Are there other indications that the new computer systems are not working properly or are not fully integrated?

A. Yes. Other reports reflect inefficiencies in the new systems. For example, one technician I interviewed reported that he is now using the new system for work order information on installations. In the past, under the old system, orders for business clients or multiple installs at the same site would be on one order. Now with the new system, if there are multiple installs at one site, the technicians get individual orders for each install. For instance, a new installation at a school came through as 20 individual orders to install.

Obviously, the troubles our techs are experiencing with the systems also have an impact on consumers. For example, one tech reported a problem with the way an outage at a concentrator (a piece of equipment that serves multiple dial-tone or data lines from one large cable) was reported. Prior to the merger between Embarq and CenturyLink, if a concentrator went down, the business office would issue an outage ticket that would alert people throughout the system that there is a known outage in a specific area. That meant when customers called to report the outage, the customer service representatives would be able to tell them the company knew about the outage, that it was being worked on, and even an estimated time the service would be restored. Under the new system, the business office can take a trouble report, but it is not issued as an outage report, so our customers cannot be told that we may already be working on the problem or when their service might be restored.

I am also receiving reports from techs that the new system does not automatically send copies of the orders to the central office, so they are unable to help if there is a problem. If techs run into problems, they need to call the assignment desk and have them send electronic copies to the CO. These sorts of system problems can delay work. One interviewee reported that he has had to put jobs on hold for 2 to 3 hours while orders are sorted out. These kinds of delays cause customer dissatisfaction.

I also received a report that the new CenturyLink systems are so inefficient (improper orders, bad tickets, delays from being on hold while calling in for information that should have been included on the work orders) that tasks that should take a tech one hour to complete are taking as long as three hours.

Q. What other problems were reported to you by CWA members in Ohio and North Carolina?

A. One of the techs from North Carolina mentioned that some of the new systems require a lot of manual override. For example, the new CenturyLink systems are not able to provide the type of information that is required for new fiber-to-the-curb installations. The new systems cannot assign the pairs for connection. That means that this has to be done manually which takes additional time – delaying the installation for the customer and, of course, unnecessarily tying up the tech on that job which delays his ability to move on to the next customer who needs help.

Q. Are you aware of any customer service problems that have arisen as a result of these issues?

A. Yes. The CWA members I interviewed described several encounters with customers who were extremely frustrated. For example, there have been instances of workers who were dispatched days after the date customers were advised they would arrive. One tech reported about a full DSL installation for a "winback" customer (that is, a customer who had been receiving telephone and Internet service from a cable company). The tech received two orders – one from the system that gives the facility information and another from a separate system that gives the information about the time of the appointment. Under Embarq's systems, this information came on the same order from the same system. Because the information isn't synched up, techs are being assigned to the location after the customer was told they would be there.

While these problems are not being caused by CWA's members out in the field, our front-line workers are hearing directly from customers about their complaints of poor service. These complaints reflect how integration difficulties impact on service quality. Customers are complaining to our techs about long times spent on hold, being transferred multiple times until they find someone who can deal with their problem, installation and service appointments not being kept, finding someone at CenturyLink who can address DSL problems, or even give them accurate information about DSL availability to their home. For instance, one of our techs in North Carolina reported that a neighbor of his called CenturyLink and was told that he could not get DSL at his home. The tech knew this was wrong because he had DSL at his house. So the tech called CenturyLink (connecting to a representative in Maryland) and was told the same thing. When he said that he already had DSL, the CenturyLink rep just hung up on him. I don't blame the customer service representative, I blame the computer systems the rep is relying on to provide accurate information.

One of our techs in Ohio reported that he has received several complaints from customers about the time it takes to report a trouble or place an order. He is giving out his cell phone number to his customers so they can call him directly if there are any problems. In other words, our people are bending over backwards to try to serve their customers, but CenturyLink's new computer systems are hindering their efforts to do so.

Q. Have you received reports about how CenturyLink management is addressing these types of issues?

A. Our members told me that management is aware of the issues they reported to me. CenturyLink started a technician feedback process in July. I understand that in Ohio our techs turned in about 300 reports in the first month.

It also appears that one of CenturyLink's solutions is just to require people to work longer hours to deal with the backlog of work created by improper dispatch, inaccurate information, and inefficient systems. CWA members in Ohio and North Carolina have been placed on mandatory overtime.

Q. Based on your many years of experience in the telecommunications industry, do you have an opinion as to why there are so many problems with the transition?

A. In part, it is simply not easy to convert some of these systems. And based on what the techs have reported to me, it appears that CenturyLink's systems themselves are not "user-friendly." Systems that require manual overrides for daily transactions, that supply redundant work orders, that do not allow two workers to access the same computer screens as they are working together to address a problem indicate problems with the technology. It is particularly frustrating to Embarq workers who feel they are taking a step backwards with the technology they are using. The types of problems they are experiencing were not problems with the Embarq systems they had been using.

Some of the problems might be avoided with adequate training of the workers. For example, one tech I spoke to in Ohio reported that he received training two months before the new systems were in place. There was no other follow up or refresher. Not surprisingly, by the time the systems were available for him to use, he and his co-workers had forgotten most of the information from the training session.

Other problems stem from the different methods and cultures of the two companies. For example, DSL has been a nightmare. The Century techs and the Embarq techs speak different languages and have different procedures. In areas where the service areas are nearby, Century techs were assigned to work on former Embarq DSL lines. But they did not understand Embarq's procedures and terminology, and made so many mistakes, that Embarq techs had to be called in to redo the work.

Q. How does the experience of CenturyLink's attempts to integrate Embarq's operations affect your judgment of the proposed merger between CenturyLink and Qwest?

A. In my opinion, a thorough review and audit of the systems should be conducted to assure that the most efficient systems are being integrated. I would hope that this is done before any more Embarq states are converted to CenturyLink. But it absolutely must be done if the proposed merger with Qwest is to take place. Before Qwest and CenturyLink are integrated, consideration must be given to adopting Qwest's systems. Qwest is by far the larger of the companies involved and it has a more urban service area (meaning more large business customers, more CLEC wholesale operations, more multi-state customers, and so on). It seems to me that adopting Qwest systems would mitigate much of the disruption we might otherwise anticipate. Or, at a minimum, Qwest systems should remain in place for current Qwest operations and networks. Based on the reports I am receiving, I strongly recommend that CenturyLink should not be permitted to integrate Qwest's computer systems into the CenturyLink systems.

If the merger is approved, serious consideration should be given to adopting systems and methods in such a way as to cause as little disruption to customers as possible. This would include adopting those work practices and methods that the majority of the workforce is accustomed to.

Q. Is CenturyLink nearing the end of its integration of Embarq?

A. No, it is not. While Embarq had a lot of customers in Ohio and North Carolina, Embarq also served 16 other states. Included in states that have not yet been converted to CenturyLink systems are Nevada, including the Las Vegas metro area where Embarq was the ILEC, and Florida where Embarq also has major markets (such as Tallahassee and the Orlando area).

Q. Do you believe the issues raised by workers in Ohio and North Carolina have implications for Arizona?

A. Yes. The difficulties I have described here as reported to me by our members in North Carolina and Ohio indicate that CenturyLink is experiencing serious problems while trying to integrate systems in just two states. These problems will likely be magnified with each additional state it attempts to bring online. For the Embarq merger, 16 states are yet to be integrated.

The problems experienced by Embarq workers in Ohio and North Carolina have clear implications for the integration envisioned by the proposed merger with Qwest, nationally and also in Arizona. In Arizona, more than 1.4 million retail access lines will be transferred over to a company that has never operated in the state.[2]

We are concerned that without a proper assessment of the systems, without adequate training and supervisory support, and without commitments to maintain employment levels, our members employed by Qwest in Arizona may experience many of the problems our members in Ohio and North Carolina have experienced. And when our members experience problems such as I have described here, it means that consumers are experiencing problems.

[2] From www.centurylinkqwestmerger.com; statistics as of 12/31/09.

Q. Based on your interviews with your members in North Carolina and Ohio, what do you conclude?

A. I conclude that the proposed acquisition of Qwest by CenturyLink could result in serious integration problems which could lead to a degradation of service quality in Arizona. My opinion is based in large part on reports from CWA members, front-line workers who are currently involved in the integration of Embarq into CenturyLink. In my opinion, the Commission should protect the public's interest by not approving CenturyLink's merger with Qwest before the integration with Embarq is completed satisfactorily.

Q. If the Commission disagrees with you and believes that it is possible to condition the proposed transaction to protect the public, are there conditions you would recommend?

A. Yes. First, I would recommend that the Commission require CenturyLink to engage a third party to review and audit CenturyLink, Qwest and Embarq systems first hand. The third party should be required to test different systems to assure compatibility and interoperability, to assess that employment levels are appropriate for the delivery of quality service, and to ensure that our techs in the field will receive the type of information they need to do their job safely and efficiently.

Second, CenturyLink and Qwest should be required to include union-represented occupational employees in their system integration planning for Arizona and other Qwest states. I would recommend at least two from former Century locations, two from former Embarq locations and two from Qwest locations. These union representatives should be selected by CWA and would be responsible for offering insights and feedback on integration issues related to work organization and software programs involved in human resource management, including dispatching, work assignment, and trouble reporting. As full participants in this committee, these frontline workers will have input into resolving system-wide issues such as those that are currently causing dissatisfaction and disruptions for consumers in Ohio and North Carolina and making it impossible for the workers in those states to deliver quality service efficiently.

Third, the Commission should require the company to provide specific timetables and plans for systems integration and make those plans publicly available.

Fourth, the Commission should require the company to guarantee employment levels in the state for at least three to five years in order to assure adequate workforce to deal with the unforeseeable as well as the foreseeable issues that could negatively impact customers and employees in Arizona . This is particularly important in light of the systems integration issues I discussed above. The new systems are causing tremendous inefficiencies in field work, resulting in work orders taking longer to complete than they would have if Embarq's systems remained in place. It would be disastrous to have a reduction in the skilled workforce at the same time these types of systems-related inefficiencies are occurring.

Fifth, the company should be required to develop training programs for employees that include introductory as well as ongoing training in the new systems and includes tools and resources to assist workers on the job. In addition, CenturyLink should provide customer education materials, including phone numbers to call in the event of outages or other system disruptions.

And sixth, the Commission should develop and enforce appropriate reporting requirements and service quality penalties to ensure that the merger does not adversely affect service quality to telephone customers in Arizona. Those penalties must be large enough to provide CenturyLink with a strong incentive to provide good customer service. CenturyLink must be given the message – both in writing and through financial penalties – that it cannot take shortcuts on the design and implementation of its systems, reduce employment levels, skimp on employee training, or otherwise jeopardize its ability to provide the type of high-quality service CWA members pride themselves on delivering to Qwest's Arizona customers.

Q. Are there any other recommendations you would make to the Commission?

A. Yes. Once all the conditions I have just listed are satisfied, and the Commission is assured that the integration issues I have testified about will not jeopardize service quality in Arizona, then the Commission should also include enforceable conditions that would guarantee that CenturyLink will make the necessary investment to build a communications system within the state that meets the needs of a twenty-first century economy and society.

To ensure that the proposed transaction serves the public interest in broadband expansion, I recommend that the Commission impose a second set of conditions, to follow the successful completion of the integration-related conditions, to require CenturyLink to comply with concrete, verifiable broadband commitments. Those commitments should be in line with the goals of the National Broadband Plan.

First, the merged entity should commit to make available broadband to *all* the retail lines it serves (defined as single-line residence and business access lines) at a minimum of 4 Mbps download and 1 Mbps upload within three years of closing. (The Commission might consider an exception for a small number of very remote lines served.)

Second, the Commission should also require the merged entity to provide high-speed broadband of 50 Mbps download and 20 Mbps upload to 80 percent of lines within five years after closing. The Commission should set annual interim benchmarks to get to these goals.

Third, the Commission should require the merged entity to invest in delivering 1 gigabit capacity to community anchor institutions in at least five pilot communities no later than six months following the successful completion of the integration-related conditions.

Fourth, the Commission should require the merged entity to commit to deploy IPTV to communities serving at least 1 million Arizona residents by a date certain.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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CenturyLink™ Qwest

MERGER PROPOSED — YOUR VOTE IS VERY IMPORTANT

The board of directors of CenturyLink, Inc., which we refer to as CenturyLink, and the board of directors of Qwest Communications International Inc., which we refer to as Qwest, have agreed to a strategic combination of CenturyLink and Qwest under the terms of the Agreement and Plan of Merger, dated as of April 21, 2010, which we refer to as the merger agreement. Upon completion of the merger of a wholly owned subsidiary of CenturyLink with and into Qwest, CenturyLink will acquire Qwest, and Qwest will become a wholly owned subsidiary of CenturyLink.

If the merger is completed, Qwest stockholders will have the right to receive 0.1664 shares of CenturyLink common stock for each share of Qwest common stock they own at closing, with cash paid in lieu of fractional shares. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to closing of the merger. Based on the closing price of CenturyLink common stock on the New York Stock Exchange, or the NYSE, on April 21, 2010, the last trading day before public announcement of the merger, the 0.1664 exchange ratio represented approximately $6.02 in CenturyLink common stock for each share of Qwest common stock. Based on the CenturyLink closing price on July 15, 2010, the latest practicable date before the date of this document, the 0.1664 exchange ratio represented approximately $5.80 in CenturyLink common stock for each share of Qwest common stock. CenturyLink shareholders will continue to own their existing CenturyLink shares.

Based on the number of Qwest common shares outstanding on the record date for the shareholder meetings, CenturyLink expects to issue approximately 289,100,000 CenturyLink common shares to Qwest stockholders in the merger, and expects to reserve approximately 38,600,000 additional CenturyLink common shares for issuance in connection with options and other equity-based awards and arrangements of Qwest to be assumed by CenturyLink in connection with the merger. Upon completion of the merger, we estimate that current CenturyLink shareholders will own approximately 50.5% of the combined company and former Qwest stockholders will own approximately 49.5% of the combined company. CenturyLink common stock and Qwest common stock are both traded on the NYSE under the symbols CTL and Q, respectively.

At the special meeting of CenturyLink shareholders, CenturyLink shareholders will be asked to vote on the issuance of shares of CenturyLink common stock to Qwest stockholders, which is necessary to effect the merger. At the special meeting of Qwest stockholders, Qwest stockholders will be asked to vote on the adoption of the merger agreement.

We cannot complete the merger unless the shareholders of both of our companies approve the respective proposals related to the merger. **Your vote is very important, regardless of the number of shares you own. Whether or not you expect to attend your CenturyLink or Qwest special meeting, as applicable, in person, please vote your shares as promptly as possible by (1) accessing the Internet website specified on your proxy card, (2) calling the toll-free number specified on your proxy card, or (3) signing and returning all proxy cards that you receive in the postage-paid envelope provided, so that your shares may be represented and voted at the CenturyLink or Qwest special meeting, as applicable.** If you are a Qwest stockholder, please note that a failure to vote your shares is the equivalent of a vote against the merger. If you are a CenturyLink shareholder, please note that a failure to vote your shares may result in a failure to establish a quorum for the CenturyLink special meeting.

The CenturyLink board of directors unanimously recommends that the CenturyLink shareholders vote "FOR" the proposal to issue shares of CenturyLink common stock in the merger. The Qwest board of directors unanimously recommends that the Qwest stockholders vote "FOR" the proposal to adopt the merger agreement.

The obligations of CenturyLink and Qwest to complete the merger are subject to the satisfaction or waiver of several conditions set forth in the merger agreement. More information about CenturyLink, Qwest and the merger is contained in this joint proxy statement-prospectus. **CenturyLink and Qwest encourage you to read this entire joint proxy statement-prospectus carefully, including the section entitled "Risk Factors" beginning on page 14.**

We look forward to the successful combination of CenturyLink and Qwest.

Sincerely,	Sincerely,
Glen F. Post, III	Edward A. Mueller
Chief Executive Officer and President	Chairman and Chief Executive Officer
CenturyLink, Inc.	Qwest Communications International Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued under this joint proxy statement-prospectus or determined that this joint proxy statement-prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement-prospectus is dated July 19, 2010 and is first being mailed to the shareholders of CenturyLink and stockholders of Qwest on or about July 19, 2010.

The merger agreement contains provisions that could discourage a potential competing acquirer of either Qwest or CenturyLink or could result in any competing proposal being at a lower price than it might otherwise be.

The merger agreement contains "no shop" provisions that, subject to limited exceptions, restrict Qwest's and CenturyLink's ability to solicit, encourage, facilitate or discuss competing third-party proposals to acquire all or a significant part of Qwest or CenturyLink. Further, even if the Qwest board of directors or CenturyLink board of directors withdraws or qualifies its recommendation for the adoption of the merger agreement or the issuance of CenturyLink stock in the merger, respectively, they will still be required to submit the matter to a vote of their respective shareholders at the special meetings. In addition, the other party generally has an opportunity to offer to modify the terms of the proposed merger in response to any competing acquisition proposals that may be made before such board of directors may withdraw or qualify its recommendation. In some circumstances on termination of the merger agreement, one of the parties may be required to pay a termination fee to the other party. See "The Issuance of CenturyLink Shares and the Merger — The Merger Agreement — No Solicitation of Alternative Proposals" beginning on page 100, "— Termination of the Merger Agreement" beginning on page 101 and "— Expenses and Termination Fees" beginning on page 102.

These provisions could discourage a potential competing acquirer that might have an interest in acquiring all or a significant part of Qwest or CenturyLink from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than that market value proposed to be received or realized in the merger, or might result in a potential competing acquirer proposing to pay a lower price than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

The pendency of the merger could adversely affect the business and operations of CenturyLink and Qwest.

In connection with the pending merger, some customers or vendors of each of CenturyLink and Qwest may delay or defer decisions, which could negatively impact the revenues, earnings, cash flows and expenses of CenturyLink and Qwest, regardless of whether the merger is completed. Similarly, current and prospective employees of CenturyLink and Qwest may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect the ability of each of CenturyLink and Qwest to attract and retain key personnel during the pendency of the merger. In addition, due to operating covenants in the merger agreement, each of CenturyLink and Qwest may be unable, during the pendency of the merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial.

Risk Factors Relating to CenturyLink Following the Merger

Operational Risks

CenturyLink expects to incur substantial expenses related to the merger.

CenturyLink expects to incur substantial expenses in connection with completing the merger and integrating the business, operations, networks, systems, technologies, policies and procedures of Qwest with those of CenturyLink. There are a large number of systems that must be integrated, including billing, management information, purchasing, accounting and finance, sales, payroll and benefits, fixed asset, lease administration and regulatory compliance. While CenturyLink has assumed that a certain level of transaction and integration expenses would be incurred, there are a number of factors beyond its control that could affect the total amount or the timing of its integration expenses. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. Moreover, CenturyLink expects to commence these integration initiatives before it has completed a similar integration of its business with the business of Embarq, acquired in 2009, which could cause both of these integration initiatives to be delayed or rendered more costly or disruptive than would otherwise be the case. Due to these factors, the transaction and integration expenses associated with the Qwest merger could, particularly in the near term, exceed the savings

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that CenturyLink expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the integration of the businesses following the completion of the merger. As a result of these expenses, CenturyLink expects to take charges against its earnings before and after the completion of the merger. The charges taken after the merger are expected to be significant, although the aggregate amount and timing of such charges are uncertain at present.

Following the merger, the combined company may be unable to integrate successfully the businesses of CenturyLink and Qwest and realize the anticipated benefits of the merger.

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating the business practices and operations of CenturyLink and Qwest. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine the businesses of CenturyLink and Qwest in a manner that permits the combined company to achieve the cost savings anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with the combined company;
- the complexities associated with managing the combined businesses out of several different locations and integrating personnel from the two companies, while at the same time attempting to provide consistent, high quality products and services under a unified culture;
- the additional complexities of combining two companies with different histories, regulatory restrictions, markets and customer bases, and initiating this process before CenturyLink has fully completed the integration of its operations with those of Embarq;
- the failure to retain key employees of either of the two companies;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and
- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

For all these reasons, you should be aware that it is possible that the integration process could result in the distraction of the combined company's management, the disruption of the combined company's ongoing business or inconsistencies in the combined company's products, services, standards, controls, procedures and policies, any of which could adversely affect the ability of the combined company to maintain relationships with customers, vendors and employees or to achieve the anticipated benefits of the merger, or could otherwise adversely affect the business and financial results of the combined company.

The merger will change the profile of CenturyLink's local exchange markets to include more large urban areas, with which CenturyLink has limited operating experience.

Prior to the Embarq acquisition, CenturyLink provided local exchange telephone services to predominantly rural areas and small to mid-size cities. Although Embarq's local exchange markets include Las Vegas, Nevada and suburbs of Orlando and several other large U.S. cities, CenturyLink has operated these more dense markets only since mid-2009. Qwest's markets include Phoenix, Arizona, Denver, Colorado, Minneapolis — St. Paul, Minnesota, Seattle, Washington, Salt Lake City, Utah, and Portland, Oregon, and, on average, are substantially denser than those traditionally served by CenturyLink. While CenturyLink believes its strategies and operating models developed serving rural and smaller markets can successfully be applied to larger markets, it can not assure you of this. CenturyLink's business, financial performance and prospects could be harmed if its current strategies or operating models cannot be successfully applied to larger markets following the merger, or are required to be changed or abandoned to adjust to differences in these larger markets.