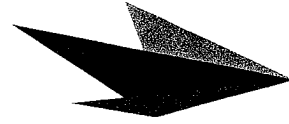


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EMBARQ®

Embarq
Mailstop: NCWKFR0313
14111 Capital Boulevard
Wake Forest, NC 27587-5900
embarq.com

March 27, 2009

Chairman Eddie Roberson
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243

filed electronically in docket office on 03/27/09

Re: Joint Application of Embarq Corporation and CenturyTel, Inc. Regarding
Transfers of Control of United Telephone Southeast LLC d/b/a Embarq, Embarq
Communications, Inc. and Embarq Payphone Services, Inc.


Docket No. 08-00219

Dear Chairman Roberson:

Please find enclosed for filing in the above-referenced docket the original and four (4) copies of Direct Testimony of witnesses G. Clay Bailey on behalf of CenturyTel, Inc. and Mark A. Gast and Richard A. Schollmann on behalf of Embarq Corporation. This filing has also been completed by e-mail sent today to the Authority's Docket Manager, Sharla Dillon.

An extra copy of this letter is provided, please stamp it "Filed" and return to me in the enclosed self-addressed stamped envelope. Please do not hesitate to contact me if you have any questions.

Sincerely yours,



Edward Phillips

HEP:sm

Enclosures

cc: R. Dale Grimes, Esquire (via e-mail)
Henry Walker, Esquire (via e-mail)
Don Baltimore, Esquire (via e-mail)

Edward Phillips
COUNSEL
Voice: (919) 554-7870
Fax: (919) 554-7913
edward.phillips@embarq.com


CERTIFICATE OF SERVICE

I hereby certify that I have served an electronic copy of the foregoing Direct Testimony of witnesses G. Clay Bailey, Mark A. Gast and Richard A. Schollmann on the parties of record.

This 27th day of March, 2009.

H. LaDon Baltimore, Esquire
Farrar & Bates
211 Seventh Avenue, North #420
Nashville, TN 37219-1823

Henry Walker, Esquire
Boult, Cummins, Conners & Berry PLC
1600 Division Street, Suite 700
Nashville, TN 37203



Edward Phillips
United Telephone Southeast LLC d/b/a Embarq

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In re:

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

DOCKET NO. 08-00219

DIRECT TESTIMONY OF G. CLAY BAILEY

**ON BEHALF OF
CENTURYTEL, INC.**

MARCH 27, 2009

**DIRECT TESTIMONY OF
G. CLAY BAILEY**

Q. Please state your name and business address.

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

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

A. I am employed by CenturyTel Service Group, LLC, a wholly-owned subsidiary of CenturyTel, Inc. (including its subsidiaries, "CenturyTel"), and currently hold the position of Vice President and Treasurer.

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

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

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

A. I am currently responsible for the Treasury, Tax and Risk Management areas of the

1 Company. In this capacity, among other responsibilities, I represent CenturyTel before
2 the debt rating agencies.

3
4 **Q. What is the purpose of your testimony?**

5 A. I am presenting testimony in support of the Joint Application submitted by CenturyTel,
6 Inc. ("CenturyTel") and Embarq Corporation ("Embarq") seeking Authority approval of
7 the Agreement and Plan of Merger ("Agreement") executed by CenturyTel and Embarq.
8 For purposes of this testimony I will refer to these events as the Merger.

9
10 **Q. Are you familiar with the Joint Application submitted by the Petitioners in this**
11 **proceeding?**

12 A. Yes, I am familiar with the portions of the Joint Application that pertain to CenturyTel.
13 Accordingly, I would like to incorporate into this testimony the portions of the Joint
14 Petition that pertain to CenturyTel, including the exhibits thereto.

15
16 **Q. Please summarize the areas or issues that you will provide comment on in this**
17 **testimony.**

18 A. My testimony will address several points concerning the Merger including the following:
19 a brief history and overview of CenturyTel's operations; the formation of a stronger
20 combined company; reasons why CenturyTel and Embarq are a "good fit" for each other;
21 CenturyTel's qualifications to acquire the Embarq operations; protection of adequate
22 service at just and reasonable rates; and the Merger's impact on competition in Tennessee

1 and Embarq's current customers in Tennessee.

2
3 **Q. Does CenturyTel currently have any telephone operations in Tennessee?**

4 A. Yes. CenturyTel's Tennessee operations are conducted through its subsidiaries
5 CenturyTel of Adamsville, Inc., CenturyTel of Claiborne, Inc., and CenturyTel of
6 Ooltewah, Inc.

7
8 **Q. Please give a brief history and overview of CenturyTel's operations.**

9 A. CenturyTel is a multi-state provider of a wide range of communications services.
10 CenturyTel is a publicly traded holding company listed on the New York Stock Exchange
11 (Symbol: CTL) and included in the S&P 500 index. It is headquartered in Monroe,
12 Louisiana and conducts its business principally through operating subsidiaries that have a
13 footprint in 25 states. Although not incorporated until 1968, CenturyTel started as a
14 single exchange family run local telephone company in Oak Ridge, Louisiana in 1930.
15 Through a steady series of acquisitions and internal growth and expansion, the company
16 has grown to where it is currently serving approximately 2 million access lines and
17 600,000 broadband connections. CenturyTel has approximately 6,500 employees and
18 annual sales of approximately \$2.6 billion.

19
20 **Q. Does CenturyTel provide a wide array of communications services?**

21 A. Yes, those services include local exchange, long distance, high-speed internet and other
22 broadband services. The company provides satellite television and wireless

1 communications services through resale arrangements. In certain local and regional
2 markets, CenturyTel also provides competitive local exchange carrier and security
3 monitoring services. In addition, CenturyTel owns and operates a state-of-the-art fiber
4 system that provides wholesale and retail fiber transport services to customers in the
5 central United States.

6
7 **Q. Will the merger of CenturyTel and Embarq create a stronger company that will**
8 **benefit the consuming public?**

9 A. Very much so. The merger will create a combined CenturyTel/Embarq entity with greater
10 financial resources to raise capital to invest in networks, systems and employees. The
11 pooled resources will allow the combined entity to more effectively finance, develop and
12 deploy the networks and services that are essential to survival in today's increasingly
13 competitive communications landscape. As technologies and customer expectations
14 change at an ever increasingly frantic pace, economies of scope and scale also become
15 increasingly important in positioning a company to effectively respond to those changes.
16 Customers benefit from viable sustainable networks and a company's ongoing ability to
17 offer innovative services that are responsive to their needs. Therefore customers in
18 Tennessee will benefit from the enhanced economies of scope and scale that will arise
19 from the merger.

20
21 **Q. Is the combination of CenturyTel and Embarq a good fit?**

22 A. Yes. CenturyTel and Embarq are very similar companies. They are both holding

1 companies whose primary focus has been the operation of subsidiary incumbent local
2 exchange carriers on a multi-state basis. Both CenturyTel, in its 2002 wireless
3 divestiture, and Embarq, in the 2006 spin-off from Sprint-Nextel, separated themselves
4 from their wireless operations in order to focus their efforts on positioning their wireline
5 networks to accommodate the increasing customer demand for broadband services. Both
6 companies have deep roots in serving and meeting the communication needs of customers
7 in rural and smaller city markets. Both companies are very strong and stable financially
8 as evidenced by the fact that they are the only mid-size communications companies that
9 hold investment-grade ratings from the major credit rating agencies. Both companies
10 have strong management teams that share the common view that survival in these
11 turbulent times in the communications industry is contingent upon the ability to quickly
12 respond to rapid changes in market forces, technology, and customer needs and demands.

13
14 **Q. Is CenturyTel suitable, financially responsible, and capable of performing**
15 **efficiently the utility services being transferred to it?**

16 A. Yes, it is capable in all respects. This includes financial responsibility, as well as with
17 regard to CenturyTel's technical and managerial expertise. As is documented in the
18 financial exhibits included with the Joint Application, CenturyTel is very sound and
19 stable financially. CenturyTel has a very strong balance sheet. As I noted earlier,
20 CenturyTel's credit worthiness is rated investment grade by the major rating agencies. It
21 is also worth noting that the merger will be accomplished through a stock-for-stock swap
22 and the merger does not result in any incremental debt.

1
2 **Q. Can CenturyTel provide the transferred services in an efficient manner to the**
3 **benefit of the consuming public?**

4 A. Yes. The Joint Application speaks to the enhancement of customer services inherent in a
5 stronger combined company being able to more quickly respond to customer needs with
6 economically attractive innovative services, and I incorporate into this testimony the
7 portion of the Joint Application that discusses this aspect of the acquisition. This will in
8 large part be due to the improved economies of scope and scale that will arise from the
9 combination of the two companies. However, it will also be aided by the ability of the
10 combined company to adopt best practices of both companies. For example, CenturyTel
11 has acquired 700 MHZ radio spectrum licenses and has developed an extensive fiber
12 backbone network that would be available to the combined company for offering
13 enhanced wireless broadband and fiber transport services. By the same token, Embarq is
14 more advanced in bringing to market IP (internet protocol) products for business
15 customers. This advancement would likewise now be available to the combined
16 company. These are examples of how customers of both companies will benefit when the
17 merger is approved.

18
19 **Q. Will the merger have a positive impact on competition in Tennessee?**

20 A. Yes, the merger will also have a positive impact on the state of competition. Healthy
21 competition these days is in large part driven by the existence of a variety of viable
22 network platforms in a given market. Competition is most robust in markets where there

1 is intermodal competition; that is, where services are being delivered over wireless,
2 wireline, and cable platforms. If any of those platforms is rendered non-sustainable it
3 would negatively impact competition and not work to the benefit of consumers. The
4 sustainability of wireline networks is becoming increasingly challenging, particularly in
5 rural markets, and especially in view of the general economic downturn. Wireline
6 carriers must become stronger and more effective competitors to weather these
7 tumultuous times. The merger will help Embarq and CenturyTel to become exactly that
8 and will therefore help assure the existence of a viable wireline platform in the markets
9 served by the combined company. This in turn will help assure that there is true
10 intermodal competition going forward.

11
12 **Q. Will the merger have an adverse impact on Embarq's customers in Tennessee?**

13 A. There will be no adverse impact upon such customers. The services provided by Embarq
14 in Tennessee and the rates and terms under which they are offered will not change as a
15 result of the merger. The merger will basically be transparent to consumers.

16
17 **Q. What requirements or conditions, if any, should be placed on the provisioning of**
18 **wholesale services by the merged company?**

19 A. There is no need for the Authority to place conditions or requirements of any kind on its
20 approval of this transaction. Regarding wholesale services, CenturyTel does not currently
21 have an interconnection agreement with the intervening CLECs in Tennessee, and all
22 existing Embarq interconnection agreements will remain in place and will not be altered

1 by the transaction. Furthermore, CenturyTel and Embarq are identifying the best
2 practices of each company for adoption by the combined company. This includes
3 adoption of best practices in the companies' wholesale operations. For example, the
4 companies have determined that the Embarq wholesale ordering system (EASE) will be
5 used by the combined company and phased in over time. This is a good example of one
6 company's best practice being chosen for adoption by the combined company. This same
7 best practice approach is being applied to the entire wholesale operations.

8
9 **Q. Is approval of this Transaction in the public interest?**

10 A. My testimony and that of Mr. Schollmann and Mr. Gast fully support a finding by the
11 Authority that this transaction is in the public interest.

12
13 **Q. Does that conclude your direct testimony?**

14 A. Yes, it does.

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In the Matter of :

Joint Application of Embarq
Corporation And CenturyTel, Inc.
Regarding Transfers of Control of
United Telephone Southeast LLC
d/b/a Embarq, Embarq
Communications, Inc. and Embarq
Payphone Services, Inc.

Docket No. 08-00219

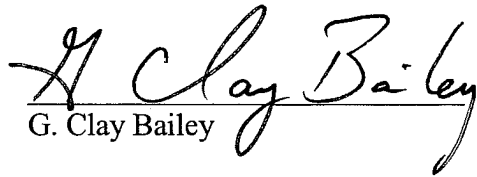
TENNESSEE REGULATORY AUTHORITY

STATE OF Louisiana

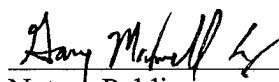
PARISH OF Ouachita

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared G. CLAY BAILEY, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of CenturyTel Service Group, LLC before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 10 pages.


G. Clay Bailey

Sworn to and subscribed before me
this 26th day of March, 2009.


Notary Public

Gary Maxwell Cox
Louisiana Bar Roll No. 27419
Notary Public, Ouachita Parish, Louisiana
My Commission is for Life

My commission expires: Indefinite

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In re:

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

DOCKET NO. 08-00219

DIRECT TESTIMONY OF MARK A. GAST

**ON BEHALF OF
EMBARQ CORPORATION**

MARCH 27, 2009

**DIRECT TESTIMONY OF
MARK A. GAST**

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

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

Q. Please describe your educational background and business experience.

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

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

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

8
9 **Q. What is the purpose of your testimony?**

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

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

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

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

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

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

1 is also anticipated that debt of the combined CenturyTel/Embarq operations will be rated
2 “investment grade.”
3

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

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

15 **Q. What will be the impact of the merger on UTSE?**

16 A. Because the merger transaction is occurring at the parent level and not at the operating
17 subsidiary level, UTSE’s day-to-day operations of continuing to provide reliable service
18 will remain essentially unaffected by the merger. However, as described above, the
19 merger of CenturyTel and Embarq will create a stronger and more financially capable
20 enterprise. This combined company will, in turn, enhance UTSE’s financial strength and
21 capability because UTSE will have greater financial stability and access to capital
22 necessary to invest in its network, employees, and systems.
23

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

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

12
13 **Q. Does this conclude your initial testimony?**

14 A. Yes.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In the Matter of :

Joint Application of Embarq
Corporation And CenturyTel, Inc.
Regarding Transfers of Control of
United Telephone Southeast LLC
d/b/a Embarq, Embarq
Communications, Inc. and Embarq
Payphone Services, Inc.

Docket No. 08-00219

TENNESSEE REGULATORY AUTHORITY

STATE OF Kansas

COUNTY OF Johnson

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared MARK A. GAST, being by me first duly sworn deposed and said that:

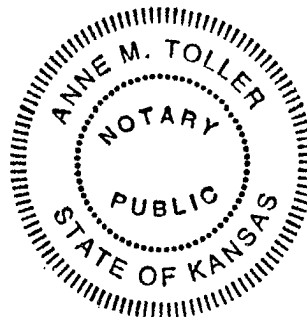
He is appearing as a witness on behalf of Embarq Corporation before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 7 pages.

Mark A. Gast
Mark A. Gast

Sworn to and subscribed before me
this 25th day of March, 2009.

Anne M. Toller
Notary Public

My commission expires: 2/2/2010



BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

In re:

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

DOCKET NO. 08-00219

DIRECT TESTIMONY OF RICHARD A. SCHOLLMANN

**ON BEHALF OF
EMBARQ CORPORATION**

MARCH 27, 2009

**DIRECT TESTIMONY OF
RICHARD A. SCHOLLMANN**

Q. Please state your name and business address.

A. My name is Richard A. Schollmann and my business address is 707 E. Main Street,
Richmond, Virginia 23219.

Q. Who is your employer and what is your position?

A. I am employed by Embarq Management Corporation as State Executive for Tennessee
and Virginia.

Q. Please describe your educational background, work experience and present responsibilities.

A. My employment history is a combination of public and private employment. I am a
retired Marine Corps officer and served six years as a trial attorney for the U.S.
Department of Justice in Washington, D.C. In the private sector, I was a regulatory
attorney for AT&T in the Mid-Atlantic region and subsequently became AT&T's state
director of government affairs for Virginia. In 2001, I joined American Electric Power as
government affairs director for Tennessee and Virginia. In 2002, I became President of
the Virginia Cable Telecommunications Industry Association and served in that capacity
until 2005, when I became Vice President for State Government Affairs for Comcast in
Washington, D.C. In 2006, I joined Sprint, from which Embarq was created, as
government affairs manager for Virginia and became Embarq's State Executive for
Tennessee and Virginia in May 2008. I manage Embarq's external affairs functions in

1 the two states, including legislative, regulatory and community affairs activities. I earned
2 a Bachelor of Arts degree in psychology from the University of Rochester in New York
3 and a law degree from Catholic University in Washington, D.C.

4
5 **Q. What transaction is the Tennessee Regulatory Authority (“Authority”) being asked**
6 **to approve in this proceeding?**

7 A. CenturyTel, Inc. (“CenturyTel”) and Embarq Corporation (“Embarq”) have agreed to
8 merge. Under the terms of an “Agreement and Plan of Merger,” which describes the
9 transaction subject to this proceeding (“Transaction”), Embarq will become a direct,
10 wholly-owned subsidiary of CenturyTel. Upon close of the Transaction, Embarq’s
11 operating subsidiaries will remain subsidiaries of CenturyTel. On November 21, 2008,
12 Embarq and CenturyTel filed with the Authority a Joint Application of Embarq
13 Corporation, Embarq’s Certificated Tennessee Subsidiaries and CenturyTel, Inc.,
14 Regarding Transfers of Control (“Joint Application”). The Joint Application asks the
15 Authority to approve the Transaction by finding that CenturyTel as the transferee is
16 suitable, financially responsible, and capable to provide the utility services being
17 transferred and that CenturyTel can provide such service in an efficient manner to the
18 benefit of the consuming public, as required by Tenn. Code Ann. §§ 65-4-112 and 65-4-
19 113.

1 **Q. Are you familiar with the Joint Application submitted by the Applicants in this**
2 **proceeding?**

3 A. Yes, I am familiar with the portions of the Joint Application that pertain to Embarq.
4 Accordingly, I would like to incorporate into this testimony the portions of the Joint
5 Application that pertain to Embarq, including the exhibits thereto.

6
7 **Q. Please identify the entities operating in Tennessee that are affected by the**
8 **Transaction.**

9 A. The Embarq entities that are affected by this change of control are United Telephone
10 Southeast LLC d/b/a Embarq ("UTSE"), Embarq Communications, Inc. ("ECI") and
11 Embarq Payphone Service, Inc. ("EPSI"). These three entities are collectively referred to
12 as the "Certificated Entities" throughout my testimony. The structure of Embarq and its
13 subsidiaries will remain intact after the close of the Transaction. Embarq will become a
14 direct, wholly-owned subsidiary of CenturyTel and, thus, the Certificated Entities will
15 become indirect wholly-owned subsidiaries of CenturyTel.

16
17 **Q. What is the purpose of your testimony?**

18 A. I am supporting the Joint Application. The purpose of my testimony is to demonstrate
19 that CenturyTel as the transferee is suitable, financially responsible, and capable to
20 provide the utility services being transferred and that CenturyTel can provide such
21 service in an efficient manner to the benefit of the consuming public.

22
23 **Q. Are other witnesses filing direct testimony in this proceeding?**

1 A. Yes, Mark Gast, Embark's Director – Regulatory Analysis and Reporting and Clay
2 Bailey, CenturyTel's Vice President and Treasurer, are also filing testimony. Mr. Gast's
3 and Mr. Bailey's testimony demonstrate that the combined CenturyTel/Embark company
4 will have greater financial resources to raise capital, invest in networks, employees and
5 systems, and generate sufficient cash to pay expenses, service debt and pay a dividend to
6 shareholders. Mr. Gast and Mr. Bailey also testify that a financially stronger combined
7 company will benefit the Certificated Entities by enhancing their continuing ability to
8 provide quality customer service, while investing in their networks, employees and
9 systems. Mr. Bailey's testimony also provides information to demonstrate that
10 CenturyTel is suitable, financially responsible and capable of performing efficiently the
11 utility service being transferred to it.

12
13 **Q. What standard is applicable to the Authority's review and approval of the**
14 **Transaction?**

15 A. Tenn. Code Ann. § 65-4-113 provides that the Authority "shall take into consideration all
16 relevant factors, including, but not limited to, the suitability, the financial responsibility,
17 and capability of the proposed transferee to perform efficiently the utility services to be
18 transferred and the benefit to the consuming public to be gained from the transfer" and
19 that the Authority "shall approve the transfer after consideration of all relevant factors
20 and upon finding that such transfer furthers the public interest."

21
22 **Q. Please describe the structure of the merged entity.**

1 A. Attached to the Joint Application as Exhibit A are diagrams illustrating the organizational
2 structure of the relevant companies before and after the merger. In general, Embarq will
3 merge with a subsidiary of CenturyTel formed solely to effectuate the Transaction. Upon
4 the merger, Embarq will become the surviving corporation, and the subsidiary of
5 CenturyTel will cease to exist. Embarq will then become a direct, wholly-owned
6 subsidiary of CenturyTel.

7
8 **Q. What are the organizational, operational and regulatory effects of the Transaction**
9 **on the Tennessee Certificated Entities, if any?**

10 A. There will be no immediate effect on the organization and operations of the Certificated
11 Entities. The transaction will occur at the holding company level. As a result, each of
12 the Certificated Entities operating in Tennessee will retain the same corporate identities
13 and continue to exist and operate as individual, separate companies. UTSE and ECI will
14 continue to provide local exchange service, and to offer long distance service, subject to
15 the same rules, regulations and applicable tariffs. UTSE will remain subject to existing
16 price regulation, service quality obligations, and tariffs, as modified pursuant to any
17 future Authority of legislative decisions.

18
19 **Q. Will there be changes of any other sort to the Certificated Entities in Tennessee?**

20 A. After the Transaction is completed, there may be a change in the names under which the
21 companies are doing business (the "d/b/a"), but apart from that, the Transaction will be
22 transparent to customers. Immediately after the Transaction, customers will continue to
23 receive the same full range of high quality products and services at the same rates, terms

1 and conditions as they did immediately before the Transaction. Any subsequent service
2 or price changes, if any, will be made in accordance with all applicable rules and laws.

3
4 The only organizational or operational change at the time of the Transaction will be that
5 the ultimate owner of the Embarq entities will be CenturyTel rather than Embarq. As
6 illustrated in Exhibit A to the Joint Application, when the Transaction is completed, the
7 Certificated Entities will have a new “great grandparent” – CenturyTel – but all else will
8 remain as it is today.

9
10 **Q. You mentioned that there may be a change in the name under which the**
11 **Certificated Entities do business. If that occurs, will you file a request to change the**
12 **name at the appropriate time?**

13 A. Yes, in the event a decision is made to change the names of the Certificated Entities,
14 appropriate approval requests or notifications will be filed with state and local entities as
15 necessary.

16
17 **Q. Why should the Authority approve the Transaction?**

18 A. The Authority should approve the Transaction because, upon completion of the merger,
19 the Certificated Entities will be better positioned to serve customers in an increasingly
20 competitive environment. Consumers of residential and business communications
21 services have more choices than ever before for voice, data, video and wireless services.
22 Intermodal competition offers consumers a variety of alternative technologies including
23 wireline, wireless, cable telephone, VoIP and wireless broadband. Aggressive

1 advertising and promotions constantly urge customers to switch providers to obtain the
2 benefits of bundled services with the convenience of one bill, lower prices and innovative
3 services. The rapid changes in technology, customer preferences, and the competitive
4 landscape will continue at the current frenetic pace. Incumbent local exchange
5 companies must be strongly positioned to stay competitive. They must execute strategies
6 as rapidly as the rate at which the changes are taking place. Companies today must have
7 laser-like focus on bringing to market products and services that differentiate them from
8 their competitors, and a sufficient scale of operation to successfully execute their
9 strategies.

10
11 In addition, the merger will combine two leading communications companies with strong
12 customer-centric histories. Embarq has a rich history of providing telecommunications
13 services to local communities that dates back over a hundred years, and since its
14 emergence from Sprint, it has strengthened its local community roots. CenturyTel has a
15 similarly rich history in local telecommunications services, anchored by wireline service
16 in its existing certificated areas. The two companies combined will be the largest
17 independent wireline communications company in the United States. The combined
18 companies will serve approximately 8 million access lines, 2 million broadband
19 customers and approximately 400,000 video subscribers. The Transaction will
20 significantly increase the scale of the merging companies and enhance their competitive
21 position by bolstering their ability to deploy economically attractive and innovative
22 products and services. Moreover, with the complementary operating strengths, the larger
23 organization will be better positioned to take advantage of beneficial purchasing

1 opportunities and bring about network and operating efficiencies and infrastructure
2 improvements.

3
4 As I mentioned earlier in my testimony, the combined company at close will be the
5 largest independent wireline communications company in the United States. By
6 combining assets, resources and complementary strengths, the merged enterprise can
7 achieve greater economies of scale and scope than the two companies operating
8 independently. This, in turn, will enhance their ability to more strategically focus and
9 quickly respond to customer demand for a wide range of high quality advanced
10 communications services. Doing so will differentiate the Certificated Entities in
11 Tennessee. With significantly increased scale, the Certificated Entities will be better
12 positioned to grow by deploying products and services that attract and retain customers.

13
14 **Q. Will customers experience a change in the way they do business with the**
15 **Certificated Entities?**

16 **A.** No. As I explained in my testimony, immediately following the transaction, the
17 Certificated Entities will continue to offer the same products and services they offered the
18 day before the Transaction was consummated, at the same prices and subject to the same
19 rules and regulations. The transaction will have no adverse effect on the quality of
20 service provide to customers or on the ability of the Certificated Entities to meet their
21 obligations. Immediately following the Transaction, customers will continue to be able
22 to call existing telephone numbers and other existing customer contact points to obtain
23 new services, report service problems and address billing or other customer care issues.

1 **Q. Will the Certificated Entities continue to have the technical and managerial ability**
2 **to provide quality service after the Transaction closes?**

3 A. Absolutely. The Certificated Entities will have the assets, facilities, certificates, technical
4 capabilities, managerial expertise and other resources needed to continue to provide
5 quality services for its customers. In addition, the Certificated Entities will continue to
6 employ personnel experienced and dedicated to the provision of service. The customer
7 service, network and operations functions that are critical to success today will continue
8 when the Transaction is complete, and the post-transaction company will be staffed to
9 ensure that continuity. The local operations of the Certificated Entities will continue to
10 be managed by employees with extensive knowledge of the local communications
11 business and with a commitment to needs of the local community.

12
13 **Q. Please summarize your testimony.**

14 A. Customers will benefit because the merger will bring together two companies with
15 complementary strengths and industry-leading capabilities whose businesses are built
16 upon serving local customers and creating a variety of products and services that more
17 directly address the preferences of those customers. With significantly increased scale,
18 the combined company will have greater financial and operational resources and
19 expertise to capitalize on marketplace opportunities, diversify revenues and expand
20 networks to build long-term value for customers and shareholders. The Certificated
21 Entities will be part of an operationally and financially stronger corporate family and
22 thus, better able to meet the ever-increasing competition in the telecommunications
23 marketplace. In sum, after consideration of all relevant factors including, but not limited

1 to, the suitability, the financial responsibility, and capability of CenturyTel to perform
2 efficiently the utility services to be transferred, the Transaction furthers the public
3 interest.

4
5 **Q. Does this conclude your testimony?**

6 **A. Yes.**

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

In the Matter of :

Joint Application of Embarq
Corporation And CenturyTel, Inc.
Regarding Transfers of Control of
United Telephone Southeast LLC
d/b/a Embarq, Embarq
Communications, Inc. and Embarq
Payphone Services, Inc.

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Docket No. 08-00219

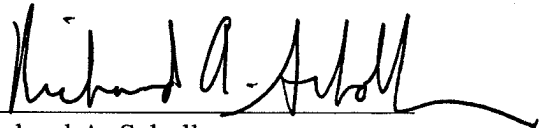
TENNESSEE REGULATORY AUTHORITY

STATE OF North Carolina

COUNTY OF Franklin

BEFORE ME, the undersigned authority, duly commissioned and qualified in and for the State and County aforesaid, personally came and appeared RICHARD A. SCHOLLMANN, being by me first duly sworn deposed and said that:

He is appearing as a witness on behalf of Embarq Corporation before the Tennessee Regulatory Authority, and if present before the Authority and duly sworn, his testimony would set forth in the annexed transcript consisting of 12 pages.


Richard A. Schollmann

Sworn to and subscribed before me
this 26th day of March, 2009.

Susan Ivornan Medlin
Notary Public

My commission expires: 8/21/2010

