



Unity @ CenturyTel - EMBARQ



CWA and IBEW together for the good jobs our communities need

Jan. 27, 2009

Basic Info About the CenturyTel - Embarq Deal

On October 27, 2008, CenturyTel Inc. (CTL) announced that it would acquire Embarq Corporation (EQ) in a stock-for-stock deal worth \$17.4 billion. CenturyTel will give Embarq shareholders 1.37 shares of CTL for every EQ share. Given where EQ stock was trading in October, Embarq shareholders will receive \$5.6 billion. CenturyTel will also assume \$5.8 billion of Embarq's debt.

Although CenturyTel management took the initiative to purchase Embarq, a "change of control" will actually be taking place at CenturyTel: Embarq shareholders will own 66% of the new company! Nevertheless, the Board of Directors of the new company will consist of 8 CTL

directors and 7 EQ directors. Glenn Post, currently CTL Chairman and CEO, will continue as CEO, while Tom Gerke, currently EQ's CEO will be Vice Chairman of the Board. Bill Owens, currently EQ's Chairman will be the new Board Chairman.

Both companies have made a number of filings with the Securities and Exchange Commission since the announcement. Management has promoted the deal along several lines claiming that by combining networks, it will become a stronger company with better access to capital. The new company would operate in 33 states with 8 million access lines, 2 million broadband customers, and 400,000 video subscribers.

The Union Response

Both CWA and IBEW want a financially healthier telephone company that will better serve its customers and continue to provide good jobs for its employees. Yet, leaders of both unions have reservations.

Mergers and spin-offs over the last 20 years have frequently led to deteriorating service quality, job loss, and financial instability for the surviving company, while investors have extracted dividends and top executives have paid themselves generously. The most galling recent examples have involved Verizon, including the spin-offs of Hawaii Telecom (now in bankruptcy), Idearc yellow pages (recently de-listed from the New York Stock Exchange), and FairPoint Communications whose purchase of Verizon's northern New England access lines are pushing the company to renege on agreements with the states and the unions.

In this particular case, the unions have several concerns. First, the companies claim \$400 million of "synergies" from the transaction, but their filings provide little information as to where these saving will be found. Other telephone transactions suggest that savings come typically from headcount reduction. Second, we are concerned with the financial well-being of the new entity. Some analysts believe the companies present an overly optimistic view of access line reductions.

Unfortunately, the companies did not provide regulators with information that would allow for an evaluation – especially true given the fact that the credit squeeze could have serious implications for the ability of the new company to refinance debt. Third, CenturyTel decided in June 2008 to increase its dividend by ten-fold and has promised to continue this dividend policy in the new company. Meanwhile, capital expenditures have decreased and service quality could be improved.

Regulatory Review

CenturyTel has said it wants to close the transaction by the end of the second quarter. However, closing is contingent on regulatory approvals at a number of different agencies.

- **Federal level**

- Department of Justice and the Federal Trade Commission are principally concerned that the deal is not anti-competitive.
- Federal Communications Commission must find that the change in control serves the "public interest." The companies filed at the FCC in December 2008. The FCC has a 180 day "clock" to render a decision.

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Regulatory Review *(CONTINUED FROM PAGE 1)*

- **State level**

-- Roughly 15 states must approve the deal, according to company filings.

CWA and IBEW have intervened in four states – Illinois, Pennsylvania, Virginia, and Washington. IBEW has also submitted comments in Nevada. At this stage, neither union is opposing the deal.

Instead, we are requesting more information to independently determine whether the transaction serves the public interest.

What members can do to help

CWA and IBEW believe that membership involvement is the key to making sure that quality jobs and services are maintained in this proposed acquisition.

Members are encouraged to contact their state elected officials and communicate any concerns they have about the deal. In addition to your state representative and state senator, also contact your state Attorney

General, Governor and any official appointed to protect consumer interests.

Please do not contact public utility commissions in Illinois, Nevada, Pennsylvania, Virginia, and Washington. Commission rules prohibit parties to cases from contacting the commissions other than with formal filings that are sent to all parties.

For more information...

There are many useful websites where members can learn more about the proposed acquisition and the regulatory process. Below are a few links to websites. If you learn about another helpful source of information, please send it along to rand@mindspring.com.

- CenturyTel and EMBARQ merger site: www.centurytelembarqmerger.com
- Federal Communications Commission: www.fcc.gov/transaction/centurytel-embarq.html
- Securities and Exchange Commission: <http://idea.sec.gov/Archives/edgar/data/18926/000095012308018112/y72685a1sv4za.htm> (latest amended registration statement)

As noted above, the unions have intervened or commented in five states. Links to these state regulatory authorities are below (with the docket or case number in parentheses):

- Washington Utilities and Transportation Commission: www.utc.wa.gov (082119)
- Illinois Commerce Commission: www.icc.illinois.gov (08-0645)
- Virginia State Corporation Commission: www.scc.virginia.gov (PUC-2008-00104)
- Pennsylvania Public Utility Commission: www.puc.state.pa.us (A-2008-2076038)
- Nevada Public Utilities Commission <http://pucweb1.state.nv.us/PUCN> (08-11024)

To find other state regulatory authorities' websites, visit the National Association of Regulatory Utility Commissioners site at: www.naruc.org

Got a story to tell?

Workers on the front lines can see examples of how their company is either providing excellent service or cutting corners that hurt quality. Members can see if their company is investing wisely or letting valuable assets deteriorate. We need your stories to strengthen our case before regulators and to share with elected officials and the public. Send your stories and observations to rand@mindspring.com.