

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Embarq Corporation,
Embarq Communications, Inc. (U-6988-C),
Embarq Payphone Services, Inc. (U-6018-C),
CenturyTel, Inc., Cajun Acquisition Company,
CenturyTel of Eastern Oregon, Inc. (U-1022-C)
and CenturyTel Long Distance, LLC (U-6133-C)
for Approval of an Indirect Transfer of Control
Pursuant to Public Utilities Code Section 854.

Application 08-12-008
(Filed December 12, 2008)

**DECISION APPROVING TRANSFER OF INDIRECT CONTROL
PURSUANT TO PUBLIC UTILITIES CODE SECTION 854**

Summary

This application requests approval of a transaction in which CenturyTel, Inc. (CenturyTel), through an intermediate merger with a newly formed merger sub, will obtain direct control of Embarq Corporation (Embarq) and indirect control of Embarq's California subsidiaries. CenturyTel and Embarq are independent mid-sized telecommunications providers with operations principally outside California. They anticipate that the merger will create a stronger, more versatile telephone company that will continue to provide the same type and quality of services for California consumers that are presently provided by their respective certificated subsidiaries.

We find that the application satisfies our requirements for indirect acquisition and control of California utilities pursuant to Public Utilities Code section 854, subdivision (a), and we approve the proposed transaction.

Application 08-12-008 is closed.

1. The Parties

CenturyTel is a publicly traded Louisiana corporation headquartered in Monroe, Louisiana. It is a provider of communications services in small to mid-sized cities. As of December 31, 2007, CenturyTel local exchange operations served approximately 2.1 million local access lines in 25 states. However, its local exchange subsidiary in California, CenturyTel of Eastern Oregon, Inc. (U-1022-C) (CenturyTel ILEC), has fewer than 125 access lines, all located in the rural community of New Pine Creek near the Oregon border. Its long distance affiliate, CenturyTel Long Distance, LLC (U-6133-C) (CenturyTel LD), has a similar number of California customers.

Embarq is a publicly traded Delaware corporation headquartered in Overland Park, Kansas. Its subsidiaries offer a complete suite of communications services to residential customers and businesses, including local, long distance, high speed data, wireless and video services. Embarq has incumbent local exchange (ILEC) operations in 18 states and is a Fortune 500 corporation. As of December 31, 2007, Embarq operations served approximately 6.5 million local access lines. Embarq does not currently provide local exchange services in California, but it has certificated affiliates that provide long distance and payphone services currently operating in the state.

The merger sub formed to effectuate the proposed transaction is Cajun Acquisition Company (Cajun). It is a direct, wholly-owned subsidiary of CenturyTel.

The remaining applicants in this proceeding are respective direct or indirect subsidiaries of CenturyTel and Embarq, including CenturyTel ILEC and CenturyTel LD. Embarq Communications, Inc. (U-6988-C) (Embarq LD) is a direct wholly-owned subsidiary of Embarq operating as a switchless reseller of

interLATA and intraLATA services in California, currently providing service to fewer than 100 California customers. Embarq Payphone Services, Inc (U-6018-C) (Embarq Payphone) is a direct wholly-owned subsidiary of Embarq operating as a non-facilities based reseller of payphone services in California, serving fewer than 250 payphones in the state.

2. The Transaction

CenturyTel, Embarq and Cajun entered into an Agreement and Plan of Merger (merger agreement) as of October 26, 2008, that describes the transaction for which approval is sought in the application. Under the terms of the merger agreement, Cajun and Embarq will merge, and Embarq will be the surviving corporation. The transaction will be accomplished through a stock-for-stock transaction in which current Embarq shareholders will receive 1.37 shares of CenturyTel stock for each share of Embarq stock they currently hold. At the conclusion of the transaction CenturyTel will indirectly own the two Embarq subsidiaries identified above, because Embarq will become a directly-owned subsidiary of CenturyTel. CenturyTel expects to refinance Embarq's bank debt at closing (and has commitments in place), but no incremental debt is contemplated in connection with the transaction.¹

No transfer of certificates of public convenience and necessity (CPCNs), assets, or customers will occur among the California subsidiaries of CenturyTel and Embarq in this transaction, and the applicants state that the transaction will be transparent to customers. The transaction will not have an impact upon the working control of either corporate parent, and the applicants state that no

¹ The ownership of CenturyTel ILEC and CenturyTel LD will not be affected by this merger transaction.

imminent changes to the operation of either of the Embarq subsidiaries are contemplated as the result of the transaction.

Following completion of the merger, the CenturyTel Board of Directors will initially be composed of eight members designated by the pre-transaction CenturyTel Board, and seven members designated by the pre-transaction Embarq Board. The transaction will result in the pre-transaction Embarq shareholders owning approximately 66% of post-transaction CenturyTel, and the shareholders of pre-transaction CenturyTel owning about 34% of CenturyTel. However, due to an overlap of common institutional investors in CenturyTel and Embarq, shareholders that currently own a majority of CenturyTel's common equity will continue to own a majority of the common equity of the combined post-transaction CenturyTel.

No interruption or degradation of service to customers will occur. The applicants emphasize that this transaction will enhance their ability to provide customers with the same breadth and quality of services they provide at present with no loss of competition in California.

3. Qualifications of New Owner

Where a company acquiring control of a certificated telecommunications carrier does not possess a CPCN in California, the Commission applies the same requirements that govern a new applicant seeking a CPCN to exercise the type of authority held by the company being acquired: A minimum of \$100,000 in cash or cash equivalent, and adequate technical expertise in telecommunications or a related business are the essential requirements for the acquiring company.

The ultimate parent after the merger transaction will be CenturyTel. The financial statements attached in support of the application demonstrate that CenturyTel has a net income of \$84,987,000 per quarter, and cash and cash

equivalents of \$258,957,000 as of September 30, 2008. CenturyTel is an established mid-sized telecommunications provider, and the application states that its current senior management has approximately 90 combined years of experience in the industry. These facts reflect that CenturyTel is a going concern with substantial technical and managerial experience in the telecommunications industry, a circumstance that will be unaffected by the merger.

The post-transaction CenturyTel is expected to have pro forma revenue in excess of \$8.8 billion, and pro forma earnings before interest, depreciation, taxes, and amortization (EBIDTA) of approximately \$4.2 billion. Although their respective California operations are very limited, the merged company will be the largest independent wireline communications company in the country, serving approximately eight million access lines, as well as two million broadband customers and approximately 400,000 video subscribers. The applicants state that the transaction will not diminish competition in California, as none of the CenturyTel or Embarq subsidiaries currently compete with one another for customers in their respective markets.

The application proposes no new construction in California at this time. Accordingly, there is no possibility that the transaction may have any significant impact on the environment.

4. Discussion

Applicants seek approval of the proposed transfer of control pursuant to Public Utilities Code section 854, subdivision (a), which states in relevant part:

No person or corporation . . . shall merge, acquire, or control . . . any public utility organized and doing business in this state without first securing authorization to do so from the commission Any merger, acquisition, or control, without that prior authorization shall be void and of no effect.

The Commission has broad discretion to determine whether it is in the public interest to authorize a transaction pursuant to section 854.² The primary standard used by the Commission to determine if a transaction should be authorized under that section is whether the transaction will adversely affect the public interest.³

The proposed transaction satisfies the merger requirements of section 854. The application is non-controversial, and the transaction will not materially affect any telecommunications in California. At the national level, it will result in a stronger parent corporation that will be better able to operate in the current telecommunications environment and bring to bear the combined resources of CenturyTel and Embarq to deliver services that meet the needs of their customers. We approve the application.

5. Uncontested Matter

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Pub. Util. Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

6. Assignment of Proceeding

Rachelle B. Chong is the assigned Commissioner and Victor D. Ryerson is the assigned Administrative Law Judge in this proceeding.

² Re "Sierra Pacific Power Company (1995) 62 CPUC2d 160, 167, quoting Re: SCE Corp (1991) 40 CPUC2d 159, 171.

³ Re Qwest Communications (2000) 7 CPUC3d 101, 107.

Findings of Fact

1. The applicants have sufficient financial resources to meet the Commission's requirements for operating providing interLATA and intraLATA interexchange services in the state.
2. The applicants possess the necessary technical expertise required by the Commission to operate the services.
3. Completion of the underlying merger transaction will not affect the provision of telecommunications services in California, and will have no effect upon competition.
4. No complaints alleging fraud or significant wrongdoing are pending against either applicant before this Commission, the Federal Communications Commission or any other state Commission. Payment of all user fees and program surcharges is up to date.

Conclusions of Law

1. The indirect transfer of control of Embarq and its California licensed subsidiaries, Embarq LD and Embarq Payphone, to CenturyTel as proposed in the application would not be adverse to the public interest.
2. It can be seen with certainty that the proposed transfer will not have any adverse impact on the environment.
3. CenturyTel meets the Commission's requirements for an acquiring company of an authorized provider of local exchange and interexchange telecommunications services.
4. The application should be approved.
5. The matter is uncontested, and the decision accordingly should be effective on the date it is signed.

O R D E R

IT IS ORDERED that:

1. Pursuant to Public Utilities Code section 854, subdivision (a), the indirect transfer of control of Embarq Communications, Inc. (U-6988-C) and Embarq Payphone Services, Inc. (U-6018-C) to CenturyTel, Inc., by means of a merger of parent Embarq Corporation with Cajun Acquisition Company in accordance with the merger documents submitted in conjunction with Application 08-12-008, is authorized.

2. Application 08-12-008 is closed.

This order is effective today.

Dated _____, at San Francisco, California.