CenturyTel, seeking scale, to buy Qwest for $10B+

April 22 2010, By PETER SVENSSON , AP Technology Writer

The Qwest Communications tower is shown in downtown Denver on in this Oct. 29, 2008 file photo. CenturyTel Inc. said Thursday April 22, 2010 that it will buy Qwest Communications International Inc. in a stock swap worth $10.6 billion, creating a telecommunications giant serving customers in 37 states. (AP Photo/David Zalubowski, File)

(AP) -- CenturyTel Inc., the country's fifth-largest local-phone company, plans to buy the third-largest, Qwest Communications International Inc., in a stock deal worth more than $10 billion so the companies can try to better deal with the dark future of the landline phone business.

The number of landlines in the U.S. shrinks by about 10 percent per year as consumers increasingly rely on their wireless phones or service from cable companies. That means a major challenge for phone companies is cutting their costs to keep pace with their dwindling business.

Buying Qwest could give CenturyTel a chance to cut overlapping functions like billing, administration, call centers and back-end services. Other phone companies, mainly rural ones, are also merging for the same reasons.

In a sense, the deal is a way to return to the scale phone companies had before wireless started eviscerating the business. If they combined today, CenturyTel and Qwest would have the same number of phone lines Qwest did on its own eight years ago.

The combined company would have about 17 million phone lines serving customers in 37 states. It would be based at CenturyTel's headquarters in Monroe, La., rather than in Denver, where Qwest is based.

One big hurdle for the new company would be that neither Qwest nor CenturyTel own wireless networks that can compensate for the loss of landlines, as AT&T Inc. and Verizon Communications Inc. do. Last year, 22.7 percent of homes used only cell phones, according to a survey by the Centers for Disease Control and Prevention.

Another problem could be that the federal government is moving to shift subsidies away from rural phone service and toward broadband lines. Analyst David Dixon at FBR Capital Markets noted that rural phone subsidies are a large source of revenue for CenturyTel.

But Qwest and CenturyTel still hope the acquisition can make the combined company better able to weather the future. Qwest has a large and stable business selling telecommunications services to business and government customers. Together, the companies would be the fifth-largest residential Internet service provider in the country, and both have been upgrading their networks to provide higher speeds, though they are not able to match the latest round of upgrades at cable companies.

Glen Post, the CEO of CenturyTel, said the combined company may also provide TV services over phone lines to compete more aggressively with cable. CenturyTel has started providing TV services on a small scale in some areas. Post would be the CEO of the new company.

The deal would likely lead to job cuts at the companies, which are already shedding positions. The Communications Workers of America, the largest union in the telecommunications industry, said it "looks forward to serious discussions" with both companies. Qwest had 30,138 employees at the end of last year, while CenturyTel had about 20,000.

Qwest provides traditional phone service in 14 mostly Western states. Originally a long-distance and Internet service provider, it bought US West in 2000 in a process that started as a hostile takeover. US West was one of the seven "Baby Bells" formed when the federal government broke up the AT&T monopoly in the 1980s.

The US West deal and accounting shenanigans in the following years left Qwest struggling under a heavy debt load. Though it has managed to shore up its finances substantially in recent years, it was still an unlikely acquirer.

CenturyTel, on the other hand, has an investment-grade credit rating, giving it the flexibility to buy the larger Qwest. It was not part of the original AT&T system, and it has expanded by buying up other, mostly rural, independent phone companies. Last year, it bought Embarq Inc., the landline service company once part of Sprint, giving it an urban presence as well. To reflect that deal, CenturyTel now does business as CenturyLink. It provides service in 33 states, but its presence is small in most of them. It's biggest in Florida, Nevada, North Carolina, Missouri, Texas, Virginia and Wisconsin.

CenturyTel's Post said it had not been decided which brand would be used after the acquisition, but he said he's leaning toward using "CenturyLink" for the consumer business and perhaps including the "Qwest" name when marketing to businesses.

Qwest shareholders would own 49.5 percent of the new company, while CenturyTel stockholders would own 50.5 percent.

Qwest stockholders would receive 0.1664 CenturyTel shares for each share they own. When the deal was announced, the offer carried a 15 percent premium to the closing price of Qwest shares on Wednesday.

On Thursday, Qwest shares rose 13 cents, or 2.5 percent, to close at $5.37, while CenturyTel fell $1.19, or 3.3 percent, to $35.01.

The deal was valued at $10.6 billion when it was announced Thursday but the decline in CenturyTel's stock price knocked the value down to $10.3 billion.

Ed Mueller, the CEO of Qwest, pointed out on a conference call with analysts that Qwest shareholders would benefit from CenturyTel's higher quarterly dividend if the deal goes through. Qwest's dividend is now worth 32 cents per share. Under the terms of the deal, Qwest shareholders would be getting the equivalent of 48 cents per share in future dividends.

CenturyTel would also assume $11.8 billion in Qwest debt.

Both companies' boards have approved the tax-free acquisition, which is expected to close in the first half of 2011. They expect the acquisition to save the combined company $625 million over three to five years following the close of the deal.

The deal will be reviewed by the Federal Communications Commission and either the Justice Department or the Federal Trade Commission. State telecommunications regulators will also examine the transaction.

Analysts said regulators are likely to approve the deal because the companies mostly operate in different areas. However, approval could come with conditions, such as an obligation to expand high-speed Internet access or to provide it at certain prices.

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