

CENTURYTEL INC
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 1-7784

CenturyTel, Inc.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

72-0651161
(I.R.S. Employer
Identification No.)

100 CenturyTel Drive, Monroe, Louisiana 71203
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (318) 388-9000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
[] No [X]

As of July 31, 2007, there were 108,218,198 shares of common stock outstanding.

CenturyTel, Inc.
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Signature

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* All references to “Notes” in this quarterly report refer to these Notes to Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

Three months
ended June 30,
2007 2006 Six months
ended June 30,
2007 2006
(Dollars, except per share amounts, and shares in
thousands)

OPERATING REVENUES	\$ 689,991	608,907	1,290,846	1,220,198
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	226,388	216,191	439,919	438,746
Selling, general and administrative	97,456	95,596	188,913	191,536
Depreciation and amortization	134,311	132,127	262,095	266,999
Total operating expenses	458,155	443,914	890,927	897,281
OPERATING INCOME	231,836	164,993	399,919	322,917
OTHER INCOME (EXPENSE)				
Interest expense	(57,667)	(50,639)	(104,628)	(100,725)
Other income (expense)	8,080	123,459	13,370	128,056
Total other income (expense)	(49,587)	72,820	(91,258)	27,331
INCOME BEFORE INCOME TAX EXPENSE	182,249	237,813	308,661	350,248
Income tax expense	69,984	85,603	118,526	128,778
NET INCOME	\$ 112,265	152,210	190,135	221,470
BASIC EARNINGS PER SHARE	\$ 1.03	1.32	1.73	1.86
DILUTED EARNINGS PER SHARE	\$ 1.00	1.26	1.67	1.79
DIVIDENDS PER COMMON SHARE	\$.065	.0625	.13	.125
AVERAGE BASIC SHARES OUTSTANDING	108,405	115,441	109,718	118,917
AVERAGE DILUTED SHARES OUTSTANDING	113,721	121,636	115,015	124,798

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

Three months
ended June 30,
2007 2006 Six months
ended June 30,
2007 2006
(Dollars in thousands)

NET INCOME	\$ 112,265	152,210	190,135	221,470
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Minimum pension liability adjustment, net of \$799 and (\$25) tax	-	1,282	-	(41)
Unrealized gain (loss) on investments, net of \$355, (\$133), \$304 and (\$92) tax	570	(213)	488	(148)
Derivative instruments:				
Net loss on derivatives hedging the variability of cash flows, net of \$294 tax	-	-	471	-
Reclassification adjustment for losses included in net income, net of \$61, \$59, \$120 and \$117 tax	99	94	193	188
Items related to employee benefit plans*:				
Change in net actuarial loss, net of \$5,755 and \$5,973 tax	9,233	-	9,582	-
Amortization of net actuarial loss, net of \$908 and \$1,815 tax	1,456	-	2,912	-
Amortization of net prior service credit, net of (\$178) and (\$356) tax	(285)	-	(571)	-
Amortization of unrecognized transition asset, net of (\$14) and (\$28) tax	(22)	-	(44)	-
Net change in other comprehensive income (loss), net of tax	11,051	1,163	13,031	(1)
COMPREHENSIVE INCOME	\$ 123,316	153,373	203,166	221,469

* Reflected in 2007 due to the December 31, 2006 adoption of SFAS 158.

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2007	December 31, 2006
(Dollars in thousands)		
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 43,525	25,668
Accounts receivable, less allowance of \$19,773 and \$20,905	214,810	227,346
Materials and supplies, at average cost	6,977	6,628
Other	29,094	30,475
Total current assets	294,406	290,117
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	8,560,266	7,893,760
Accumulated depreciation	(5,355,716)	(4,784,483)
Net property, plant and equipment	3,204,550	3,109,277
GOODWILL AND OTHER ASSETS		
Goodwill	3,999,526	3,431,136
Other	775,054	610,477
Total goodwill and other assets	4,774,580	4,041,613
TOTAL ASSETS	\$ 8,273,536	7,441,007
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 424,307	155,012
Short-term debt	87,000	23,000
Accounts payable	135,185	129,350
Accrued expenses and other liabilities		
Salaries and benefits	57,749	54,100
Income taxes	22,143	60,522
Other taxes	60,038	46,890
Interest	83,704	73,725
Other	32,735	23,352
Advance billings and customer deposits	57,413	51,614
Total current liabilities	960,274	617,565
LONG-TERM DEBT	2,735,073	2,412,852
DEFERRED CREDITS AND OTHER LIABILITIES	1,441,155	1,219,639
STOCKHOLDERS' EQUITY		

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Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 108,201,274 and 113,253,889 shares	108,201	113,254
Paid-in capital	81,666	24,256
Accumulated other comprehensive loss, net of tax	(91,911)	(104,942)
Retained earnings	3,031,639	3,150,933
Preferred stock - non-redeemable	7,439	7,450
Total stockholders' equity	3,137,034	3,190,951
TOTAL LIABILITIES AND EQUITY	\$ 8,273,536	7,441,007

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended June 30,	
	2007	2006
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 190,135	221,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	262,095	266,999
Gain on asset dispositions	-	(118,649)
Deferred income taxes	30,005	22,151
Changes in current assets and current liabilities:		
Accounts receivable	24,316	21,641
Accounts payable	1,106	(2,707)
Accrued income and other taxes	27,071	(28,113)
Other current assets and other current liabilities, net	18,342	8,719
Retirement benefits	14,647	14,926
Excess tax benefits from share-based compensation	(6,312)	(4,947)
Decrease in other noncurrent assets	3,653	297
Increase (decrease) in other noncurrent liabilities	(11,667)	2,286
Other, net	4,634	2,244
Net cash provided by operating activities	558,025	406,317
INVESTING ACTIVITIES		
Acquisitions, net of cash acquired	(307,424)	-
Payments for property, plant and equipment	(106,856)	(130,455)
Proceeds from redemption of Rural Telephone Bank stock	-	122,819
Proceeds from sale of assets	-	5,865
Investment in unconsolidated cellular entity	-	(5,222)
Other, net	1,523	(1,296)
Net cash used in investing activities	(412,757)	(8,289)
FINANCING ACTIVITIES		
Payments of debt	(667,132)	(12,559)
Net proceeds from issuance of long-term debt	741,840	-
Net proceeds from the issuance of short-term debt	64,000	-
Proceeds from issuance of common stock	42,292	41,206
Repurchase of common stock	(302,033)	(573,888)
Cash dividends	(14,480)	(14,661)
Excess tax benefits from share-based compensation	6,312	4,947
Other, net	1,790	(150)
Net cash used in financing activities	(127,411)	(555,105)
Net increase (decrease) in cash and cash equivalents	17,857	(157,077)
Cash and cash equivalents at beginning of period	25,668	158,846

Cash and cash equivalents at end of period	\$	43,525	1,769
Supplemental cash flow information:			
Income taxes paid	\$	72,928	132,666
Interest paid (net of capitalized interest of \$522 and \$1,005)	\$	96,227	96,562

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Six months ended June 30,	
	2007	2006
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	\$ 113,254	131,074
Issuance of common stock through dividend reinvestment, incentive and benefit plans and other	1,552	1,740
Repurchase of common stock	(6,606)	(16,523)
Conversion of preferred stock into common stock	1	10
Balance at end of period	108,201	116,301
PAID-IN CAPITAL		
Balance at beginning of period	24,256	129,806
Issuance of common stock through dividend reinvestment, incentive and benefit plans	40,740	39,466
Repurchase of common stock	-	(71,362)
Conversion of preferred stock into common stock	10	179
Excess tax benefits from share-based compensation	6,312	4,947
Share-based compensation and other	10,348	4,891
Balance at end of period	81,666	107,927
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	(104,942)	(9,619)
Change in other comprehensive loss, net of tax	13,031	(1)
Balance at end of period	(91,911)	(9,620)
RETAINED EARNINGS		
Balance at beginning of period	3,150,933	3,358,162
Net income	190,135	221,793
Repurchase of common stock	(295,427)	(486,003)
Cumulative effect of adoption of FIN 48 (see Note 7)	478	-
Cash dividends declared		
Common stock - \$.13 and \$.125 per share, respectively	(14,294)	(14,467)
Preferred stock	(186)	(194)
Balance at end of period	3,031,639	3,079,291
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning of period	7,450	7,850
Conversion of preferred stock into common stock	(11)	(189)
Balance at end of period	7,439	7,661
TOTAL STOCKHOLDERS' EQUITY	\$ 3,137,034	3,301,560

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
(UNAUDITED)

(1) Basis of Financial Reporting

Our consolidated financial statements include the accounts of CenturyTel, Inc. and its majority-owned subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, in the opinion of management, the disclosures made are adequate to make the information presented not misleading. The consolidated financial statements and footnotes included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2006.

The financial information for the three months and six months ended June 30, 2007 and 2006 has not been audited by independent certified public accountants; however, in the opinion of management, all adjustments necessary to present fairly the results of operations for the three-month and six-month periods have been included therein. The results of operations for the first six months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

During the fourth quarter of 2006, in accordance with Staff Accounting Bulletin No. 108, "Considering the Effect of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Results" ("SAB 108"), we identified two misstatements that previously were deemed immaterial using the income statement approach that were deemed material upon application of the balance sheet approach. We recorded the cumulative effect of such adjustments as an adjustment to retained earnings (as of January 1, 2006). We have adjusted our results of operations for the first three quarters of 2006 to reflect the ongoing application of the adjustments recorded pursuant to SAB 108. Such adjustments were immaterial to each quarter. For additional information, see our annual report on Form 10-K for the year ended December 31, 2006.

(2) Acquisition

On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River") from Madison River Telephone Company, LLC for an initial aggregate purchase price of \$322 million cash. In connection with the acquisition, we also paid all of Madison River's existing indebtedness (including accrued interest), which approximated \$522 million. Madison River operates approximately 164,000 predominantly rural access lines in four states with more than 30% high-speed Internet penetration and its network includes access to a 2,400 route mile fiber network.

We are accounting for the acquisition of Madison River as a purchase under the guidance of Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141") and Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). SFAS 141 requires us to record the assets acquired and liabilities assumed at their respective fair values. In accordance with SFAS 71, we recorded the fixed assets of Madison River's regulated telephone operations at historical book value since those values are used to develop the rates we charge to our customers (which are approved by regulatory authorities).

We have reflected the results of operations of the Madison River properties in our consolidated results of operations beginning May 1, 2007.

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The total cost of the Madison River acquisition through June 30, 2007 is composed of the following components (amounts in thousands):

Cash paid at closing (1)	\$ 322,187
Closing costs (2)	5,217
Total purchase price	\$ 327,404

(1) Excludes the cash payment of \$671,000 we received in accordance with the purchase agreement subsequent to June 30, 2007 upon finalization of the working capital portion

of the purchase price.

(2) Closing costs primarily consist of advisory and legal fees incurred in connection with the acquisition.

The values assigned to the assets acquired and liabilities assumed at acquisition are based on a preliminary purchase price allocation. The final allocation of the purchase price will be based on values as determined by an independent third-party valuation, which we expect will be completed by the end of third quarter 2007. The actual valuation may differ significantly from the preliminary allocation. The purchase price has been allocated to the assets acquired and liabilities assumed on a preliminary basis as follows (amounts in thousands):

Current assets (1)	\$ 33,761
Net property, plant and equipment	242,822
Identifiable intangible assets	
Customer list	148,800
Goodwill	568,390
Other assets	9,827
Current liabilities (2)	(22,200)
Long-term debt (2)	(520,000)
Deferred income taxes	(111,174)
Other liabilities	(22,822)
Total purchase price	\$ 327,404

(1) Includes approximately \$20.0 million of acquired cash and cash equivalents.

(2) We paid all the long-term debt and \$2.2 million of related accrued interest (included in "current liabilities" in the above table) immediately after closing.

(3) Goodwill and Other Intangible Assets

Goodwill and other intangible assets as of June 30, 2007 and December 31, 2006 were composed of the following:

	June 30, 2007	Dec. 31, 2006
	(Dollars in thousands)	
Goodwill	\$ 3,999,526	3,431,136
Intangible assets subject to amortization		
Customer base		
Gross carrying amount	\$ 173,894	25,094
Accumulated amortization	(9,858)	(7,022)
Net carrying amount	\$ 164,036	18,072

Contract rights		
Gross carrying amount	\$ 4,186	4,186
Accumulated amortization	(4,186)	(3,256)
Net carrying amount	\$ -	930
Intangible asset not subject to amortization		
	\$ 36,690	36,690

Goodwill and intangible assets increased in 2007 due to the Madison River acquisition.

Total amortization expense related to the intangible assets subject to amortization for the first six months of 2007 was \$3.8 million and is expected to be \$10.6 million in 2007 and \$13.7 million annually thereafter through 2011. Such amortization expense includes estimates based on a preliminary purchase price allocation for the Madison River acquisition, which may differ significantly from the final allocation. See Note 2.

(4) Postretirement Benefits

We sponsor health care plans that provide postretirement benefits to all qualified retired employees.

Net periodic postretirement benefit cost for the three months and six months ended June 30, 2007 and 2006 included the following components:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Dollars in thousands)			
Service cost	\$ 1,732	1,783	3,450	3,491
Interest cost	5,039	4,846	10,057	9,490
Expected return on plan assets	(620)	(623)	(1,241)	(1,219)
Amortization of unrecognized actuarial loss	899	950	1,798	1,860
Amortization of unrecognized prior service cost	(505)	(221)	(1,010)	(433)
Net periodic postretirement benefit cost	\$ 6,545	6,735	13,054	13,189

We contributed \$6.4 million to our postretirement health care plan in the first six months of 2007 and expect to contribute approximately \$13 million for the full year.

(5) Defined Benefit Retirement Plans

We sponsor defined benefit pension plans for substantially all employees. We also sponsor a Supplemental Executive Retirement Plan to provide certain officers with supplemental retirement, death and disability benefits.

Net periodic pension expense for the three months and six months ended June 30, 2007 and 2006 included the following components:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Dollars in thousands)			

Service cost	\$	4,609	4,220	9,226	8,483
Interest cost		7,071	6,160	13,976	12,377
Expected return on plan assets		(9,170)	(8,183)	(18,219)	(16,367)
Recognized net losses		291	1,962	556	3,840
Net amortization and deferral		1,301	(123)	3,260	6
Net periodic pension expense	\$	4,102	4,036	8,799	8,339

The amount of the 2007 contribution to our pension plans will be determined based on a number of factors, including the results of the 2007 actuarial valuation. At this time, the amount of the 2007 contribution is not known.

(6) Stock-based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payments" ("SFAS 123(R)"). SFAS 123(R) requires us to recognize as compensation expense our cost of awarding employees with equity instruments by allocating the fair value of the award on the grant date over the period during which the employee is required to provide service in exchange for the award.

We currently maintain programs which allow the Board of Directors, through the Compensation Committee, to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options; stock appreciation rights; restricted stock; and performance shares. As of June 30, 2007, we had reserved approximately 6.2 million shares of common stock which may be issued in connection with outstanding incentive awards under our current incentive programs. We also offer an Employee Stock Purchase Plan whereby employees can purchase our common stock at a 15% discount based on the lower of the beginning or ending stock price during recurring six-month periods stipulated in such program.

Stock option awards are generally granted with an exercise price equal to the market price of CenturyTel's shares at the date of grant. Our outstanding options generally have a three-year vesting period and all of them expire ten years after the date of grant. The fair value of each stock option award is estimated as of the date of grant using a Black-Scholes option pricing model. During the first six months of 2007, —948,920 options were granted with a weighted average exercise price of \$48.50 per share and a weighted average grant date fair value of \$14.67 per share.

As of June 30, 2007, outstanding and exercisable stock options were as follows:

	Number	Average	Average remaining contractual term (in years)	Aggregate intrinsic value
	of options	price		
Outstanding	3,680,843	\$ 36.70	7.2	\$ 45,450,000
Exercisable	2,104,158	\$ 32.83	5.7	\$ 34,129,000

Our outstanding restricted stock awards generally vest over a five-year period (for employees) and a three-year period (for outside directors). As of June 30, 2007, there were 864,895 shares of nonvested restricted stock outstanding at an average grant date fair value of \$36.91 per share.

The total compensation cost for all share-based payment arrangements for the first six months of 2007 and 2006 was \$10.3 million and \$6.0 million, respectively. As of June 30, 2007, there was \$38.8 million of total unrecognized compensation cost related to the share-based payment arrangements, which is expected to be recognized over a weighted-average period of 3.2 years.

(7)

Income Tax Uncertainties

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in financial statements. FIN 48 requires us, effective January 1, 2007, to recognize and measure tax benefits taken or expected to be taken in a tax return and disclose uncertainties in income tax positions.

Upon the initial adoption of FIN 48, we recorded a cumulative effect adjustment to retained earnings as of January 1, 2007 (which increased retained earnings by approximately \$478,000 as of such date) related to certain previously recognized liabilities that did not meet the criteria for recognition upon the adoption of FIN 48.

As of January 1, 2007, we had approximately \$55.9 million of unrecognized tax benefits reflected on our balance sheet, substantially all of which is included as a component of “Deferred credits and other liabilities”. Such amount was reflected in “Accrued income taxes” as of December 31, 2006. As of June 30, 2007, we had approximately \$57.7 million of unrecognized tax benefits reflected on our balance sheet, which includes approximately \$6.5 million allocated on a preliminary basis to unrecognized tax benefits in connection with our Madison River acquisition. If we were to prevail on all unrecognized tax benefits recorded on our balance sheet, approximately \$49.0 million would benefit the effective tax rate.

Our policy is to reflect interest and penalties associated with unrecognized tax benefits as income tax expense. We had accrued interest and penalties (presented before related tax benefits) of approximately \$20.7 million as of January 1, 2007 and \$27.8 million as of June 30, 2007.

We file income tax returns, including returns for our subsidiaries, with federal, state and local jurisdictions. Our uncertain income tax positions are related to tax years that are currently under or remain subject to examination by the relevant taxing authorities. Our open income tax years by major jurisdiction are as follows.

Jurisdiction	Open tax years
Federal	1998-current
State	
Georgia	2002-current
Louisiana	1997-current
Minnesota	2001-current
Montana	2000-current
Oregon	2001-current
Wisconsin	2001-current
All other states	2002-current

Additionally, it is possible that certain jurisdictions in which we do not believe we have an income tax filing responsibility, and accordingly did not file a return, may attempt to assess a liability. Since the period for assessing additional liability typically begins upon the filing of a return, it is possible that certain jurisdictions could assess tax for years prior to 2002.

Based on (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, or (iv) a jurisdiction’s administrative practices, it is reasonably possible that the related unrecognized tax benefits for tax positions previously taken may materially change within the next 12 months. However, based on the status of such examinations and the protocol of finalizing audits by the relevant tax authorities (which could include formal legal proceedings), we do not believe it is

possible to reasonably estimate the amount or range of the impact of such changes, if any, at this time.

(8) Debt Offerings

On March 29, 2007, we publicly issued \$500 million of 6.0% Senior Notes, Series N, due 2017 and \$250 million of 5.5% Senior Notes, Series O, due 2013. Our \$741.8 million of net proceeds from the sale of these Senior Notes were used to pay a substantial portion of the approximately \$844 million of cash that was needed in order to (i) pay the purchase price for the acquisition of Madison River on April 30, 2007 (\$322 million) and (ii) pay off Madison River's existing indebtedness (including accrued interest) at closing (\$522 million). We funded the remainder of these cash outflows from borrowings under our commercial paper program and cash on hand. See Note 2 for additional information concerning the acquisition of Madison River.

In anticipation of the debt offerings mentioned above, we had previously entered into four cash flow hedges that effectively locked in the interest rate on an aggregate of \$400 million of debt. We locked in the interest rate on (i) \$200 million of 10-year debt at 5.0675% and (ii) \$200 million of 10-year debt at 5.05%. In March 2007, upon settlement of the hedges, we received an aggregate of \$765,000 (reflected in "Accumulated other comprehensive loss" on the balance sheet), which is being amortized as a reduction of interest expense over the 10-year term of the debt.

(9) Business Segments

We are an integrated communications company engaged primarily in providing an array of communications services to our customers, including local exchange, long distance, Internet access and broadband services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services. Our operating revenues for our products and services include the following components:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Dollars in thousands)			
Voice	\$ 219,803	216,485	428,878	433,499
Network access	266,202	221,663	477,601	446,986
Data	108,206	84,447	204,070	167,685
Fiber transport and CLEC	40,714	36,051	79,040	71,831
Other	55,066	50,261	101,257	100,197
Total operating revenues	\$ 689,991	608,907	1,290,846	1,220,198

We derive our voice revenues by providing local exchange telephone and retail long distance services to our customers in our local exchange service areas.

We derive our network access revenues primarily from (i) providing services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice and data transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms. In March 2006, we filed a complaint against a carrier for recovery of unpaid and underpaid access charges for calls made using the carrier's prepaid calling cards and calls that used Internet Protocol for a portion of their transmission. The carrier filed a counterclaim against us, asserting that we improperly billed them terminating intrastate access charges on certain wireless roaming traffic. In April 2007, we entered into a

settlement agreement with the carrier and received approximately \$49 million cash from them related to the issues described above. This amount is reflected in our second quarter 2007 results of operations as a component of "Network access" revenues.

We derive our data revenues primarily by providing Internet access services (both high-speed ("DSL") and dial-up services) and data transmission services over special circuits and private lines in our local exchange service areas.

Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier and security monitoring businesses.

We derive other revenues primarily by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for third parties, (iii) participating in the publication of local directories and (iv) offering our video and wireless services, as well as other new product offerings.

(10) Gain on Asset Dispositions

In April 2006, upon dissolution of the Rural Telephone Bank (“RTB”), we received \$122.8 million in cash for redemption of our investment in stock of the RTB and recorded a pre-tax gain of approximately \$117.8 million in the second quarter of 2006 related to this transaction. We used the cash to reduce our indebtedness.

In May 2006, we sold the assets of our local exchange operations in Arizona for approximately \$5.9 million cash and recorded a pre-tax gain of approximately \$866,000 in the second quarter of 2006.

(11) Recent Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board issued EITF 06-3, “How Taxes Collected From Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement” (“EITF 06-3”), which requires disclosure of the accounting policy for any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction. We adopted the disclosure requirements of EITF 06-3 effective January 1, 2007.

We collect various taxes from our customers and subsequently remit such funds to governmental authorities. Substantially all of these taxes are recorded through the balance sheet. We are required to contribute to several universal service fund programs and generally include a surcharge amount on our customers’ bills which is designed to recover our contribution costs. Such amounts are reflected on a gross basis in our statement of income (included in both operating revenues and expenses) and aggregated approximately \$20 million for both the six months ended June 30, 2007 and 2006.

(12) Commitments and Contingencies

In Barbrasue Beattie and James Sovis, on behalf of themselves and all others similarly situated, v. CenturyTel, Inc., filed on October 28, 2002, in the United States District Court for the Eastern District of Michigan (Case No. 02-10277), the plaintiffs allege that we unjustly and unreasonably billed customers for inside wire maintenance services, and seek unspecified money damages and injunctive relief under various legal theories on behalf of a purported class of over two million customers in our telephone markets. On March 10, 2006, the Court certified a class of plaintiffs and issued a ruling that the billing descriptions we used for these services during an approximately 18-month period between October 2000 and May 2002 were legally insufficient. We have appealed this class certification decision, although we cannot predict the length of time before this appeal will be adjudicated. Our preliminary analysis indicates that we billed approximately \$10 million for inside wire maintenance services under the billing descriptions and time periods specified in the District Court ruling described above. Should other billing descriptions be determined to be inadequate or if claims are allowed for additional time periods, the amount of our potential exposure could increase significantly. The Court’s order does not specify the award of damages, the scope of which remains subject to additional fact-finding and resolution of what we believe are valid defenses to plaintiff’s claims. Accordingly, we cannot reasonably estimate the amount or range of possible loss at this time. However, considering the one-time nature of any adverse claim, we do not believe that the ultimate outcome of this litigation will have a material adverse effect on our financial position or on-going results of operations.

The Telecommunications Act of 1996 allows local exchange carriers to file access tariffs on a streamlined basis and, if certain criteria are met, deems those tariffs lawful. Tariffs that have been “deemed lawful” in effect nullify an interexchange carrier’s ability to seek refunds should the earnings from the tariffs ultimately result in earnings above the authorized rate of return prescribed by the FCC. Certain of our telephone subsidiaries file interstate tariffs with the FCC using this streamlined filing approach. Since July 2004, we have recognized billings from our tariffs as revenues since we believe such tariffs are “deemed lawful”. For those billings from tariffs prior to July 2004, we initially recorded as a liability our earnings in excess of the authorized rate of return, and may thereafter recognize as

revenues some or all of these amounts at the end of the applicable settlement period. As of June 30, 2007, the amount of our earnings in excess of the authorized rate of return reflected as a liability on the balance sheet for the 2003/2004 monitoring period aggregated approximately \$43 million. The settlement period related to the 2003/2004 monitoring period lapses on September 30, 2007.

During 2006, we received approximately \$122.8 million in cash from the dissolution of the RTB. Some portion of the gain recognized in connection with the receipt of these proceeds, while not estimable at this time, may be subject to review by regulatory authorities which may result in us recording a regulatory liability.

From time to time, we are involved in other proceedings incidental to our business, including administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, occasional grievance hearings before labor regulatory agencies and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable. However, we do not believe that the ultimate resolution of these other proceedings, after considering available insurance coverage, will have a material adverse effect on our financial position, results of operations or cash flows.

(13)

Subsequent Event

In July 2007, we called for redemption on August 14, 2007 all of our \$165 million aggregate principal amount 4.75% convertible senior debentures, Series K, due 2032 at a redemption price of \$1,023.80 per \$1,000 principal amount of debentures, plus accrued and unpaid interest through August 13, 2007. In accordance with the indenture, holders may elect to convert their debentures into shares of CenturyTel common stock at a conversion price of \$40.455 per share prior to August 10, 2007.

Item 2.

CenturyTel, Inc.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Overview

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in our annual report on Form 10-K for the year ended December 31, 2006. The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results of operations which might be expected for the entire year.

We are an integrated communications company engaged primarily in providing an array of communications services, including local and long distance voice, Internet access and broadband services, to customers in 25 states. We currently derive our revenues from providing (i) local exchange and long distance voice services, (ii) network access services, (iii) data services, which includes both high-speed ("DSL") and dial-up Internet services, as well as special access and private line services, (iv) fiber transport, competitive local exchange and security monitoring services and (v) other related services. For additional information on our revenue sources, see Note 9 to our financial statements included in Item 1 of Part I of this quarterly report.

On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River"). See Note 2 for additional information. We have reflected the results of operations of the Madison River properties in our consolidated results of operations beginning May 1, 2007.

In April 2007, we entered into a settlement agreement with a carrier and received approximately \$49 million cash (see Note 9). Such amount has been reflected in our second quarter 2007 results of operations as a component of "Network access" revenues.

Effective January 1, 2007, we changed our relationship with our provider of satellite television service from a revenue sharing arrangement to an agency relationship and, in connection therewith, we received in the second quarter of 2007 a non-recurring reimbursement of \$5.9 million, of which \$4.1 million was reflected as a reduction of cost of services and the remainder was reflected as revenues. This change has also resulted in us recognizing lower recurring revenues and lower recurring operating costs compared to our prior method of accounting for this arrangement.

In the second quarter of 2006, we (i) recorded a one-time pre-tax gain of approximately \$117.8 million upon redemption of our investment in the stock of the Rural Telephone Bank ("RTB") and (ii) sold our local exchange operations in Arizona.

In addition to historical information, this management's discussion and analysis includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry; our ability to effectively manage our expansion opportunities, including successfully integrating newly-acquired businesses into our operations and retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from

time to time in this report or other of our filings with the Securities and Exchange Commission; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to the business are described in greater detail in Item 1A to our Form 10-K for the year ended December 31, 2006. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to update any of our forward-looking statements for any reason.

RESULTS OF OPERATIONS**Three Months Ended June 30, 2007 Compared
to Three Months Ended June 30, 2006**

Net income was \$112.3 million and \$152.2 million for the second quarter of 2007 and 2006, respectively. Diluted earnings per share for the second quarter of 2007 and 2006 was \$1.00 and \$1.26, respectively. We recorded a \$49.0 million one-time increase to operating revenues in second quarter 2007 (\$.27 per share) upon settlement of a dispute with a carrier. Included in net income (and diluted earnings per share) for the second quarter of 2006 was approximately \$72.4 million (\$.59 per share) related to nonrecurring gains, substantially all of which related to the redemption of our RTB stock. The decline in the number of average diluted shares outstanding is attributable to share repurchases that have occurred after June 30, 2006.

	Three months ended June 30, 2007 2006 (Dollars, except per share amounts, and shares in thousands)	
Operating income	\$ 231,836	164,993
Interest expense	(57,667)	(50,639)
Other income (expense)	8,080	123,459
Income tax expense	(69,984)	(85,603)
Net income	\$ 112,265	152,210
Basic earnings per share	\$ 1.03	1.32
Diluted earnings per share	\$ 1.00	1.26
Average basic shares outstanding	108,405	115,441
Average diluted shares outstanding	113,721	121,636

Operating income increased \$66.8 million (40.5%) as an \$81.1 million (13.3%) increase in operating revenues was partially offset by a \$14.2 million (3.2%) increase in operating expenses.

Operating Revenues

	Three months ended June 30, 2007 2006 (Dollars in thousands)	
Voice	\$ 219,803	216,485
Network access	266,202	221,663
Data	108,206	84,447

Fiber transport and CLEC

40,714