CENTURYTEL INC
Form 10-Q
May 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 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	72-0651161
(State or other jurisdiction of incorporation or organization)	(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 [X] 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 [X] 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 April 30, 2007, there were 109,524,233 shares of common stock outstanding.

CenturyTel, Inc.

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CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three months ended March 31, 2007	2006
	(Dollars, except per share amounts, and shares in thousands)	
OPERATING REVENUES	$ 600,855	611,291
OPERATING EXPENSES		
Cost of services and products (exclusive of depreciation and amortization)	213,531	222,555
Selling, general and administrative	91,457	95,940
Depreciation and amortization	127,784	134,872
Total operating expenses	432,772	453,367
OPERATING INCOME	168,083	157,924
OTHER INCOME (EXPENSE)		
Interest expense	(46,961)	(50,086)
Other income (expense)	5,290	4,597
Total other income (expense)	(41,671)	(45,489)
INCOME BEFORE INCOME TAX EXPENSE	126,412	112,435
Income tax expense	48,542	43,175
NET INCOME	$ 77,870	69,260
BASIC EARNINGS PER SHARE	.70	.57
DILUTED EARNINGS PER SHARE	$ .68	.55
DIVIDENDS PER COMMON SHARE	$ .065	.0625
AVERAGE BASIC SHARES OUTSTANDING	111,031	122,394
AVERAGE DILUTED SHARES OUTSTANDING	116,308	127,959

See accompanying notes to consolidated financial statements.

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

		Three months ended March 31,	
		2007	2006
		(Dollars in thousands)	
NET INCOME	$	77,870	69,260
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Minimum pension liability adjustment, net of ($824) tax		-	(1,322)
Unrealized gain (loss) on investments, net of ($51) and $41 tax		(82)	65
Derivative instruments:			
Net gains on derivatives hedging the variability of cash flows, net of $294 tax		471	-
Reclassification adjustment for losses included in net income, net of $59 and $59 tax		94	94
Items related to employee benefit plans*:			
Change in net actuarial loss, net of $218 tax		349	-
Amortization of net actuarial loss, net of $907 tax		1,456	-
Amortization of net prior service credit, net of ($178) tax		(286)	-
Amortization of unrecognized transition asset, net of ($14) tax		(22)	-
Net change in other comprehensive income (loss), net of tax		1,980	(1,163)
COMPREHENSIVE INCOME	$	79,850	68,097

* 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)

		March 31, 2007	December 31, 2006
		(Dollars in thousands)	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$	763,749	25,668
Accounts receivable, less allowance of $19,013 and $20,905		211,534	227,346
Materials and supplies, at average cost		6,994	6,628
Other		30,586	30,475
Total current assets		1,012,863	290,117
NET PROPERTY, PLANT AND EQUIPMENT			
Property, plant and equipment		7,919,996	7,893,760
Accumulated depreciation		(4,885,439)	(4,784,483)
Net property, plant and equipment		3,034,557	3,109,277
GOODWILL AND OTHER ASSETS			
Goodwill		3,431,136	3,431,136
Other		611,555	610,477
Total goodwill and other assets		4,042,691	4,041,613
TOTAL ASSETS	$	8,090,111	7,441,007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	$	360,749	155,012
Short-term debt		-	23,000
Accounts payable		126,765	129,350
Accrued expenses and other liabilities			
Salaries and benefits		45,077	54,100
Income taxes		40,138	60,522
Other taxes		55,416	46,890
Interest		55,985	73,725
Other		28,729	23,352
Advance billings and customer deposits		57,237	51,614
Total current liabilities		770,096	617,565
LONG-TERM DEBT		2,916,511	2,412,852
DEFERRED CREDITS AND OTHER LIABILITIES		1,276,274	1,219,639

STOCKHOLDERS' EQUITY			
Common stock, $1.00 par value, authorized 350,000,000 shares, issued and outstanding 110,311,175 and 113,253,889 shares		110,311	113,254
Paid-in capital		50,771	24,256
Accumulated other comprehensive loss, net of tax		(102,962)	(104,942)
Retained earnings		3,061,660	3,150,933
Preferred stock - non-redeemable		7,450	7,450
Total stockholders' equity		3,127,230	3,190,951
TOTAL LIABILITIES AND EQUITY	$	8,090,111	7,441,007

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 2007	2006
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 77,870	69,260
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	127,784	134,872
Deferred income taxes	13,371	9,419
Changes in current assets and current liabilities:		
Accounts receivable	15,812	23,618
Accounts payable	(2,585)	(4,711)
Accrued income and other taxes	35,695	(37,072)
Other current assets and other current liabilities, net	(15,030)	(13,892)
Retirement benefits	5,636	7,378
Excess tax benefits from share-based compensation	(3,032)	(4,186)
Increase (decrease) in other noncurrent assets	1,032	(2,590)
Increase (decrease) in other noncurrent liabilities	(401)	1,392
Other, net	2,558	542
Net cash provided by operating activities	258,710	184,030
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(48,880)	(60,088)
Investment in unconsolidated cellular entity	-	(5,222)
Other, net	(1,635)	(408)
Net cash used in investing activities	(50,515)	(65,718)
FINANCING ACTIVITIES		
Net proceeds from the issuance of long-term debt	741,840	-
Payments of debt	(64,955)	(8,002)
Proceeds from issuance of short-term debt	-	291,000
Proceeds from issuance of common stock	20,031	32,623
Repurchase of common stock	(164,009)	(573,888)
Cash dividends	(7,309)	(7,301)
Excess tax benefits from share-based compensation	3,032	4,186
Other, net	1,256	(456)
Net cash provided by (used in) financing activities	529,886	(261,838)
Net increase (decrease) in cash and cash equivalents	738,081	(143,526)

Cash and cash equivalents at beginning of period		25,668	158,846
Cash and cash equivalents at end of period	$	763,749	15,320
Supplemental cash flow information:			
Income taxes paid	$	8,022	69,376
Interest paid (net of capitalized interest of $267 and $536)	$	64,434	66,586

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31, 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	754	1,433
Repurchase of common stock	(3,697)	(16,523)
Balance at end of period	110,311	115,984
PAID-IN CAPITAL		
Balance at beginning of period	24,256	129,806
Issuance of common stock through dividend reinvestment, incentive and benefit plans	19,277	31,190
Repurchase of common stock	-	(71,362)
Excess tax benefits from share-based compensation	3,032	4,186
Share-based compensation and other	4,206	1,626
Balance at end of period	50,771	95,446
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	(104,942)	(9,619)
Net change in other comprehensive income (loss), net of reclassification adjustment, net of tax	1,980	(1,163)
Balance at end of period	(102,962)	(10,782)
RETAINED EARNINGS		
Balance at beginning of period	3,150,933	3,358,162
Net income	77,870	69,260
Repurchase of common stock	(160,312)	(486,003)
Cumulative effect of adoption of SAB 108 (see Note 1)	-	9,705
Cumulative effect of adoption of FIN 48 (see Note 6)	478	-
Cash dividends declared		
Common stock - $.065 and $.0625 per share, respectively	(7,216)	(7,203)
Preferred stock	(93)	(98)
Balance at end of period	3,061,660	2,943,823
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	7,450	7,850
TOTAL STOCKHOLDERS' EQUITY	$ 3,127,230	3,152,321

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 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 ended March 31, 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 periods have been included therein. The results of operations for the first three 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) Goodwill and Other Intangible Assets

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

	March 31, 2007	Dec. 31, 2006
	(Dollars in thousands)	
Goodwill	$ 3,431,136	3,431,136
Intangible assets subject to amortization		
Customer base		
Gross carrying amount	$ 25,094	25,094
Accumulated amortization	(7,441)	(7,022)
Net carrying amount	$ 17,653	18,072
Contract rights		

Gross carrying amount	$	4,187	4,187
Accumulated amortization		(3,605)	(3,257)
Net carrying amount	$	582	930
Intangible asset not subject to amortization	$	36,690	36,690

Total amortization expense related to the intangible assets subject to amortization for the first quarter of 2007 was $767,000 and is expected to be $2.6 million in 2007 and $1.7 million annually thereafter through 2010.

(3) 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 ended March 31, 2007 and 2006 included the following components:

		Three months ended March 31, 2007	2006
		(Dollars in thousands)	
Service cost	$	1,718	1,708
Interest cost		5,018	4,644
Expected return on plan assets		(621)	(596)
Amortization of unrecognized actuarial loss		899	910
Amortization of unrecognized prior service cost		(505)	(212)
Net periodic postretirement benefit cost	$	6,509	6,454

We contributed $3.2 million to our postretirement health care plan in the first quarter of 2007 and expect to contribute approximately $13 million for the full year.

(4) 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 ended March 31, 2007 and 2006 included the following components:

	Three months ended March 31, 2007	2006
	(Dollars in thousands)	
Service cost	4,617	4,263
Interest cost	6,905	6,217
Expected return on plan assets	(9,049)	(8,184)

Net amortization and deferral		2,224	2,008
Net periodic pension expense	$	4,697	4,304

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.

(5) 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 March 31, 2007, we had reserved approximately 7.0 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 quarter of 2007, 497,500 options were granted with a weighted average grant date fair value of $16.40 per share.

As of March 31, 2007, outstanding and exercisable stock options were as follows:

	Number of options	Average price	Average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding	3,810,745	$35.11	6.9	$38,412,000
Exercisable	2,653,950	$32.86	5.8	$32,723,000

Our outstanding restricted stock awards generally vest over a five-year period (for employees) and a three-year period (for outside directors). As of March 31, 2007, there were 744,614 shares of nonvested restricted stock outstanding at an average grant date fair value of $34.97 per share.

The total compensation cost for all share-based payment arrangements for the first quarters of 2007 and 2006 was $4.2 million and $2.6 million, respectively. As of March 31, 2007, there was $32.2 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.

(6) 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 $50.5 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. All of such amount, if recognized, would affect the effective tax rate. There were no significant changes to the status of these unrecognized tax benefits as of March 31, 2007.

Of the $50.5 million recognized on our balance sheet, approximately $13.4 million relates to accrued interest and penalties. Our policy is to reflect interest and penalties associated with unrecognized tax benefits as income tax expense.

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	2001-current
State	
Louisiana	1997-current
Montana	2000-current
Minnesota	2001-current
Oregon	2001-current
Wisconsin	2001-current
All other 22 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, or (iii) 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 impact of such changes, if any, at this time.

(7) 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 net proceeds from the sale of these Senior Notes approximated $741.8 million and 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 Communications Corp. ("Madison River") on April

30, 2007 ($322 million, subject to post-closing adjustments) and (ii) pay off Madison River's existing indebtedness (including accrued interest) at closing ($522 million). We financed the remainder of these cash outflows from borrowings under our commercial paper program and cash on hand. See Note 11 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 will be amortized as a reduction of interest expense over the 10-year term of the debt.

(8) 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 March 31,	
	2007	2006
	(Dollars in thousands)	
Voice	$ 209,075	217,014
Network access	211,399	